

THE MONTCLAIR ART MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2018

(With Comparative Totals for 2017)

THE MONTCLAIR ART MUSEUM  
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JUNE 30, 2018 AND 2017

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## Independent Auditors' Report

To the Board of Trustees of  
The Montclair Art Museum  
Montclair, NJ 07042

### ***Report on Financial Statements***

We have audited the accompanying financial statements of The Montclair Art Museum (a nonprofit organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Montclair Art Museum as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees of  
The Montclair Art Museum  
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***Other Matters***

***Report on Summarized Comparative Information***

We have previously audited The Montclair Art Museum's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants and State Aid*, and are also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of The Montclair Art Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Montclair Art Museum's internal control over financial reporting and compliance.

Mt. Arlington, New Jersey  
September 26, 2018

*Nisivoccia LLP*

THE MONTCLAIR ART MUSEUM  
STATEMENT OF FINANCIAL POSITION

	June 30,	
	2018	2017
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,471,990	\$ 537,168
Cash - restricted	27,258	38,011
Accounts receivable	21,694	50,117
Inventories, catalogs and brochures	46,085	43,235
Grants receivable	99,704	78,437
Pledges receivable, net	374,452	1,950,966
Prepaid expenses and other current assets	76,400	60,624
Investments, at market value	11,011,717	10,022,226
Investments, at market value - restricted	1,055,668	1,071,385
Buildings, grounds and equipment, at cost, net of accumulated depreciation	10,000,905	10,428,313
Total assets	\$ 24,185,873	\$ 24,280,482
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 137,435	\$ 266,095
Deferred revenue	312,227	319,696
Note payable	24,700	5,200
Economic Development Authority Bonds, net of deferred financing costs less accumulated amortization of \$34,096 and \$25,913, in 2018 and 2017, respectively	3,505,217	3,737,297
Total liabilities	3,979,579	4,328,288
Net assets:		
Unrestricted:		
Undesignated	4,756,180	6,754,533
Board designated	13,620,828	11,508,412
Temporarily restricted	1,144,411	1,009,204
Permanently restricted	684,875	680,045
Total net assets	20,206,294	19,952,194
Total liabilities and net assets	\$ 24,185,873	\$ 24,280,482

THE MONTCLAIR ART MUSEUM  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Support, revenue and gains:					
Grants	\$ 507,626	\$ 108,500		\$ 616,126	\$ 626,184
Donations	1,674,149	100,923	\$ 3,126	1,778,198	848,834
Membership dues	368,030			368,030	360,396
Art school tuition	713,124			713,124	711,782
Education programs	104,796			104,796	130,718
Curatorial programs	6,638			6,638	239,429
Admission fees	84,033			84,033	228,358
Special events	620,497	79,377		699,874	644,539
Income from investments	266,047	26,672	1,704	294,423	313,686
Net realized and unrealized gain on investments	496,359	43,948		540,307	883,398
Sales of merchandise	67,844			67,844	110,364
Rental income	126,492			126,492	150,722
Other revenue	1,150			1,150	2,131
Net assets released from restrictions	224,213	(224,213)			
Total support, revenue and gains	<u>5,260,998</u>	<u>135,207</u>	<u>4,830</u>	<u>5,401,035</u>	<u>5,250,541</u>
Expenses:					
Program services:					
Curatorial	1,432,391			1,432,391	1,936,641
Education	1,609,271			1,609,271	1,646,750
Membership	198,546			198,546	207,639
Store	305,440			305,440	348,820
Total program services	<u>3,545,648</u>			<u>3,545,648</u>	<u>4,139,850</u>
Supporting services:					
Management	502,312			502,312	498,120
Fundraising	897,193			897,193	766,334
Total supporting services	<u>1,399,505</u>			<u>1,399,505</u>	<u>1,264,454</u>
Total expenses	<u>4,945,153</u>			<u>4,945,153</u>	<u>5,404,304</u>
Change in net assets before changes related to collection items not capitalized	<u>315,845</u>	<u>135,207</u>	<u>4,830</u>	<u>455,882</u>	<u>(153,763)</u>
Net proceeds from acquisition of collection items	<u>(201,782)</u>			<u>(201,782)</u>	<u>(425,506)</u>
Change in net assets	114,063	135,207	4,830	254,100	(579,269)
Net assets, beginning of year	<u>18,262,945</u>	<u>1,009,204</u>	<u>680,045</u>	<u>19,952,194</u>	<u>20,531,463</u>
Net assets, end of year	<u>\$ 18,377,008</u>	<u>\$ 1,144,411</u>	<u>\$ 684,875</u>	<u>\$20,206,294</u>	<u>\$19,952,194</u>

THE MONTCLAIR ART MUSEUM  
STATEMENT OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets	\$ 254,100	\$ (579,269)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	510,244	503,754
Amortization of bond financing costs charged to interest expense	8,183	8,183
Net present value amortization adjustment	(32,627)	7,444
Change in allowance for bad debt	(4,315)	
Net realized and unrealized gain on investments	(540,307)	(884,233)
Interest and dividends restricted for permanent investment	(1,704)	(2,022)
Contributions restricted for endowment	(3,126)	(7,255)
Donated securities	(115,575)	(211,238)
Donated furniture and equipment	(25,250)	
Changes in operating assets and liabilities:		
Accounts receivable	28,423	48,160
Inventories, catalogs and brochures	(2,850)	(4,718)
Grants receivable	(21,267)	119,476
Pledges receivable	1,613,456	1,272,896
Prepaid expenses and other current assets	(15,776)	(6,535)
Accounts payable and accrued expenses	(128,660)	(236,475)
Deferred revenue	(7,469)	4,273
Net cash provided by operating activities	<u>1,515,480</u>	<u>32,441</u>
Investing activities:		
Capital expenditures	(32,886)	(109,936)
Acquisition of investments	(2,965,962)	(4,083,909)
Proceeds from maturity/sale of investments	2,648,070	4,035,644
Net cash used in investing activities	<u>(350,778)</u>	<u>(158,201)</u>
Financing activities:		
Principal payments of bonds payable	(240,263)	(232,078)
Principal payments of note payable	(5,200)	(5,200)
Interest and dividends restricted for permanent reinvestment	1,704	2,022
Investment in permanent endowment	3,126	7,255
Net cash used in financing activities	<u>(240,633)</u>	<u>(228,001)</u>
Net increase (decrease) in cash and cash equivalents	924,069	(353,761)
Cash and cash equivalents, beginning of year	<u>575,179</u>	<u>928,940</u>
Cash and cash equivalents, end of year	<u>\$ 1,499,248</u>	<u>\$ 575,179</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 129,472</u>	<u>\$ 145,937</u>
Supplemental disclosures of noncash activity:		
Unrealized gain on investments	<u>\$ 272,746</u>	<u>\$ 459,957</u>
Fixed assets acquired by issuance of note payable	<u>\$ 24,700</u>	<u>\$</u>
Donated securities	<u>\$ 115,575</u>	<u>\$ 211,238</u>
Donated furniture and equipment	<u>\$ 25,250</u>	<u>\$</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Montclair Art Museum (the “Museum” or “MAM”) is a private, not-for-profit corporation founded in 1914, located in Montclair, New Jersey.

Mission Statement

The Montclair Art Museum, together with its Vance Wall Art Education Center, engages our diverse community through distinctive exhibitions, educational programs, and collections of American and Native American art. Our mission is to inspire and engage people of all ages in their experience with art, including the rich inter-cultural and global connections throughout American history, and the continuing relevance of art to contemporary life.

Vision and Values Statement

After 100 years of service, MAM is recognized as the leading American art museum and community art school in Northern New Jersey. As an organization, we value: artistic beauty, inference and diversity, both individual and group creativity, and the importance of all arts to a civil, inclusive and progressive society. We seek to open eyes to art; open hearts and minds to others; and open opportunities for all. Towards our second-century mission, we will invigorate our collections and curatorial presentations, expand our educational services and audience, support artists and their work and connections, embrace new media and technology, and pursue productive institutional partnerships. We will also secure MAM’s financial stability and preserve its facilities and other assets in a prudent and sustainable way.

Diversity Statement

The Montclair Art Museum is committed to being an inclusive and diverse organization, one that respects and welcomes individual differences in order to offer the most meaningful art experience to the widest possible audience. We strive to cultivate an environment that fosters productivity, creativity, and individual satisfaction by celebrating such differences as race, gender, nationality, age, religion, sexual orientation, and physical abilities.

A summary of significant accounting policies is described below:

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Museum prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Accounting for Contributions Received and Made*, and *Financial Statements of Not-for-Profit Organizations*. *Financial Statements of Not-for-Profit Organizations* established standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.



THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Financial Statement Presentation (Cont'd)

*Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue, and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions.

Net Assets

All financial transactions have been recorded as either unrestricted, temporarily restricted or permanently restricted net assets.

Unrestricted net assets consist of unrestricted amounts that are available for use in carrying out the mission of the Museum and include those expendable resources which may have been designated for special use by the Board of Trustees.

Temporarily restricted net assets represent those amounts which are donor-restricted for specific purposes or time periods. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities. Restricted gains and other income earned on investments, whose restrictions are satisfied in the same accounting period, are reported as unrestricted net assets.

Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds which mandate that the original principal be retained in perpetuity. This original principal is reported as a permanently restricted net asset, the income from which may be either temporarily restricted or unrestricted, depending on the donor's specifications.

In accordance with its financial planning, the Board of Trustees has designated a portion of the unrestricted net assets as board-designated funds. The Board of Trustees annually allocates a portion of the income earned on these funds to defray operating expenses.

Art Collections

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Revenue and Support Recognition

Contributions are recognized when the donor makes a promise to give to the Museum, that is, in substance, unconditional. Conditional promises to give and intentions to give are not recorded. Government grants are recognized as support and revenue during the period earned.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Revenue and Support Recognition (Cont'd)

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities.

Restricted gains and investment income whose restrictions are satisfied in the same accounting period are reported as unrestricted income.

The Museum accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Museum does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as unearned grant revenue in the statement of financial position.

Deferred Revenue

Deferred revenue consists of amounts received for program events which will be recognized as income in future periods when the services are performed or the event occurs. The Museum's Yard School of Art tuition fees received in the current fiscal year for the next semester are deferred until the instruction commences, since the Museum recognizes tuition revenue in the period in which the related instruction is performed.

Cash Equivalents and Restricted Cash

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature within three months or less. The Museum has \$27,258 and \$38,011 of restricted cash as of June 30, 2018 and 2017, respectively. The funds are restricted for educational and curatorial program activities.

Inventories

Inventories are comprised principally of merchandise available for sale in the gift shop located on the premises.

Prior to July 1, 2017, the Museum reported inventories at the lower of cost of market. As of July 1, 2017, the Museum began stating inventories prospectively at the lower of cost or net realizable value. This change was made in response to a recent FASB standard issued as part of the Board's simplification initiative. Under the prior method, "market" was replacement cost, subject to possible adjustments. Net realizable value is based on the selling price. The change is intended to reduce complexity in financial statement preparation. This change had no significant effect on the change in net assets for the year ended June 30, 2018.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Contributions and Pledges Receivable

Contributions and pledges receivable are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions and pledges receivable due in one year are recorded at their net realizable value. Contributions and pledges due in more than one year are recorded at the present value of their net realizable value using risk-adjusted rates applicable to the year in which the contributions are received to discount the amounts.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Accounts Receivable/Pledges Receivable and Allowances for Uncollectible Accounts

Accounts receivable and pledges receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Museum established an allowance for uncollectible accounts with respect to pledges of \$11,935 and \$16,250 at June 30, 2018 and 2017, respectively.

Buildings, Grounds and Equipment

Buildings, grounds and equipment are recorded at cost when purchased or, at fair value at date of gift, when donated. Cost includes the allocation of interest incurred in connection with the construction. Gifts of long-lived assets are reported as an increase in unrestricted net assets, unless there are explicit restrictions that specify how the assets are to be used. Proceeds from the sale of fixed assets, if unrestricted, are transferred to the unrestricted net assets, or if restricted, to temporarily restricted net assets for fixed asset acquisitions.

Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Maintenance, repairs and renewals which neither materially add to the value of property nor appreciably prolong its life are charged to expenses as incurred.

The Museum continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of FASB ASC, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Deferred Bond Financing Costs

Costs incurred in connection with obtaining financing, such as origination fees, commitment fees, legal, and other third party costs, are capitalized and amortized over the life of the related debt using a method that approximates the effective interest method.

The Museum follows the provisions of FASB ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issue Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization of debt issuance costs should be reported as interest expense.

Investments

The Museum records investments in accordance with FASB ASC, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under this standard, securities purchased for investment are carried at market value; those received as gifts are recorded at market value at date of gift and all investments in debt securities are reported at their fair market values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Generally, interest and dividend income from investments, which have not been restricted by outside donors, are used to defray operating expenses of the Museum.

Fair Value Measurements

In accordance with FASB ASC, *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The measurement of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As the Museum is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
 (Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Fair Value Measurements (Cont'd)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business);
- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost);
- Income approach - Techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information might not be available. When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

The carrying amounts of *cash and cash equivalents, receivables, other assets, accounts payable and accrued expenses, and other liabilities* approximate fair value because of the short term maturity of these instruments.

*Long-term debt* is carried at amortized cost. The Museum believes it can obtain similar loans at similar terms; therefore the Museum has determined that amortized cost approximates fair value.

*Equity securities*: Valued at the closing price reported in the active market in which the individual securities are traded.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Fair Value Measurements (Cont'd)

*Mutual funds:* Valued at the net asset value (NAV) of shares held by the Museum as of the date of the financial statements.

*Corporate bonds:* Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk.

*Preferred stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Mortgage-backed securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Museum invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks, any of which could affect their market value. Although the Museum invests in a diversified portfolio of investment securities, it is possible that changes in the market value of investment securities will occur and such changes could materially affect the value of the Museum's investments as reported in the statement of financial position and the statement of activities.

Management, in conjunction with its Investment Manager, review investments for other than temporary decline in accordance with the requirements of fair value measurements. The Museum's investments consist primarily of investments in mutual funds, equity and fixed income securities. Within the fund balance certain individual investments may have fair values measured below cost. The severity of any impairment and the duration of any impairment correlate with current market conditions. Based upon the near-term prospects of the issuer of any of those securities in relation to the severity and duration of the impairment, and based upon the Museum's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Museum does not consider those investments to be other-than-temporary impaired at June 30, 2018.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Museum to concentrations of credit risk, consist primarily of cash and cash equivalents. At times, amounts invested with financial institutions may be in excess of FDIC insurance limits. Management believes that the Museum has no significant risk of loss on these accounts due to the failure of the institutions.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Concentrations of Credit Risk (Cont'd)

Concentration of credit risk associated with investments is considered low due to the credit quality of the financial institutions holding these investments.

In addition, the Museum has a risk associated with the collections of its pledges receivable. Management considers this risk low due to the credit quality of the individuals who have given the pledges.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities, revenues and expenses and changes therein, and disclosures of contingent assets and contingent liabilities and accompanying notes. It is reasonably possible that the Museum's estimates may change in the near term.

Total Columns

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with The Museum's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Contributed Services

Volunteers contribute their time to the Museum's operations and various programs. The voluntary services are performed principally by the officers, trustees, volunteer council members, and educational program docents. The value of this contributed time is not reflected in the financial statements since it does not meet the criteria for recognition under U.S. generally accepted accounting principles.

Functional Expenses

Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on level of activity. Support costs are allocated to a program based on total program costs. Program expenses are those related to exhibits, education, membership and retail store related activities.

Supporting service expenses are those related to the finance and administrative functions associated to those programs. Fundraising includes the direct costs of special events and the allocation of employees' salaries and other costs involved in fund-raising and special events based on methods considered by management to be reasonable.

Advertising

It is the Museum's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2018 and 2017 was \$57,440 and \$56,450 respectively.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Income Taxes

The Museum is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, and is also exempt from state income taxes under Chapter 104 of Title 54, Revised Statutes of the New Jersey Law. The Museum has also been classified as entities that are not private foundations within the meaning of Section 509(a) and qualify for deductible contributions as provided in Section 170(b)(1)(A)(vi). Accordingly, no provision for federal or state income taxes has been presented in the accompanying financial statements.

The Museum follows the provisions of FASB ASC, *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions.

The Museum does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the fiscal year ended June 30, 2018. However, the Museum is subject to regular audit by tax authorities. The Museum believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued each year. Management believes its nonprofit status would be upheld upon examination.

As required by law, the Museum files informational returns with both the United States federal and State of New Jersey jurisdictions on an annual basis – Form 990 with the Internal Revenue Service, and Form CRI-300R with the State. These returns are subject to examination by these authorities within certain statutorily defined periods for federal and for the State of New Jersey.

New Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, “*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*” to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for nonprofit entities for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. The amendments in this update should be applied retrospectively. The Museum is currently evaluating the impact of this standard.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2018 through the date of the auditors’ report and the date the financial statements were available to be issued, September 26, 2018. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.



THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 2 - Pledges Receivable

Pledges receivable representing unconditional promises to give at June 30, 2018 and 2017, are as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 202,345	\$ 123,534
Receivable in one to five years	195,500	1,887,767
Less: discount to net present value at 2%, respectively	(11,458)	(44,085)
Less: allowance for uncollectible pledges	(11,935)	(16,250)
Net unconditional pledges receivable	<u>\$ 374,452</u>	<u>\$ 1,950,966</u>

Note 3 - Buildings, Grounds and Equipment

Buildings, grounds and equipment at June 30, 2018 and 2017, are comprised of the following:

	<u>Estimated Useful Lives</u>	<u>June 30,</u>	
		<u>2018</u>	<u>2017</u>
Grounds		\$ 132,700	\$ 132,700
Buildings	25-40 years	17,120,496	17,101,210
Equipment	3-10 years	2,786,846	2,741,699
		<u>20,040,042</u>	<u>19,975,609</u>
Less: accumulated depreciation		10,039,137	9,547,296
		<u>\$ 10,000,905</u>	<u>\$ 10,428,313</u>

Total depreciation expense charged to operations for the years ended June 30, 2018 and 2017 was \$510,244 and \$503,754 respectively.

Note 4 - Investments- Donor Designated Endowments (SPMIFA)

The Museum's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
 (Continued)

Note 4 - Investments- Donor Designated Endowments (SPMIFA) (Cont'd)

In accordance with SPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Museum, and (7) the Museum's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested by approved third party institutional managers in well diversified investments, which include equity and debt securities, that are intended over time to result in an inflation-protected rate of return while maintaining sufficient liquidity to make an annual distribution of up to 5%. Accordingly, the Museum expects its endowment assets, over time, to produce an average gross rate of return of approximately 6-7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation among managers, asset classes and investment strategies are intended not to expose the fund to unacceptable levels of risk.

*Spending Policy.* The Museum has established a spending policy of appropriating for distribution each year no more than 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In certain prior years the Board of Trustees has approved necessary appropriations in excess of this level. Investment fees and other direct investment expenses shall be in addition to this appropriation.

In establishing this policy, the Museum considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Museum intends that the current spending policy should allow its endowment funds, net of appropriations, to grow at a nominal average rate of 1-2% annually, which is consistent with the Museum's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds		\$ 620,924	\$ 684,875	\$ 1,305,799
Board-designated endowment funds	\$ 13,620,827			13,620,827
Total funds	<u>\$ 13,620,827</u>	<u>\$ 620,924</u>	<u>\$ 684,875</u>	<u>\$14,926,626</u>

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 4 - Investments- Donor Designated Endowments (SPMIFA) (Cont'd)

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds		\$ 550,215	\$ 680,045	\$ 1,230,260
Board-designated endowment funds	\$ 11,508,412			11,508,412
Total funds	<u>\$ 11,508,412</u>	<u>\$ 550,215</u>	<u>\$ 680,045</u>	<u>\$12,738,672</u>

Changes in endowment net assets as of June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets:				
Beginning of year	\$ 11,508,412	\$ 550,215	\$ 680,045	\$12,738,672
Contributions	2,279,860	50,000	3,126	2,332,986
Investment income	266,047	26,672	1,704	294,423
Net appreciation	412,034	43,948		455,982
Amounts appropriated for expenditure	(845,525)	(49,911)		(895,436)
End of year	<u>\$ 13,620,828</u>	<u>\$ 620,924</u>	<u>\$ 684,875</u>	<u>\$14,926,627</u>

Changes in endowment net assets as of June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets:				
Beginning of year	\$ 10,159,915	\$ 672,388	\$ 474,011	\$11,306,314
Contributions	1,362,895	100	7,255	1,370,250
Investment income	281,949	29,714	2,022	313,685
Net appreciation	725,893	81,707		807,600
Transfers		(196,757)	196,757	
Amounts appropriated for expenditure	(1,022,240)	(36,937)		(1,059,177)
End of year	<u>\$ 11,508,412</u>	<u>\$ 550,215</u>	<u>\$ 680,045</u>	<u>\$12,738,672</u>

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 5 - Investments

Investments at June 30, 2018 are comprised of the following:

	June 30, 2018			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	\$ 78,053	\$ 116,487		\$ 38,434
Consumer non-cyclical	684,265	697,412		13,147
Consumer cyclical	480,607	716,784		236,177
Energy	259,988	246,606		(13,382)
Financials	416,517	707,700		291,183
Health care	320,757	386,776		66,019
Industrials	527,190	620,152		92,962
Real estate	152,316	169,820		17,504
Technology	544,389	968,781		424,392
Utilities	210,584	276,836		66,252
Total	3,674,666	4,907,354		1,232,688
Fixed income securities:				
Corporate bonds	4,359,871		\$ 4,297,741	(62,130)
Preferred stock	50,840		50,980	140
Mortgage-backed securities	2,456		2,752	296
Total	4,413,167		4,351,473	(61,694)
Mutual funds:				
Equity funds	1,651,570	1,998,481		346,911
Fixed income - taxable funds	330,492	322,223		(8,269)
Balanced funds	393,937	487,854		93,917
Total	2,375,999	2,808,558		432,559
	<u>\$ 10,463,832</u>	<u>\$ 7,715,912</u>	<u>\$ 4,351,473</u>	<u>\$ 1,603,553</u>

THE MONTCLAIR ART MUSEUM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2018 AND 2017  
 (Continued)

Note 5 - Investments (Cont'd)

Investments at June 30, 2017 are comprised of the following:

	June 30, 2017			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	\$ 102,808	\$ 127,272		\$ 24,464
Real estate	108,568	122,500		13,932
Consumer non-cyclical	682,546	873,008		190,462
Consumer cyclical	447,011	474,786		27,775
Energy	359,540	367,159		7,619
Financials	383,294	615,780		232,486
Health care	293,465	360,030		66,565
Industrials	425,536	511,019		85,483
Technology	498,988	785,092		286,104
Utilities	206,221	258,123		51,902
Total	<u>3,507,977</u>	<u>4,494,769</u>		<u>986,792</u>
Fixed income securities:				
Corporate bonds	4,012,840		\$ 4,089,530	76,690
Mortgage-backed securities	2,740		3,169	429
Total	<u>4,015,580</u>		<u>4,092,699</u>	<u>77,119</u>
Mutual funds:				
Equity funds	1,531,653	1,747,079		215,426
Fixed income - taxable funds	317,670	311,380		(6,290)
Balanced funds	372,470	447,684		75,214
Total	<u>2,221,793</u>	<u>2,506,143</u>		<u>284,350</u>
	<u>\$ 9,745,350</u>	<u>\$ 7,000,912</u>	<u>\$ 4,092,699</u>	<u>\$ 1,348,261</u>

The Museum had restricted investments in 2018 and 2017, in the amount of \$1,055,668 and \$1,071,385, respectively.

Return on investments at June 30, 2018 and 2017, is comprised of the following:

	Year Ended June 30,	
	2018	2017
Interest and dividend income	\$ 294,423	\$ 313,686
Realized gain on investments	267,561	424,276
Unrealized gain on investments	272,746	459,957
Total return on investments	<u>\$ 834,730</u>	<u>\$ 1,197,919</u>

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 6 - 403(b) Retirement Plan

The Museum provides a 403(b) retirement plan for the benefit of employees that work at least half time on an annual basis. The plan allows employees to make tax deferred contributions which are used to purchase mutual funds. The Museum matches the employees' contributions up to a maximum of 2% of annual salary. The Museum may elect to make an employer discretionary contribution for employees with at least two years of service. For the years ended June 30, 2018 and 2017, the Museum did not make discretionary contributions to the plan.

Employees may draw from their plans upon retirement, termination or hardship. Termination of the plan will not affect amounts due to participants under the plan. During the years ended June 30, 2018 and 2017, the Museum contributed \$15,045 and \$18,129 respectively, to the plan.

Note 7 - Note Payable

In August 2013, the Museum entered into a five year financing agreement for an upgrade to its heating, ventilating, and air conditioning system valued at \$26,000. The note was payable in quarterly installments of \$1,300 and was repaid in full during the year ended June 30, 2018.

In August 2017, the Museum entered into a new five year financing agreement for equipment valued at \$24,700. The note is payable in quarterly installments of \$1,235 through June 30, 2023. The total amount due under those notes was \$24,700 and \$5,200 at June 30, 2018 and 2017, respectively. The future annual minimum payments for the next five years are \$4,940 for each of the fiscal years ending June 30, 2019 through June 30, 2023.

Note 8 - Bonds and Derivatives

During 2002 and 2001, the Museum constructed a three-story addition (the "Project") to the existing museum structure. Additionally, a significant portion of the existing building has been rehabilitated to improve galleries, public areas and administrative offices. The purpose of the expansion is to better accommodate the cultural needs of the community and the region.

The Project was financed by \$6,000,000 of 2000 Series Economic Development Authority Bonds (the "Bonds") issued by the State of New Jersey on June 1, 2000 (the "issue date"). The proceeds of the Bonds were loaned to the Museum pursuant to a loan agreement dated June 1, 2000 with PNC Bank, National Association that is secured by an irrevocable letter of credit in the amount of \$6,098,630.

In May 2007, the Museum entered into an agreement with JPMorgan Chase Bank, N.A. to replace the PNC Bank, N.A. letter of credit in the amount of \$5,346,465 and extend it to April 30, 2012, which was subsequently extended until October 2015. The letter of credit was terminated as part of the refinancing described below.

In April 2014, the Museum refinanced the 2000 Series bonds with the 2014 series, designated as the New Jersey Economic Development Authority Economic Development Bonds (The Montclair Art Museum Project) Series 2014 with an initial principal amount of \$4,549,200. The 2014 Series have a maturity date of April 1, 2030, and a fixed interest rate of 3.42%. On June 1, 2014, the first payment started at \$30,811, including principal and interest, and thereafter recurring monthly payments with a total of \$369,734 per year.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 8 - Bonds and Derivatives (Cont'd)

Deferred bond financing costs incurred in connection with the related debt liability are being amortized using the effective interest method over the life of the bond. Deferred bond financing costs are presented net of accumulated amortization of \$34,096 and \$25,913 as of June 30, 2018 and 2017, respectively, and are reported in the statement of financial position as a direct deduction from the carrying amount of the related debt liability. Amortization of these costs amounted to \$8,183 for the year ended June 30, 2018 and 2017 and is reported as interest expense in the statement of activities.

The following is a schedule of the Museum's bond obligation, by years, of future annual principal payments, net of deferred loan costs:

<u>Year Ending June 30,</u>	<u>Future Minimum Payments</u>	<u>Deferred Fianncing Bond Costs</u>	<u>Total</u>
2019	\$ 248,738	\$ (8,183)	\$ 240,555
2020	257,195	(8,183)	249,012
2021	266,563	(8,183)	258,380
2022	275,954	(8,183)	267,771
2023	285,677	(8,183)	277,494
Thereafter	<u>2,267,922</u>	<u>(55,917)</u>	<u>2,212,005</u>
Total	<u>\$ 3,602,049</u>	<u>\$ (96,832)</u>	<u>\$ 3,505,217</u>

The related loan obligation is collateralized by the Museum's property. The loan agreement contains various covenants, which among other things, place restrictions on the Museum's ability to incur additional indebtedness and require the Museum to maintain certain financial ratios. As of the date of these reports, the Museum was in compliance with all covenants.

Note 9 - Commitments and Contingency

Operating Leases

The Museum has entered into various equipment agreements expiring through November 2021. The following is a schedule of future minimum lease payments required under operating leases that have terms in excess of one year at June 30, 2018:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 21,457
2020	20,286
2021	<u>17,725</u>
	<u>\$ 59,468</u>

Rent expense on the above agreements amounted to \$21,234 and \$35,978 for the years ended June 30, 2018 and 2017, respectively.

THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 9 - Commitments and Contingency (Cont'd)

Government Grants

Government grants require fulfillment of certain basic conditions as set forth in the grant agreement. Failure to fulfill the conditions may result in the return of part or all of the funds to the government agencies. In management's opinion, all conditions of these grants have been met and no provision is required for cost adjustments.

Contingency and Risk Management

The Museum is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance and, if not so covered, are without merit or are of such kind, or involve such amounts that would not have a significant effect on the financial position or results of operations of the Museum if disposed of unfavorably.

Note 10 - Concentrations

Most of the Museum's funding comes from the State of New Jersey, the federal government, public, corporate and individual donors, and membership dues.

This funding represented the following percentage of total support and revenue, excluding net realized and unrealized gains on investments, as follows for the years ended:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Government and foundation grants	11%	13%
Public, corporate and individual donors	39%	22%
Membership dues	8%	8%

This funding also represented the following percentage of total accounts receivable as follows for the years ended:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Government and foundation grants	4%	3%
Public, corporate and individual donors	96%	94%

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Curatorial and education activities	\$ 1,144,411	\$ 1,009,204

Net assets released from restrictions in 2018 amounted to \$224,213 due to satisfaction of specific program requirements.



THE MONTCLAIR ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017  
(Continued)

Note 12 - Permanently Restricted Net Assets

Permanently restricted net assets are held for curatorial and education activities in the amount of \$684,875 and \$680,045 for the years ended June 30, 2018 and 2017, respectively. A portion of the investment income from these funds is allocated to temporarily restricted net assets annually based on donor stipulations. The principal balance of these funds may not be used without donor consent.

SUPPLEMENTARY INFORMATION

THE MONTCLAIR ART MUSEUM  
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)

	Program Services:					Supporting Services:			Total	
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	2018	2017
Salaries and wages	\$ 663,991	\$ 726,166	\$ 26,168	\$ 131,647	\$ 1,547,972	\$ 168,641	\$ 415,087	\$ 583,728	\$ 2,131,700	\$ 2,026,986
Pension plan contributions	5,556	3,987	173	347	10,063	1,474	3,508	4,982	15,045	18,129
Other employee benefits	41,063	21,876	1,770	2,286	66,995	9,976	18,198	28,174	95,169	95,622
Payroll taxes	56,985	67,161	2,882	11,583	138,611	19,089	35,834	54,923	193,534	188,703
Total personnel services	767,595	819,190	30,993	145,863	1,763,641	199,180	472,627	671,807	2,435,448	2,329,440
Cost of goods sold				31,182	31,182				31,182	60,807
Facilities, equipment and telephone	125,462	135,729	25,487	32,681	319,359	25,963	16,753	42,716	362,075	366,894
Insurance	54,310	28,972	5,241	6,551	95,074	14,262	6,040	20,302	115,376	364,135
Interest and other financing fees						137,655		137,655	137,655	145,840
Marketing, printing, photography and publications	33,393	48,559	18,186	6,228	106,366	622	3,065	3,687	110,053	184,598
Miscellaneous	15,827	15,513	2,809	3,237	37,386	46,880	1,818	48,698	86,084	64,670
Postage, shipping and transportation	46,463	14,817	18,372	723	80,375	491	2,389	2,880	83,255	206,907
Professional and other services	150,025	268,471	31,172	24,023	473,691	62,604	36,118	98,722	572,413	671,837
Special events							260,343	260,343	260,343	303,300
Supplies and special program supplies	35,218	73,922	25,466	3,928	138,534	9,553	92,938	102,491	241,025	202,122
Total expenses before depreciation	1,228,293	1,405,173	157,726	254,416	3,045,608	497,210	892,091	1,389,301	4,434,909	4,900,550
Depreciation	204,098	204,098	40,820	51,024	500,040	5,102	5,102	10,204	510,244	503,754
Total expenses	<u>\$ 1,432,391</u>	<u>\$ 1,609,271</u>	<u>\$ 198,546</u>	<u>\$ 305,440</u>	<u>\$ 3,545,648</u>	<u>\$ 502,312</u>	<u>\$ 897,193</u>	<u>\$ 1,399,505</u>	<u>\$ 4,945,153</u>	<u>\$ 5,404,304</u>

THE MONTCLAIR ART MUSEUM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass- through Entity's ID Number</u>	<u>Contract Number</u>	<u>Amount Expended</u>	<u>Pass- through to Subrecipients</u>
National Endowment for the Arts:					
Passed-through New Jersey State Council On the Arts:					
Promotion of the Arts-Grants to Organizations and Individuals	45.025	N/A	1805X010074	\$ 24,000	\$ -
Total expenditures of federal awards				<u>\$ 24,000</u>	<u>\$ -</u>

THE MONTCLAIR ART MUSEUM  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
YEAR ENDED JUNE 30, 2018

<u>State Grantor/ Pass-through Grantor/ Program Title</u>	<u>Contract Number</u>	<u>Contract Period</u>	<u>Amount Expended</u>
State of New Jersey Department of State New Jersey State Council on the Arts: General Operating Support	1805X010074	07/01/17-06/30/18	<u>\$ 274,817</u>
Total expenditures of state awards			<u><u>\$ 274,817</u></u>

THE MONTCLAIR ART MUSEUM  
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
JUNE 30, 2018

Note 1 - General

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state financial assistance programs of The Montclair Art Museum. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All federal and state financial assistance received directly from federal and state agencies, as well as financial assistance passed through other government agencies is included on the appropriate schedules. Because these schedules present only a selected portion of the operations of The Museum, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Museum.

Note 2 - Basis of Accounting

The accompanying schedules of expenditures of federal and state awards are presented using the accrual basis of accounting which is described in Note 1 to the financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and New Jersey State Circular 15-08-OMB, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Federal and State Financial Reports

The regulations and guidelines governing the preparation of federal and state financial reports vary by federal and state agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal and state financial reports do not necessarily agree with the amounts reported in the accompanying schedules of expenditures of federal and state awards, which is prepared on the accrual basis explained in Note 1.

Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of  
The Montclair Art Museum  
Montclair, NJ 07042

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Montclair Art Museum (the "Museum") (a nonprofit organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Museum's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Museum's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Trustees of  
The Montclair Art Museum

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mt. Arlington, New Jersey  
September 26, 2018

Nisiroccia LLP



THE MONTCLAIR ART MUSEUM  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018

Summary of Auditors' Results:

- An unmodified report was issued on The Montclair Art Museum's financial statements.
- The audit did not disclose any material weaknesses in the internal controls of The Montclair Art Museum.
- The audit did not disclose any noncompliance which is material in relation to the financial statements of The Montclair Art Museum.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Responses for Federal Awards:

- None noted

Findings and Responses for State Awards:

- None noted

THE MONTCLAIR ART MUSEUM  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2018

Status of Prior Year Findings:

There were no audit findings in the prior year.

Independent Auditors' Report  
on the New Jersey State Council on the Arts Final Report

To the Board of Trustees of  
The Montclair Art Museum  
Montclair, NJ 07042

We have audited the financial statements of The Montclair Art Museum (the "Museum") (a nonprofit organization) for the year ended June 30, 2018 and have issued our report thereon dated September 26, 2018.

In connection with our audit, nothing came to our attention that caused us to believe that any information, as it relates to accounting matters, contained in the Museum's June 30, 2018 Final Report Form submitted to the New Jersey State Council on the Arts for grants indicated on the Schedules of Expenditures of Federal and State Awards requires adjustment. However, our audit was not directed primarily toward obtaining knowledge of any misstatements.

This report is intended for the information of the Board of Trustees, management and the New Jersey State Council on the Arts, and is not intended to be, and should not be, used by anyone other than those specified parties.

Mt. Arlington, New Jersey  
September 26, 2018

*Nisivoccia* LLP