

# **The Montclair Art Museum**

Financial Statements

June 30, 2021 and 2020



**NISIVOCCIA**  
ASSURANCE · TAX · ADVISORY

**The Montclair Art Museum**  
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**June 30, 2021 and 2020**

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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) (the "Museum") which comprise the statement of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 Museum'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 Museum'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.

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

***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, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 30, 2021, 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 solely 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 effectiveness of 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 30, 2021

*Nisiroccia LLP*

**The Montclair Art Museum**  
**Statement of Financial Position**  
**June 30, 2021 and 2020**

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,680,063	\$ 2,175,535
Cash - restricted	131,217	128,305
Accounts receivable	4,254	5,833
Inventories, catalogs and brochures	41,433	48,974
Grants receivable	170,964	227,676
Pledges receivable, net	486,773	747,368
Prepaid expenses and other current assets	70,277	45,599
Investments, at market value	11,454,148	9,420,523
Investments, at market value - restricted	1,211,021	960,330
Buildings, grounds and equipment, at cost, net of accumulated depreciation	<u>8,785,116</u>	<u>9,258,622</u>
Total assets	<u>\$ 24,035,266</u>	<u>\$ 23,018,765</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 210,124	\$ 186,604
Deferred revenue	298,898	143,801
Note payable	9,880	14,820
Refundable advance	486,807	486,807
Economic Development Authority Bonds, net of deferred financing costs	<u>2,889,864</u>	<u>3,102,412</u>
Total liabilities	<u>3,895,573</u>	<u>3,934,444</u>
Net assets:		
Without donor restrictions:		
Undesignated	13,894,770	12,407,201
Board designated	<u>3,908,710</u>	<u>4,241,626</u>
Total net assets without donor restrictions	17,803,480	16,648,827
With donor restrictions	<u>2,336,213</u>	<u>2,435,494</u>
Total net assets	<u>20,139,693</u>	<u>19,084,321</u>
Total liabilities and net assets	<u>\$ 24,035,266</u>	<u>\$ 23,018,765</u>

See Accompanying Notes to Financial Statements

**The Montclair Art Museum**  
**Statement of Activities**  
**Year Ended June 30, 2021**

	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total
Support, revenue and gains:			
Grants	\$ 692,328	\$ 16,000	\$ 708,328
Government grant - PPP loan forgiveness	492,324		492,324
Donations	657,982	57,522	715,504
Membership dues	300,631	1,500	302,131
Art school tuition	300,354		300,354
Education programs	54,537		54,537
Curatorial programs	2,210		2,210
Admission fees	61,374		61,374
Special events	506,050	75,000	581,050
Income from investments	240,766	13,770	254,536
Net realized and unrealized gain on investments	2,124,835	227,639	2,352,474
Sales of merchandise, net	10,549		10,549
Rental income	24,970		24,970
Other revenue	1,857		1,857
Net assets released from restrictions	480,712	(480,712)	
Total support, revenue and gains	<u>5,951,479</u>	<u>(89,281)</u>	<u>5,862,198</u>
Expenses:			
Program services:			
Curatorial	1,345,745		1,345,745
Education	1,412,462		1,412,462
Membership	164,722		164,722
Store	260,568		260,568
Total program services	<u>3,183,497</u>		<u>3,183,497</u>
Supporting services:			
Management	512,305		512,305
Fundraising	760,102		760,102
Total supporting services	<u>1,272,407</u>		<u>1,272,407</u>
Total expenses	4,455,904		4,455,904
Change in net assets before changes related to collection items not capitalized	<u>1,495,575</u>	<u>(89,281)</u>	<u>1,406,294</u>
Net proceeds from acquisition of collection items	<u>(350,922)</u>		<u>(350,922)</u>
Change in net assets	1,144,653	(89,281)	1,055,372
Net assets, beginning of year	16,648,827	2,435,494	19,084,321
Transfer of net assets	<u>10,000</u>	<u>(10,000)</u>	
Net assets, end of year	<u>\$ 17,803,480</u>	<u>\$ 2,336,213</u>	<u>\$ 20,139,693</u>

See Accompanying Notes to Financial Statements

**The Montclair Art Museum**  
**Statement of Activities**  
**Year Ended June 30, 2020**

	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total
Support, revenue and gains:			
Grants	\$ 529,969	\$ 302,573	\$ 832,542
Donations	825,884	525,939	1,351,823
Membership dues	340,869		340,869
Art school tuition	648,621		648,621
Education programs	57,712		57,712
Curatorial programs	8,918		8,918
Admission fees	58,831		58,831
Special events	422,192	5,000	427,192
Income from investments	260,842	16,899	277,741
Net realized and unrealized gain on investments	234,341	32,526	266,867
Sales of merchandise, net	17,639		17,639
Rental income	76,577		76,577
Other revenue	4,250		4,250
Net assets released from restrictions	481,472	(481,472)	
Total support, revenue and gains	<u>3,968,117</u>	<u>401,465</u>	<u>4,369,582</u>
Expenses:			
Program services:			
Curatorial	1,319,924		1,319,924
Education	1,568,925		1,568,925
Membership	180,566		180,566
Store	257,780		257,780
Total program services	<u>3,327,195</u>		<u>3,327,195</u>
Supporting services:			
Management	615,249		615,249
Fundraising	708,328		708,328
Total supporting services	<u>1,323,577</u>		<u>1,323,577</u>
Total expenses	4,650,772		4,650,772
Change in net assets before changes related to collection items not capitalized	<u>(682,655)</u>	<u>401,465</u>	<u>(281,190)</u>
Net proceeds from acquisition of collection items	<u>(20,400)</u>		<u>(20,400)</u>
Change in net assets	(703,055)	401,465	(301,590)
Net assets, beginning of year	<u>17,351,882</u>	<u>2,034,029</u>	<u>19,385,911</u>
Net assets, end of year	<u>\$ 16,648,827</u>	<u>\$ 2,435,494</u>	<u>\$ 19,084,321</u>

See Accompanying Notes to Financial Statements

**The Montclair Art Museum  
Statement of Functional Expenses  
Year Ended June 30, 2021**

	Program Services:					Supporting Services:			Total
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	
Salaries and wages	\$ 606,498	\$ 638,754	\$ 30,250	\$ 99,367	\$ 1,374,869	\$ 233,969	\$ 427,660	\$ 661,629	\$ 2,036,498
Other employee benefits	59,330	57,957	5,640	21,627	144,554	8,764	35,199	43,963	188,517
Payroll taxes	50,630	56,931	3,042	7,411	118,014	21,910	34,244	56,154	174,168
Total personnel services	716,458	753,642	38,932	128,405	1,637,437	264,643	497,103	761,746	2,399,183
Facilities, equipment and telephone	158,375	187,847	32,053	40,855	419,130	25,847	17,010	42,857	461,987
Insurance	57,062	30,512	5,656	7,069	100,299	14,592	5,052	19,644	119,943
Interest and other financing fees					-	121,913		121,913	121,913
Marketing, printing, photography and publications	14,535	19,203	14,968	3,164	51,870	316	1,959	2,275	54,145
Miscellaneous	7,208	6,649	1,408	1,541	16,806	14,526	3,238	17,764	34,570
Postage, shipping and transportation	40,624	4,987	6,787	339	52,737	115	2,104	2,219	54,956
Professional and other services	120,400	160,611	14,716	19,109	314,836	62,866	38,068	100,934	415,770
Special events					-		169,680	169,680	169,680
Supplies and special program supplies	23,374	41,302	8,660	8,159	81,495	2,294	20,695	22,989	104,484
Total expenses before depreciation	1,138,036	1,204,753	123,180	208,641	2,674,610	507,112	754,909	1,262,021	3,936,631
Depreciation	207,709	207,709	41,542	51,927	508,887	5,193	5,193	10,386	519,273
Total expenses	<u>\$ 1,345,745</u>	<u>\$ 1,412,462</u>	<u>\$ 164,722</u>	<u>\$ 260,568</u>	<u>\$ 3,183,497</u>	<u>\$ 512,305</u>	<u>\$ 760,102</u>	<u>\$ 1,272,407</u>	<u>\$ 4,455,904</u>

See Accompanying Notes to Financial Statements



**The Montclair Art Museum**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2020**

	Program Services:					Supporting Services:			Total
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	
Salaries and wages	\$ 514,787	\$ 703,980	\$ 28,939	\$ 107,884	\$ 1,355,590	\$ 221,157	\$ 403,434	\$ 624,591	\$ 1,980,181
Pension plan contributions	3,908	4,068		175	8,151	1,778	4,021	5,799	13,950
Other employee benefits	63,332	47,548	4,264	13,303	128,447	11,977	35,261	47,238	175,685
Payroll taxes	44,869	63,857	2,989	8,852	120,567	21,558	33,682	55,240	175,807
Total personnel services	626,896	819,453	36,192	130,214	1,612,755	256,470	476,398	732,868	2,345,623
Facilities, equipment and telephone	135,881	158,838	27,594	35,359	357,672	27,488	17,769	45,257	402,929
Insurance	64,914	38,464	7,063	8,828	119,269	15,634	7,011	22,645	141,914
Interest and other financing fees						121,977		121,977	121,977
Marketing, printing, photography and publications	15,296	29,887	12,225	1,841	59,249	184	3,898	4,082	63,331
Miscellaneous	8,937	7,525	1,940	1,524	19,926	70,305	1,590	71,895	91,821
Postage, shipping and transportation	33,087	10,117	8,299	319	51,822	492	1,915	2,407	54,229
Professional and other services	163,279	241,771	19,641	22,954	447,645	95,619	48,671	144,290	591,935
Special events							71,613	71,613	71,613
Supplies and special program supplies	62,706	53,942	25,826	4,509	146,983	21,857	74,240	96,097	243,080
Total expenses before depreciation	1,110,996	1,359,997	138,780	205,548	2,815,321	610,026	703,105	1,313,131	4,128,452
Depreciation	208,928	208,928	41,786	52,232	511,874	5,223	5,223	10,446	522,320
Total expenses	\$ 1,319,924	\$ 1,568,925	\$ 180,566	\$ 257,780	\$ 3,327,195	\$ 615,249	\$ 708,328	\$ 1,323,577	\$ 4,650,772

See Accompanying Notes to Financial Statements

**The Montclair Art Museum**  
**Statement of Cash Flows**  
**Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,055,372	\$ (301,590)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	519,273	522,320
Amortization of bond financing costs charged to interest expense	8,183	8,183
Net present value amortization adjustment	(1,069)	(4,378)
Change in allowance for bad debt	(7,787)	(3,281)
Net realized and unrealized gain on investments	(2,352,474)	(266,867)
Interest and dividends restricted for permanent investment	(1,312)	(1,430)
Donated securities	(42,330)	(46,477)
Donated gifts in kind	(7,425)	(2,351)
Government grant - PPP loan forgiveness	(486,807)	
Changes in operating assets and liabilities:		
Accounts receivable	1,579	30,695
Inventories, catalogs and brochures	7,541	536
Grants receivable	56,712	(129,796)
Pledges receivable	269,451	(145,393)
Prepaid expenses and other current assets	(24,678)	18,187
Accounts payable and accrued expenses	23,520	(80,565)
Deferred revenue	155,097	(175,009)
Refundable advance	486,807	486,807
Net cash used in operating activities	<u>(340,347)</u>	<u>(90,409)</u>
Cash flows from investing activities:		
Capital expenditures	(38,342)	(37,939)
Acquisition of investments	(5,854,939)	(3,607,137)
Proceeds from maturity/sale of investments	5,965,427	5,257,798
Net cash provided by investing activities	<u>72,146</u>	<u>1,612,722</u>
Cash flows from financing activities:		
Payments for bond-related financing costs	(1,500)	
Principal repayments of bonds payable	(219,231)	(170,452)
Principal repayments of note payable	(4,940)	(4,940)
Interest and dividends restricted for permanent reinvestment	1,312	1,430
Net cash used in financing activities	<u>(224,359)</u>	<u>(173,962)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(492,560)	1,348,351
Cash, cash equivalents, and restricted cash, beginning of year	2,303,840	955,489
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,811,280</u>	<u>\$ 2,303,840</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 113,730</u>	<u>\$ 113,794</u>
Supplemental disclosures of noncash activity:		
Unrealized gain on investments	<u>\$ 1,163,050</u>	<u>\$ 249,222</u>
Donated securities	<u>\$ 42,330</u>	<u>\$ 46,477</u>
Donated gifts in kind	<u>\$ 7,425</u>	<u>\$ 2,351</u>

See Accompanying Notes to Financial Statements

**The Montclair Art Museum**  
**Notes to the Financial Statements**  
**June 30, 2021 and 2020**

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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, Values and Diversity Statement

After over 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 inspiration, diversity of voices, individual and group creativity, and recognize the importance of the arts to a civil, inclusive and forward-thinking society. We strive to maintain an environment that fosters productivity, creativity, and individual satisfaction by celebrating the diversity of race, gender, nationality, age, religion, sexual orientation, and physical abilities. During our second century, we will invigorate our collections and curatorial presentations; expand our educational service and audience; support artists, their work and connections; pursue productive institutional partnerships; and embrace new media and technology. We will also secure MAM’s financial stability and preserve its art and facilities in a prudent and sustainable way.

2. Summary of Significant Accounting Policies

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Significant accounting policies are described below:

Financial Statement Presentation

The Museum’s financial statements are prepared in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Financial Statements of Not-for-Profit Organizations*. The standard requires that information regarding the Museum’s financial position, activities, and cash flows be reported in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions based upon the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Net assets without donor restrictions are comprised of net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets in the amounts of \$3,908,710 and \$4,241,626 as of June 30, 2021 and 2020, respectively, to be held for specific purposes and board-designated endowment.

Net assets with donor restrictions represent amounts with donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### 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 net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions 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. The Museum's policy for the use of proceeds of deaccessioned collection items is solely for the acquisition of collection items and not for the direct care of existing collections.

#### Revenue and Support Recognition

Revenue is measured based on consideration specified in a contract with a customer. This occurs with the transfer of control of the sale at a specific point in time. The Museum recognizes program income when the services are provided. Membership dues, which are nonrefundable, are comprised of an exchange element based on the fair value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The Museum recognizes the exchange portion of membership dues over the period, and the contribution portion immediately. With the exception of goods and services provided in connection with membership dues, which are transferred over the period to which the dues relate, all goods and services are transferred at a point in time. The Museum records special events revenue equal to the fair value of direct benefits to donors, and contribution revenue for the excess received when the event takes place. There are no multi-year contracts and performance obligations are typically satisfied within one year or less.

The Museum recognizes contributions and pledges when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Federal and state contracts and grants of the Museum are conditioned upon certain performance requirements.

A portion of the Museum's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Museum has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

**The Montclair Art Museum**  
**Notes to the Financial Statements**  
**June 30, 2021 and 2020**

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Disaggregation of Revenue

In the following table, revenue is disaggregated by timing of satisfaction of performance obligations for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Performance obligations satisfied at a point in time	<u>\$ 1,017,888</u>	<u>\$ 922,036</u>
Performance obligations satisfied over time	<u>\$ 302,131</u>	<u>\$ 340,869</u>

Revenue from performance obligations satisfied at a point in time is comprised of program fees from the Museum’s various programs such as art school tuition, education programs, curatorial programs, admission fees, as well as gift shop sales made at the Museum and the Museum’s fundraising efforts. Revenue from performance obligations satisfied over time is comprised of membership dues.

Deferred Revenue

Deferred revenue is comprised 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.

The following table provides information about significant changes in deferred revenue for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Deferred revenue, beginning of year	\$ 143,801	\$ 318,810
Revenue recognized that was included in deferred revenue at the beginning of year	(143,801)	(318,810)
Increase in deferred revenue due to cash received during the period	<u>298,898</u>	<u>143,801</u>
Deferred revenue, end of year	<u>\$ 298,898</u>	<u>\$ 143,801</u>

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 \$131,217 and \$128,305 of restricted cash as of June 30, 2021 and 2020, respectively. The funds are restricted for educational and curatorial program activities.

**The Montclair Art Museum**  
**Notes to the Financial Statements**  
**June 30, 2021 and 2020**

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The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the sum of the corresponding amounts within the statement of cash flows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,680,063	\$ 2,175,535
Cash - restricted	<u>131,217</u>	<u>128,305</u>
Total	<u>\$ 1,811,280</u>	<u>\$ 2,303,840</u>

Inventories

Inventories are comprised principally of merchandise available for sale in the gift shop located on the premises. At June 30, 2021 and 2020, the Museum has stated inventories prospectively at the lower of cost or net realizable value. Inventories amounted to \$41,433 and \$48,974 at June 30, 2021 and 2020, respectively.

Accounts, Grants, and Pledges Receivable, Allowances for Uncollectible Accounts, and Provision for Discount to Net Present Value and Uncollectible Pledges

Accounts, grants, 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 receivables. The Museum established an allowance for uncollectible accounts with respect to pledges of \$7,497 and \$15,284 at June 30, 2021 and 2020, respectively. Management has recorded a discount on pledged amounts of \$490 and \$1,559 at June 30, 2021 and 2020, 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 net assets without donor restrictions, unless there are explicit restrictions that specify how the assets are to be used. Proceeds from the sale of fixed assets, if without donor restrictions, are transferred to the net assets without donor restrictions, or if restricted, to net assets with donor restrictions 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*.

#### 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 are reported as interest expense in accordance with this standard.

#### 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. Investment income or loss (including interest and dividends) and gains and losses on the sale of investments are included in the statement of activities unless the income or loss is restricted by the donor or law. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. That impairment charge would be included in the statement of activities and a new cost basis would be established. For the years ended June 30, 2021 and 2020, the Museum did not record any impairment charge in the statement of activities.

#### 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:

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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.

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, 2021 and 2020.

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.

*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.

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

*Refundable advance:* The Paycheck Protection Program ("PPP") advance, a government grant which may be forgiven or converted to a loan at a future point in time and which imputed interest does not apply, is carried at cost. However, management believes the Museum will receive full or partial forgiveness of the PPP advance or alternatively will return the funds or convert the advance to an amortizable loan and therefore, the Museum has determined it approximates fair value.

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 balance of the funds 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-temporarily impaired at June 30, 2021.

#### 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.

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.

#### 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

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

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.

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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.

The expenses that are allocated include salaries and wages, pension plan contributions, other employee benefits, payroll taxes, insurance, supplies and special program supplies, marketing, printing, photography, and publications, postage, shipping, and transportation, and professional and other services which are allocated on the basis of estimates of time and effort. Facilities, equipment, telephone, and depreciation are allocated on a square footage and usage basis. Interest and financing fees are direct supporting services management expenses, while event expenses are direct supporting services fundraising expenses.

Advertising

It is the Museum's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2021 and 2020 amounted to \$16,238 and \$16,497, respectively.

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 an entity that is not a private foundation within the meaning of Section 509(a) and qualifies 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, 2021. 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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified in order to be consistent with the current year presentation.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires all lessees to record a lease liability at lease inception, with a corresponding right of use asset, except for short-term leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The amendments in this update should be applied retrospectively. The Museum is currently evaluating the impact of this standard.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is effective for fiscal years beginning after June 15, 2021, with early adoption permitted. The FASB ASU requires nonprofits to present contributed nonfinancial assets as a separate line item in the statement of activities apart from contributions of cash or other financial assets along with expanded disclosure requirements. The FASB issued the update in an effort to improve transparency in reporting nonprofit gifts-in-kind. Management is evaluating the impact this ASU will have on its financial statements.

3. Liquidity and Availability

The Museum receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions which fall within the Museum's general operating expenses to fund their programs and mission. The Museum also has established an endowment that will exist in perpetuity; the income generated from such endowment is used to fund programs.

In addition, the Museum receives support without donor restrictions; such support has historically represented a majority of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions. The Museum also generates program income from its various mission supporting programs that take place each year.

The Museum considers investment income without donor restrictions, appropriated earnings from donor-restricted and contributions without donor restrictions, contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations, and program income generated to be available to meet cash needs for general expenditures.

General expenditures within one year include administrative and general expenses and fundraising expenses to be paid in the subsequent year. Annual operations are defined as activities occurring during the Museum's fiscal year.

The Museum manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and

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- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations continue to be met through the Museum's endowment and investment policy which ensures adequate liquid assets.

The Museum strives to maintain financial assets available to meet general expenditures at a level that represents seasonal cash needs for administrative, general, and fundraising expenses.

As of June 30, 2021 and 2020, the following table shows the total financial assets held by the Museum and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures:

Financial assets at year end:	2021	2020
Cash and cash equivalents	\$ 1,680,063	\$ 2,175,535
Cash - restricted	131,217	128,305
Accounts receivable	4,254	5,833
Grants receivable	170,964	227,676
Pledges receivable, net	486,773	747,368
Investments, at market value	11,454,148	9,420,523
Investments, at market value - restricted	1,211,021	960,330
Total financial assets	<u>15,138,440</u>	<u>13,665,570</u>
Less amounts not available to be used within one year:		
Cash - restricted	(131,217)	(128,305)
Investments, at market value - restricted	(1,211,021)	(960,330)
Board designated funds	(3,908,710)	(4,241,626)
Net assets with donor restrictions	<u>(2,336,213)</u>	<u>(2,435,494)</u>
Financial assets not available to be used within one year:	<u>(7,587,161)</u>	<u>(7,765,755)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 7,551,279</u>	<u>\$ 5,899,815</u>

4. Pledges Receivable

Pledges receivable representing unconditional promises to give at June 30, 2021 and 2020, are as follows:

	2021	2020
Receivable in less than one year	\$ 409,760	\$ 709,211
Receivable in one to five years	85,000	55,000
Less: discount to net present value at 2%, respectively	(490)	(1,559)
Less: allowance for uncollectible pledges	<u>(7,497)</u>	<u>(15,284)</u>
Net unconditional pledges receivable	<u>\$ 486,773</u>	<u>\$ 747,368</u>

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5. Buildings, Grounds and Equipment

Buildings, grounds and equipment at June 30, 2021 and 2020, are comprised of the following:

	<u>Estimated Useful Lives</u>	<u>2021</u>	<u>2020</u>
Grounds		\$ 132,700	\$ 132,700
Buildings	25-40 years	17,278,940	17,272,088
Equipment	3-10 years	<u>2,630,366</u>	<u>2,602,596</u>
		20,042,006	20,007,384
Less: accumulated depreciation		<u>11,256,890</u>	<u>10,748,762</u>
		<u>\$ 8,785,116</u>	<u>\$ 9,258,622</u>

Total depreciation expense charged to operations for the years ended June 30, 2021 and 2020 was \$519,273 and \$522,320 respectively.

6. Investments - Donor Designated Endowments (SPMIFA)

The Museum's endowment is comprised 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 net assets with donor restrictions held in perpetuity as (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 net assets with donor restrictions held in perpetuity is classified as net assets with donor restriction for time or purposes or board designated net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA.

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.

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*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, 2021 is as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds		\$ 1,578,191	\$ 1,578,191
Board-designated endowment funds	\$ 3,908,710		3,908,710
Total funds	<u>\$ 3,908,710</u>	<u>\$ 1,578,191</u>	<u>\$ 5,486,901</u>

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Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds		\$ 1,350,283	\$ 1,350,283
Board-designated endowment funds	\$ 4,241,626		4,241,626
Total funds	<u>\$ 4,241,626</u>	<u>\$ 1,350,283</u>	<u>\$ 5,591,909</u>

Changes in endowment net assets as of June 30, 2021 are as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Endowment net assets:			
Beginning of year	\$ 4,241,626	\$ 1,350,283	\$ 5,591,909
Contributions		25,000	25,000
Investment income	43,361	13,770	57,131
Net appreciation	716,828	227,639	944,467
Transfers (see Note 14)	(741,414)		(741,414)
Amounts appropriated for expenditure	(351,691)	(38,501)	(390,192)
End of year	<u>\$ 3,908,710</u>	<u>\$ 1,578,191</u>	<u>\$ 5,486,901</u>

Changes in endowment net assets as of June 30, 2020 are as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Endowment net assets:			
Beginning of year	\$ 6,552,435	\$ 1,318,858	\$ 7,871,293
Contributions		25,000	25,000
Investment income	84,149	16,899	101,048
Net appreciation	161,969	32,526	194,495
Transfers (see Note 14)	(2,536,527)		(2,536,527)
Amounts appropriated for expenditure	(20,400)	(43,000)	(63,400)
End of year	<u>\$ 4,241,626</u>	<u>\$ 1,350,283</u>	<u>\$ 5,591,909</u>



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7. Investments

Investments at June 30, 2021 are comprised of the following:

	June 30, 2021			Unrealized Gain (Loss)
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	
Equity securities (by sector):				
Basic materials	\$ 172,461	\$ 245,251		\$ 72,790
Consumer non-cyclical	767,107	976,052		208,945
Consumer cyclical	385,935	676,113		290,178
Energy	135,175	163,763		28,588
Financials	807,815	1,250,699		442,884
Healthcare	570,924	795,459		224,535
Industrials	315,088	492,645		177,557
Real estate	216,175	297,402		81,227
Technology	907,350	1,681,029		773,679
Utilities	475,109	616,114		141,005
Total	4,753,139	7,194,527		2,441,388
Fixed income securities:				
Corporate bonds	1,529,583		\$ 1,555,502	25,919
Mortgage-backed securities	1,739		1,983	244
Total	1,531,322		1,557,485	26,163
Mutual funds:				
Equity funds	1,860,833	2,202,027		341,194
Fixed income - taxable funds	977,133	976,412		(721)
Balanced funds	372,481	734,718		362,237
Total	3,210,447	3,913,157		702,710
	<u>\$ 9,494,908</u>	<u>\$ 11,107,684</u>	<u>\$ 1,557,485</u>	<u>\$ 3,170,261</u>

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Investments at June 30, 2020 are comprised of the following:

	June 30, 2020			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	\$ 287,247	\$ 281,989		\$ (5,258)
Communications	39,090	38,591		(499)
Consumer non-cyclical	42,079	77,114		35,035
Consumer cyclical	376,744	453,278		76,534
Energy	509,063	771,964		262,901
Financials	161,895	121,197		(40,698)
Healthcare	660,671	937,713		277,042
Industrials	545,896	687,405		141,509
Real estate	184,520	209,516		24,996
Technology	762,442	1,491,197		728,755
Utilities	248,920	338,641		89,721
Total	3,818,567	5,408,605		1,590,038
Fixed income securities:				
Corporate bonds	2,917,872		\$ 2,929,439	11,567
Preferred stock	50,840		51,060	220
Mortgage-backed securities	1,961		2,235	274
Total	2,970,673		2,982,734	12,061
Mutual funds:				
Equity funds	580,903	691,865		110,962
Alternate mutual funds	440,000	446,549		6,549
Fixed income - taxable funds	309,722	283,197		(26,525)
Balanced funds	372,481	567,903		195,422
Total	1,703,106	1,989,514		286,408
	<u>\$ 8,492,346</u>	<u>\$ 7,398,119</u>	<u>\$ 2,982,734</u>	<u>\$ 1,888,507</u>

The Museum had restricted investments in the amount of \$1,211,021 and \$960,330 at June 30, 2021 and 2020, respectively.

Return on investments for the years ended June 30, 2021 and 2020, is comprised of the following:

	2021	2020
Interest and dividend income	\$ 254,536	\$ 277,741
Realized gain on investments	1,295,255	109,181
Unrealized gain on investments	1,163,050	249,222
Investment fees	(105,831)	(91,536)
Total return on investments	<u>\$ 2,607,010</u>	<u>\$ 544,608</u>

8. 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, 2021 and 2020, 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, 2021 and 2020, the Museum contributed \$0 and \$13,950 respectively, to the plan.

9. Note Payable

In August 2017, The Museum entered into a 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 \$9,880 and \$14,820 at June 30, 2021 and 2020, respectively. The future annual minimum payments for the next two years are \$4,940 for each of the fiscal years ending June 30, 2022 through June 30, 2023.

10. Bonds and Derivatives

During 2001 and 2002, the Museum constructed a three-story addition (the "Project") to the existing museum structure. Additionally, a significant portion of the existing building was 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.

In connection with this project, in April 2014, the Museum refinanced the original debt for the construction and rehabilitation 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%, see Note 18.

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.

Bond financing costs incurred in connection with the related debt liability are being amortized using a method that approximates the effective interest method over the life of the bond. Deferred bond financing costs are presented net of accumulated amortization of \$58,644 and \$50,462 as of June 30, 2021 and 2020, 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 years ended June 30, 2021 and 2020 and is reported as interest expense in the statement of activities.

Due to the adverse effect of the COVID-19 pandemic, the Museum received a waiver of principal payments on its loan from April 2020 to September 2020. Interest on the loan continued to accrue during the waiver period. Deferred principal payments will be added to the principal amount of the loan at maturity and equal \$130,180 as of June 30, 2021.

**The Montclair Art Museum**  
**Notes to the Financial Statements**  
**June 30, 2021 and 2020**

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

Year Ending June 30,	Future Minimum Payments	Deferred Financing Bond Costs	Total
2022	\$ 410,078	\$ (8,183)	\$ 401,895
2023	285,677	(8,183)	277,494
2024	295,540	(8,183)	287,357
2025	306,154	(8,183)	297,971
2026	316,940	(8,183)	308,757
Thereafter	1,349,259	(32,869)	1,316,390
Total	<u>\$ 2,963,648</u>	<u>\$ (73,784)</u>	<u>\$ 2,889,864</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.

11. Commitments and Contingency

Operating leases

The Museum has entered into various equipment agreements expiring through December 2025. 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, 2021:

Year Ending June 30,	Amount
2022	\$ 32,526
2023	1,360
2024	1,360
2025	1,360
2026	340
	<u>\$ 36,946</u>

Rent expense on the above agreements amounted to \$33,627 and \$34,995 for the years ended June 30, 2021 and 2020, respectively.

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 may be 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.

12. Concentrations

Most of the Museum’s funding comes from the State of New Jersey, 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>2021</u>	<u>2020</u>
Government and foundation grants	34%	20%
Public, corporate and individual donors	20%	33%
Membership dues	9%	8%

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

	<u>2021</u>	<u>2020</u>
Government and foundation grants	32%	30%
Public, corporate and individual donors	68%	70%

13. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to time restriction for future expenditures:		
Curatorial and education activities	\$ 758,022	\$ 1,085,211
Endowments:		
Subject to Museum endowment spending policy and appropriation:		
General use	888,932	662,335
Not subject to spending policy and appropriation:		
Held in perpetuity	689,259	687,948
	<u>\$ 2,336,213</u>	<u>\$ 2,435,494</u>

Net assets released from restrictions as of June 30, 2021 and 2020 amounted to \$480,712 and \$481,472, respectively, due to satisfaction of specific program requirements.

Net assets with donor restrictions held in perpetuity are also held for curatorial and education activities. A portion of the investment income from these funds is allocated to net assets with donor restrictions for specific time or purposes annually based on donor stipulations. The principal balance of these funds may not be used without donor consent.

14. Transfer of Board-Designated Net Assets

The AAMD (Association of Art Museum Directors) has put out guidelines “concerning the use of restricted endowment funds during the COVID-19 emergency” in recognition of the significant negative implications of the Pandemic on museum operations. The intent is to provide museums with financial flexibility without risking censorship, suspension, or sanctions. The resolution from the board of trustees of the AAMD specifically states: “the circumstances created by the Pandemic constitute an emergency situation, justifying the taking by art museums of certain extraordinary measures to protect and preserve their collections, their staffs and their ability to resume normal operations once the restrictions caused by the Pandemic are lifted.”

The Museum has interpreted the resolution based on guidelines provided with the goal of insuring the survival of the collection and the operating institution as well as to augment funds for staff compensation and benefits. The directive states that over the next 24 months, “Income (not principal) from endowment funds or trusts distributable as to income held by a museum and that are normally restricted to purposes other than general operations such as art acquisition, conservation, or research” and “the income (not Principal) from funds generated by deaccessioned works of art, regardless of whether the works were deaccessioned before or after the date of these resolutions” can be used for general operations.

In June 2020, the trustees of the Montclair Art Museum agreed to designate the income on the funds held in the Board designated account restricted for art purchases, which excludes the named Restricted Art Funds, as part of the Museum’s unrestricted endowment. Income is defined as the change in asset value due to interest, dividends and market movement which is consistent with Museum’s accounting for endowment investments in its audited statements.

15. Refundable Advance

In April 2020, the Museum applied and received an advance under the United States Small Business Administration’s (SBA) Paycheck Protection Program (PPP) first draw of funding in an amount of \$486,807. The PPP funding is legally structured as a forgivable loan by the SBA. In order to achieve forgiveness of the loan, the Museum must spend the funding for specific purposes and also must generally maintain its full-time equivalent level of staffing over a defined time period. The Museum has accounted for the PPP funding as a conditional contribution in the financial statements by applying ASC Topic 958- 605, *Revenue Recognition*. Revenue is recognized only when conditions are met. PPP funding is subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. During the year ended June 30, 2021, the Museum has used the entire proceeds for purposes consistent with the PPP, resulting in recognition of the entire PPP funding of \$486,807 plus accrued interest of \$5,517 as contribution revenue (governmental grant) in the accompanying financial statements.

**The Montclair Art Museum**  
**Notes to the Financial Statements**  
**June 30, 2021 and 2020**

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In March 2021, the Museum applied and received \$486,807 under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP) second draw of funding. The PPP funding of \$486,807 is recognized as a refundable advance as of June 30, 2021, as the conditions have not been met.

16. Risk and Uncertainty

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility, and disruption across economies and financial markets. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Museum and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which the Museum operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

17. Transfer of Net Assets

During the year ended June 30, 2021, the Museum had a transfer of net assets previously designated as with donor restrictions to without donor restrictions in the amount of \$10,000.

18. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2021 through the date of the independent auditors' report and the date the financial statements were available to be issued, September 30, 2021. 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.

In August 2021, the museum amended its New Jersey Economic Development Authority Bonds to lower the interest rate for the remaining term of the loan. The new rate on the loan was set at 2.2% from August 1, 2021 until April 30, 2030. The new monthly loan amortization is \$30,865, and fees related to the refinancing will be amortized over the remaining life of the bonds, see Note 10.

**The Montclair Art Museum**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2021**

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Entity's ID Number	Contract Number	Amount Expended	Pass-through to Subrecipients
National Endowment for the Arts: Passed-through New Jersey State Council On the Arts: Promotion of the Arts-Grants to Organizations and Individuals	45.024	N/A	1865736-44-21	\$ 25,000	\$ -
Total expenditures of federal awards				<u>\$ 25,000</u>	<u>\$ -</u>

See Accompanying Notes to the Schedule of Expenditures of Federal and State Awards



**The Montclair Art Museum**  
**Schedule of Expenditures of State Awards**  
**Year Ended June 30, 2021**

<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	2105X010055	07/01/20-06/30/21	\$ 333,285
Application Short Form Support	2138X380042	03/01/21-6/30/21	20,000
Emergency Financial Assistance for Non-Profit Art Organizations	20COA-CRF-047	03/01/20-12/30/20	<u>68,935</u>
Total expenditures of state awards			<u><u>\$ 422,220</u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal and State Awards

**The Montclair Art Museum**  
**Notes to the Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2021**

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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 these schedules are 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 these schedules 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 are 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.

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 2 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.

3. Indirect Cost Rate

The Museum has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Sub-recipients

No federal or state awards were provided to sub-recipients.

5. Relationship to State Financial Reports

The regulations and guidelines governing the preparation of federal and state financial reports vary by federal and state agencies 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 are prepared on the accrual basis explained in Note 2.

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2021.

**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.

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

**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*.

**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 30, 2021

*Nisiroccia LLP*

**The Montclair Art Museum**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2021**

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I. 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 or significant deficiencies 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.

II. 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.

III. Findings and Responses for Federal and State Awards:

None noted

**The Montclair Art Museum  
Summary Schedule of Prior Year Findings  
Year Ended June 30, 2021**

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Status of Prior Year Findings:

There were no audit findings in the prior year.



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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, 2021 and have issued our report thereon dated September 30, 2021.

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, 2021 Final Report Form submitted to the New Jersey State Council on the Arts for grants indicated on the Schedule of Expenditures of 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 30, 2021

*Nisivoccia LLP*