

The Newark Museum Association

Financial Statements

December 31, 2013 and 2012

Independent Auditors' Report

Board of Trustees The Newark Museum Association

We have audited the accompanying financial statements of The Newark Museum Association which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities 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. 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 Newark Museum Association as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New York, New York
March 26, 2014

The Newark Museum Association

Statements of Financial Position

	December 31,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 7,561,986	\$ 7,840,110
Grants receivable	1,163,991	1,282,787
Contributions receivable, net	689,445	1,100,072
Prepaid expenses and other assets	601,534	779,311
Investments	49,217,622	42,626,254
Property and equipment, net	14,270,642	15,657,673
	<u>\$ 73,505,220</u>	<u>\$ 69,286,207</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 313,143	\$ 741,437
Loan payable	-	1,000,000
Refundable advances	126,454	21,573
Total Liabilities	<u>439,597</u>	<u>1,763,010</u>
Net Assets		
Unrestricted	52,819,674	50,239,093
Temporarily restricted	6,686,297	4,270,081
Permanently restricted	13,559,652	13,014,023
Total Net Assets	<u>73,065,623</u>	<u>67,523,197</u>
	<u>\$ 73,505,220</u>	<u>\$ 69,286,207</u>

The Newark Museum Association

Statement of Activities
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Operating revenues, gains, and other support				
Governmental grants and appropriations	\$ 6,545,223	\$ -	\$ 31,061	\$ 6,576,284
Contributions and pledges	1,936,011	1,417,894	514,568	3,868,473
Membership dues	801,017	-	-	801,017
Educational and membership tours	506,795	-	-	506,795
Investment income, net of fees	5,191,405	2,508,425	-	7,699,830
Other revenue	762,555	-	-	762,555
Net assets released from restriction	<u>1,510,103</u>	<u>(1,510,103)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>\$ 17,253,109</u>	<u>\$ 2,416,216</u>	<u>\$ 545,629</u>	<u>\$ 20,214,954</u>
Operating Expenses				
Salaries	6,050,429	-	-	6,050,429
Employee benefits and payroll taxes	2,280,030	-	-	2,280,030
Building operations	296,369	-	-	296,369
Electric, gas, and water	677,224	-	-	677,224
Display and programs	385,342	-	-	385,342
Interest expense	5,726	-	-	5,726
Other general and administrative	2,056,878	-	-	2,056,878
Depreciation	<u>1,945,795</u>	<u>-</u>	<u>-</u>	<u>1,945,795</u>
Total Operating Expenses	<u>13,697,793</u>	<u>-</u>	<u>-</u>	<u>13,697,793</u>
Change in Net Assets from Operations	<u>3,555,316</u>	<u>2,416,216</u>	<u>545,629</u>	<u>6,517,161</u>
NON-OPERATING ACTIVITIES				
Sale of collection items	3,896	-	-	3,896
Collections purchased	<u>(978,631)</u>	<u>-</u>	<u>-</u>	<u>(978,631)</u>
Total Non-Operating Activities	<u>(974,735)</u>	<u>-</u>	<u>-</u>	<u>(974,735)</u>
Change in Net Assets	2,580,581	2,416,216	545,629	5,542,426
NET ASSETS				
Beginning of year	<u>50,239,093</u>	<u>4,270,081</u>	<u>13,014,023</u>	<u>67,523,197</u>
End of year	<u>\$ 52,819,674</u>	<u>\$ 6,686,297</u>	<u>\$ 13,559,652</u>	<u>\$ 73,065,623</u>

The Newark Museum Association

Statement of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
Operating revenues, gains, and other support				
Governmental grants and appropriations	\$ 6,686,102	\$ -	\$ -	\$ 6,686,102
Contributions and pledges	1,651,854	1,215,285	115,527	2,982,666
Membership dues	842,834	-	-	842,834
Educational and membership tours	536,234	-	-	536,234
Investment income, net of fees	2,959,022	1,383,960	-	4,342,982
Other revenue	743,164	-	-	743,164
Net assets released from restriction	<u>2,831,113</u>	<u>(2,831,113)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>\$ 16,250,323</u>	<u>\$ (231,868)</u>	<u>\$ 115,527</u>	<u>\$ 16,133,982</u>
 Operating Expenses				
Salaries	7,521,523	-	-	7,521,523
Employee benefits and payroll taxes	2,305,833	-	-	2,305,833
Building operations	664,041	-	-	664,041
Electric, gas, and water	691,400	-	-	691,400
Display and programs	670,563	-	-	670,563
Interest expense	5,133	-	-	5,133
Other general and administrative	3,062,620	-	-	3,062,620
Depreciation	<u>1,930,111</u>	<u>-</u>	<u>-</u>	<u>1,930,111</u>
Total Operating Expenses	<u>16,851,224</u>	<u>-</u>	<u>-</u>	<u>16,851,224</u>
Change in Net Assets from Operations	<u>(600,901)</u>	<u>(231,868)</u>	<u>115,527</u>	<u>(717,242)</u>
 NON-OPERATING ACTIVITIES				
Sale of collection items	2,416,809	-	-	2,416,809
Collections purchased	<u>(1,192,945)</u>	<u>-</u>	<u>-</u>	<u>(1,192,945)</u>
Total Non-Operating Activities	<u>1,223,864</u>	<u>-</u>	<u>-</u>	<u>1,223,864</u>
Change in Net Assets	622,963	(231,868)	115,527	506,622
 NET ASSETS				
Beginning of year	<u>49,616,130</u>	<u>4,501,949</u>	<u>12,898,496</u>	<u>67,016,575</u>
End of year	<u>\$ 50,239,093</u>	<u>\$ 4,270,081</u>	<u>\$ 13,014,023</u>	<u>\$ 67,523,197</u>

The Newark Museum Association

Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,542,426	\$ 506,622
Adjustments to reconcile change in net assets to net cash from operating activities		
Permanently restricted gifts	(545,629)	(115,527)
Depreciation and other non-cash charges	1,945,795	1,930,111
Bad debt expense	54,570	162,360
Present value discount on contributions receivable	(26,703)	(138,258)
Realized and unrealized gains on investments	(7,050,797)	(3,586,969)
Purchases and sales of collections, net	974,735	(1,223,864)
Changes in operating assets and liabilities		
Grants receivable	118,796	569,597
Contributions receivable	382,760	679,336
Prepaid expenses and other assets	177,777	122,092
Accounts payable and accrued expenses	(428,294)	(9,546)
Advances on government contracts	104,881	21,573
Net cash from Operating Activities	1,250,317	(1,082,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(558,764)	(1,780,752)
Purchase of securities	(27,848,585)	(16,907,447)
Proceeds from sale of securities	28,308,014	18,672,422
Purchase of collections	(978,631)	(1,192,945)
Proceeds from sale of collections	3,896	2,416,809
Net Cash from Investing Activities	(1,074,070)	1,208,087
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted gifts received	545,629	215,527
Proceeds from loan	350,000	1,000,000
Payment of loan	(1,350,000)	(500,000)
Net Cash from Financing Activities	(454,371)	715,527
Net Change in Cash and Cash Equivalents	(278,124)	841,141
CASH AND CASH EQUIVALENTS		
Beginning of year	7,840,110	6,998,969
End of year	\$ 7,561,986	\$ 7,840,110
OTHER SUPPLEMENTARY CASH INFORMATION		
Interest paid	\$ 5,726	\$ 5,133

See notes to financial statements

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

1. The Museum

Since its founding in 1909 by pioneering museologist John Cotton Dana, the Newark Museum (the Museum) has embraced the richness of world cultures and has made education, access and civic service central to its mission. The Museum is renowned for its thoughtful approach to collecting and presentation, connecting objects in its collections to the cultural needs of its communities, producing interdisciplinary projects in the humanities and sciences, and making important connections across traditional collecting areas. The largest in New Jersey, the Museum is home to extraordinary encyclopedic collections in the arts. A century after its founding, the Museum is now custodian to over 110,000 objects in the departments of American Art, Asian Art, African Art, Decorative Arts, Ancient Mediterranean Art, Numismatics and the largest Natural Science collection in the State of New Jersey.

The Museum qualifies as a charitable organization as defined by Internal Revenue Code (IRC) Section 501(c)(3). Accordingly, it is exempt from Federal income tax under IRC Section 501(a). Additionally, since the Museum is publicly supported, the contributions to the Museum qualify for the maximum charitable contribution deduction under the IRC. The Museum is also exempt from state and local income taxes.

The Museum's goals and objectives are guided by its mission, which mandates that:

The Newark Museum, as it has since its founding, operates in the public trust as a museum of service, a leader in connecting objects and ideas to the needs and wishes of its constituencies. We believe that our art and science collections have the power to educate, inspire, and transform individuals of all ages, and the local, regional, national, and international communities that we serve. In the words of the founding director John Cotton Dana, "A good museum attracts, entertains, arouses curiosity, leads to questioning-and thus promotes learning."

Dedicated to artistic excellence, education, and community engagement, the Museum has evinced a historic commitment to broadening, deepening and diversifying arts participation. The Museum accomplishes its mission through exhibitions, educational and public programs, publications, and art reference library. By collaborating with other public and private educational, social, cultural, business and governmental institutions, the Museum achieves a broad impact.

The Museum devotes a substantial portion of its facilities to youth, family and school programs and ensures that its educational resources, collections and facilities are readily accessible to a broad audience representing diverse interests, ages and backgrounds. Nearly two out of three members of the Museum's annual audience are engaged by an educational program. The Museum has consistently been cited for excellence in exhibition and education initiatives by government authorities, national funding sources and professional associations, and received its most recent re-accreditation by the American Alliance of Museums (AAM) in 2008.

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

1. Museum (*continued*)

The Museum's distinguished collections are presented in eighty galleries housed on a seven-acre campus of seven buildings in the center of one of America's oldest cities. The campus encompasses the Ballantine House, which is a National Historic Landmark, the Dreyfuss Memorial Garden, the Newark Fire Museum, the 1784 Lyons Farms Schoolhouse and the recently completed Horizon Plaza, a welcoming streetscape/plaza with greenery, dynamic lighting, and potentially a major public art installation. The transformation of this busy perimeter area is a major institutional objective of the Signature Campaign for Sustainability and Growth, the Board approved plan that addresses the operating requirements of the Museum within the context of a focus on the African Art collection, building infrastructure needs for collections, including storage and parking garage facility, as well as operating support for working capital and endowment.

The operating activities of the Museum are supported by a diversified funding base of private donors, including foundations, corporations and individuals, as well as governmental sources. A significant portion of the governmental funds are from the City of Newark and the State of New Jersey. Consequently, decreases in government funding have had and will continue to have an adverse impact on the Museum, pending the actualization of the operating support objective of the Signature Campaign for Sustainability and Growth. The Board of Trustees of the Museum, as it has since its founding, is working to continue to assure that resources are available to carry out the mission of the Museum.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Classifications

The Museum reports information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted - Resources that are fully available at the discretion of management and the Board of Trustees (the Board), for use in activities within the Museum's charter and mission. The Board has designated a portion of the Museum's unrestricted net assets for various purposes.

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies (*continued*)

Net Asset Classifications (continued)

Temporarily restricted - Funds that the Museum may use in accordance with donors' restrictions for specific purposes or upon the passage of time.

Permanently restricted - Funds where *donor*-imposed restrictions stipulate that the resources be maintained in perpetuity. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset class, based on stipulations by the donors.

Governmental Grants and Appropriations

Cost-reimbursement governmental grants are recognized as revenue at the same time as expenses are incurred based on the terms of the grants. Other governmental grants are recognized as unrestricted or temporarily restricted contributions based on the terms of the grant.

No allowance for non-collectability was required on grants receivable as of December 31, 2013 and 2012.

Contributions

All unconditional contributions are recorded as revenue when received at their fair value. The fair value of long-term contributions receivable is measured based on the present value of future cash flows, with consideration given to possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also consider donors' credit risk. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use, unless specifically restricted by the donor. The Museum records contributions as permanently restricted if the donor stipulates that the resources be held in perpetuity or, as temporarily restricted if they are received with donor stipulations that limit their use either by purpose or by the passage of time. When donor restrictions expire (i.e., when a purpose or time restriction is fulfilled), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Legacies and bequests are recognized when the right to the gift has been established by the probate court and the proceeds are measurable.

Membership Dues

Membership dues are assessed and recognized as revenue on a calendar year basis.

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies (*continued*)

Contributed Services

A substantial number of volunteers have made significant contributions of their time in support of the Museum's mission. The value of such contributed services is not recorded in the accompanying financial statements as these services do not require specialized skills and are not susceptible to objective measurement or valuation.

Collections

The value of the Museum's collections has been excluded from the statements of financial position, and gifts of art objects are excluded from revenue in the statements of activities. Purchases of art objects by the Museum are recorded as decreases in net assets in the statements of activities. The Museum's policy is to exclusively utilize restricted acquisition funds to acquire new objects for its collections.

Functional Allocation of Expenses

The Museum presents its expenses in the statements of activities by natural classification. Expenses that are not attributable directly to program services or supporting services are allocated as functional expenses based on several factors, including square footage, the number of programs, and cost drivers. Program services include exhibition, education and public programs, and registrar and curatorial activities. Support services consist of general management and administration and fundraising.

Cash and Cash Equivalents

The Museum considers all liquid investments purchased with remaining maturity of three months or less at the date of purchase to be cash equivalents, with the exception of those money market funds which are included in investments.

Fair Value Measurements

The Museum follows the Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies (*continued*)

Investments and Investment Income

Investments in mutual funds, equity, and fixed-income securities are carried at fair value, which is based on published unit values or quoted market prices. Investments in cash equivalents, consisting of money market funds, are carried at cost, which approximates fair value. Alternative investments, consisting primarily of equity in a limited partnership, are carried at fair value based on the net asset value (NAV) per share of the class of the Museum's investments in the partnership, as determined by the partnership's investment manager. The Museum evaluates these valuations in several ways, including, but not limited to, verifying unit values or quoted market prices to published data, assessing the valuation methodologies employed by the fund's investment manager, and, where applicable, comparing NAV to the fund's audited financial statements.

Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset class owning the assets, except for permanently restricted net assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as unrestricted or temporarily restricted net assets based on donor stipulations.

Investments Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Property and Equipment

The Museum capitalizes all building improvements and other property and equipment expenditures or additions in excess of \$1,000, which are recorded at cost or, if donated, at fair value as of the date of receipt. Major renewals and betterments are capitalized. Maintenance and repairs, which do not extend the lives of the respective assets, are expensed. Depreciation is computed on a straight-line basis over the estimated useful life of the asset.

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies (*continued*)

Property and Equipment (continued)

When assets are retired or disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected as an increase or decrease in unrestricted net assets.

Refundable Advances

Advances received for which goods or services have yet to be provided are reported as refundable advances.

Accounting for Uncertainty in Income Taxes

The Museum recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Museum has no uncertain tax positions that would require financial statement disclosure. The Museum is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2010.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 26, 2014.

3. Contributions Receivable

Contributions receivable consisted of the following:

	2013	2012
Due less than one year	\$ 459,069	\$ 596,000
Due between one year and five years	<u>267,727</u>	<u>668,126</u>
Total	<u>726,796</u>	<u>1,264,126</u>
Less: Allowance for uncollectible accounts	(20,000)	(120,000)
Discount for present value at 5%	<u>(17,351)</u>	<u>(44,054)</u>
	<u>(37,351)</u>	<u>(164,054)</u>
Net	<u>\$ 689,445</u>	<u>\$ 1,100,072</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

4. Fair Value Measurements

The following table provides the fair value hierarchy of the Museum's financial instruments as of December 31:

	2013			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,131,535	\$ -	\$ -	\$ 1,131,535
Equities				
Consumer	4,200,825	-	-	4,200,825
Energy	2,739,034	-	-	2,739,034
Financials	3,221,391	-	-	3,221,391
Health Care	3,631,129	-	-	3,631,129
Industrials	4,086,690	-	-	4,086,690
Information Technology	3,361,985	-	-	3,361,985
Materials	2,864,845	-	-	2,864,845
Telecommunications	426,514	-	-	426,514
Fixed-income securities				
Collateralized mortgage obligations	-	129,656	-	129,656
Hedge Funds				
Fixed income	-	16,622,664	-	16,622,664
Long/Short Equity	-	-	6,801,354	6,801,354
Total	<u>\$ 25,663,948</u>	<u>\$ 16,752,320</u>	<u>\$ 6,801,354</u>	<u>\$ 49,217,622</u>
	2012			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,112,374	\$ -	\$ -	\$ 2,112,374
Equities				
Consumer	3,229,192	-	-	3,229,192
Energy	1,686,453	-	-	1,686,453
Financials	2,418,718	-	-	2,418,718
Health Care	3,379,234	-	-	3,379,234
Industrials	2,785,208	-	-	2,785,208
Information Technology	2,781,674	-	-	2,781,674
Materials	2,249,656	-	-	2,249,656
Telecommunications	288,354	-	-	288,354
Fixed-income securities				
U.S. Treasury securities	-	3,443,626	-	3,443,626
Corporate bonds	-	7,115,513	-	7,115,513
Collateralized mortgage obligations	-	4,089,810	-	4,089,810
International (developed)	-	1,385,802	-	1,385,802
Hedge Fund: Long/Short Equity	-	-	5,660,640	5,660,640
Total	<u>\$ 20,930,863</u>	<u>\$ 16,034,751</u>	<u>\$ 5,660,640</u>	<u>\$ 42,626,254</u>

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

4. Fair Value Measurements *(continued)*

The following is a reconciliation of the beginning and ending balances for Level 3 investments during the years ended December 31:

	2013	2012
Balance, beginning of year	\$ 5,660,640	\$ 5,409,300
Purchases	3,411	-
Sales/withdrawals	(250,000)	-
Total realized and unrealized gain/(loss)	1,387,303	251,340
Balance, end of year	\$ 6,801,354	\$ 5,660,640

Information regarding alternative investments valued at NAV using the practical expedient at December 31, 2013, is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds				
Fixed income (see "a" below)	\$ 16,622,664	\$ -	Daily	3 days
Long/short equity (see "b" below)	6,801,354	-	Quarterly	45 days
Total	\$ 23,424,018	\$ -		

- a. This investment seeks to outperform the total return of the investment grade bond market. Investments are limited to Treasuries, mortgages, corporate bonds and municipals (all investment grade). Capital preservation is a key theme as is consistent, low volatility returns.

- b. This investment, with SEG Partners is a long/short equity fund that invests in companies across the market cap spectrum. SEG Partners can invest globally but generally over 80% of the investments are in US domiciled companies. The strategy is generally 35%-75% long and 25%-65% short with a net exposure of 55%-95%. The net asset value (NAV) of the Fund is equivalent to its gross assets less its gross liabilities. The Museum's investment is beyond the initial one year lock up.

5. Property and Equipment

Property and equipment consisted of the following:

	2013	2012
Building improvements	\$ 49,576,358	\$ 47,993,290
Furniture, fixtures and equipment	4,307,843	4,284,977
	53,884,201	52,278,267
Less accumulated depreciation	40,349,237	38,403,443
	13,534,964	13,874,824
Construction in progress	735,678	1,782,849
Total Property and Equipment	\$ 14,270,642	\$ 15,657,673

The Newark Museum Association

Notes to Financial Statements
December 31, 2013 and 2012

5. Property and Equipment (continued)

Depreciation expense consisted of the following:

	Estimated Useful Life Years	2013	2012
Building improvements	15 to 25	\$ 1,779,800	\$ 1,767,382
Furniture, fixtures, and equipment	7	<u>165,995</u>	<u>162,729</u>
Total Depreciation		<u>\$ 1,945,795</u>	<u>\$ 1,930,111</u>

6. Unrestricted Board-Designated Net Assets

Unrestricted board-designated net assets consist of endowments within the Museum's institutional funds that donors do not require to be held in perpetuity, proceeds from the sale of de-accessioned collections and related investment income, or asset appreciation, that have been designated by the Board of Trustees for the purchase of collections and other purposes.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	2013	2012
Capital projects	\$ 2,127,750	\$ 1,620,000
Exhibitions	1,146,842	880,524
Education and other program services	<u>3,411,705</u>	<u>1,769,557</u>
Total	<u>\$ 6,686,297</u>	<u>\$ 4,270,081</u>

The temporarily restricted net assets included unappropriated investment income of \$2,837,932 and \$1,242,067 at December 31, 2013 and 2012, respectively, on permanently restricted net assets.

Net assets were released from donor restrictions (by incurring expenses satisfying the restrictions) as follows:

	2013	2012
Capital projects	\$ -	\$ 422,765
Exhibitions	202,680	355,894
Education and other program services	488,681	714,882
Operating, trustees' room and gallery maintenance	<u>818,742</u>	<u>1,337,572</u>
Total	<u>\$ 1,510,103</u>	<u>\$ 2,831,113</u>

The Newark Museum Association

Notes to Financial Statements
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8. Permanently Restricted Net Assets

Permanently restricted net assets, classified by purpose for which the income thereon is available for use, are as follows:

	<u>2013</u>	<u>2012</u>
Education and other program services	\$ 9,178,313	\$ 9,147,250
Operating, trustees' room and gallery maintenance	4,281,339	3,766,773
Art acquisition	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 13,559,652</u>	<u>\$ 13,014,023</u>

Accumulated income and appreciation of assets underlying permanently restricted net assets that have not yet been appropriated by the Board of Trustees for expenditure amounted to \$2,837,932 and \$1,242,067 as of December 31, 2013 and 2012, respectively.

Permanent restricted net assets include cumulative matching contributions from the New Jersey Cultural Trust that totaled \$972,597 and \$941,536 as of December 31, 2013 and 2012, respectively.

9. Endowments

The Museum's endowment consists of approximately 100 individual funds established for various purposes. Its endowment includes both donor-restricted endowment funds as well as funds designated by the Board of Trustees to function as endowments. 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 primary objective of the Museum's investment and spending strategies is to provide a stable stream of funds to support its operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted funds that the Museum must hold in perpetuity or for donor-specific periods as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that ensures safety through diversification and produces a real return, net of inflation, and investment management costs. The spending policy rate, set annually and informed by the recommendation of the Finance Committee, is calculated based upon the market value of the immediately preceding 3 years. The rate for 2013 and 2012 was 6%. Actual returns in any given year may vary from this amount.

The Newark Museum Association

Notes to Financial Statements
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9. Endowments *(continued)*

The following table summarizes the changes in the endowment funds in 2013 and 2012:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Board Designated			
Endowment net assets, beginning of year	\$ 29,823,444	\$ 1,242,067	\$ 12,922,626	\$ 43,988,137
Contributions received	103,896	-	541,061	644,957
Investment income	5,360,562	2,590,159	-	7,950,721
Investment management fees	(169,157)	(81,734)	-	(250,891)
Release from restrictions	912,560	(912,560)	-	-
Transfer of Board-designated assets to operating fund	(1,000,000)	-	-	(1,000,000)
Appropriation for operating activities	(1,891,191)	-	-	(1,891,191)
Other adjustments	-	-	4,568	4,568
Endowment net assets, end of year	<u>\$ 33,140,114</u>	<u>\$ 2,837,932</u>	<u>\$ 13,468,255</u>	<u>\$ 49,446,301</u>
	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Board Designated			
Endowment net assets, beginning of year	\$ 27,516,079	\$ 601,861	\$ 12,707,099	\$ 40,825,039
Contributions received	2,331,349	-	215,527	2,546,876
Investment income	3,159,613	1,477,778	-	4,637,391
Investment management fees	(200,591)	(93,818)	-	(294,409)
Release from restrictions	743,754	(743,754)	-	-
Transfer of Board-designated assets to operating fund	(1,800,000)	-	-	(1,800,000)
Appropriation for operating activities	(1,926,760)	-	-	(1,926,760)
Endowment net assets, end of year	<u>\$ 29,823,444</u>	<u>\$ 1,242,067</u>	<u>\$ 12,922,626</u>	<u>\$ 43,988,137</u>

10. Investment Return Income

The components of the Museum's investment income as of December 31, were as follows:

	2013	2012
Dividends and interest	\$ 899,924	\$ 1,050,422
Net realized and unrealized gains on investments	<u>7,050,797</u>	<u>3,586,969</u>
Total	<u>\$ 7,950,721</u>	<u>\$ 4,637,391</u>

The Newark Museum Association

Notes to Financial Statements
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11. Functional Expenses

The Museum's expenses are classified by function as follows:

	<u>2013</u>	<u>2012</u>
Program services		
Exhibitions	\$ 2,955,039	\$ 5,048,534
Education and public programs	3,015,590	3,747,369
Registrar and curatorial	<u>2,394,853</u>	<u>2,941,996</u>
Total program services	<u>8,365,482</u>	<u>11,737,899</u>
Supporting services		
General and administrative	2,086,456	3,000,313
Fundraising	<u>3,245,855</u>	<u>2,113,012</u>
Total supporting services	<u>5,332,311</u>	<u>5,113,325</u>
Total	<u>\$ 13,697,793</u>	<u>\$ 16,851,224</u>

12. Retirement Plans

The Museum is a participant in the multi-employer benefit plans (collectively, the Plans) administered by The Cultural Institutions Retirement System (CIRS). Due to the recent conclusion of negotiations that included the approval of the Cultural Institution and Day Care Council Management Group, the three unions involved in the Bargaining (District Council 37, District Council 1707 and the Council of Supervisors and Administrators), and the City of New York, a new Collective Bargaining Agreement (CBA) was reached. The two-year CBA covers the period from July 1, 2013 to June 30, 2015. The following changes to the Pension and 401(k) Savings Plans will be effective July 1, 2013 and will affect all CIRS Members (whether or not covered by a collective bargaining agreement) as described below in each section, respectively.

Pension Plan

The Museum participates in The Cultural Institutions Pension Plan (Pension Plan), a multi-employer defined benefit plan funded by the participating employers. To be eligible under this Plan, employees must be over 21 years of age and be employed for a one-year minimum. Participants become 100% vested after five years of service. There are no partial vesting provisions.

Under the new CBA (as of July 1, 2013), CIRS Members who reach age 64, and have at least one year of service, will no longer be considered Vested in the CIRS Pension Plan. This change will only affect employees hired on or after July 1, 2013 and the five year vesting rule will now apply to all plan participants, regardless of their age, hired on or after July 1, 2013. The current formula remains unchanged for the duration of the CBA.

The Newark Museum Association

Notes to Financial Statements
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12. Retirement Plans *(continued)*

Pension Plan (continued)

The recently concluded collective bargaining negotiations governing the Museum's Pension Plan with CIRS resulted in a change to the early retirement reduction factors that apply to benefits earned after June 30, 2010. This change will not affect benefits attributable to Creditable Service (defined in the Pension Plan) earned prior to July 1, 2010. Additionally, this change will not impact employees who may qualify for an unreduced benefit under Rule 85 for regular or disability retirement under the Pension Plan. This change will only affect benefits if an employee chooses to begin their pension before age 62. The CIRS Plan's normal retirement age is 62 with five years of service (or age 64 regardless of service).

CIRS is responsible for administering all aspects of the Pension Plan, including investments of the Pension Plan assets.

The Museum's participation in these plans for the years ended December 31, 2013 is outlined in the table below:

Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implementd	The Museum Contributions		Surcharge Imposed	Collective Bargaining Agreement Exp. Date
		2013	2012		2013	2012		
	11-2001170							
The Cultural Institutions Pension Plan	001	Green	Green	N/A	\$ 526,914	\$ 512,848	No	6/30/2015

The zone status is based on information that the Museum received from the plan and is certified by the plan's actuary. Green zone status are for plans that are at least 80 percent funded.

Savings Plan

The Museum also participates in The Cultural Institutions Savings Plan (Savings Plan), a CIRS administered Section 401(k) defined contribution plan. Under the Savings Plan, employees make contributions and direct the investment of their funds based on the investment options offered. To be eligible under this plan, employees must be over 21 years of age and employed for a minimum of three months. Employees are eligible for matching contributions from their employers up to a percentage of salary, which is 2% for the Museum's employees through June 30, 2013.

Employer Matching Contributions to the CIRS 401(k) Savings Plan will be suspended for the fiscal July 1, 2013 and July 1, 2014 Plan Years. This change will affect the Employer Matching Contributions that otherwise would have been made in July of 2014 and in July of 2015. This does not change the requirement that all CIRS Members contribute at least 2% of their salary to the Plan and does not affect the match that was already made in July 2013.

The Newark Museum Association

Notes to Financial Statements
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12. Retirement Plans (*continued*)

Group and Life and Welfare Plan

The Museum also participates in The Cultural Institutions Group Life and Welfare Plan (Group Life and Welfare Plan), a plan administered by CIRS. Participating employers pay the premiums and costs for administration of the Group Life and Welfare Plan. The premiums provide a death benefit payable by the insurance carrier to designated beneficiaries upon the death of a member. Coverage is determined by the member's basic annual salary and years of service. The benefit is 200% of salary for members with 10 or more years of service and 100% of salary for members with less than 10 years of service. The life insurance is subject to a maximum of \$500,000. At ages 70, 75, and 79, a member's amount of insurance is reduced.

The Museum's total contributions to the CIRS plans in 2013 and 2012 totaled \$568,577 and \$631,272, which consisted of \$469,825 and \$489,586 for the Pension Plan, \$26,210 and \$57,684 for the Savings Plan, \$17,095 and \$21,019 for Group Life and Welfare Plan, and \$55,449 and \$62,983 for plan administration, respectively.

13. Commitments

Line of Credit

The Museum maintains a line of credit in the aggregate amount of \$1,000,000 from JPMorgan Chase Bank, N.A.. Borrowings under the line of credit are available in the form of advances intended to be used to meet normal short-term working capital needs. The advances are collateralized by the Museum property, as defined in the line of credit, and will bear interest at a rate generally based on the London-interbank offered rate as calculated under the terms of the line of credit.

During 2013, the Museum borrowed \$350,000 from the line of credit of which the balance was paid as of December 31, 2013. The line expires on June 30, 2014 and currently bears interest at 3.25% per year. Interest on the loans totaled \$5,726.

During 2012, the Museum borrowed \$1,000,000 from the line of credit, of which \$1,000,000 was an outstanding loan payable at December 31, 2012. The loan was due on June 30, 2013 and bore interest at 2.81% per year. Interest on the loans totaled \$5,133. Subsequent to year end, the Museum paid this balance.

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Notes to Financial Statements
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13. Commitments (*continued*)

Leases

Annual minimum future rental payments on equipment under non-cancelable operating leases as of December 31, 2013 are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2014	\$ 50,784
2015	38,874
2016	3,144
2017	<u>2,358</u>
	<u>\$ 95,160</u>

Total rent expense amounted to \$70,040 and \$71,136 in 2013 and 2012, respectively.

14. Concentrations of Credit and Market Risks

Financial instruments, which potentially subject the Museum to concentrations of credit and market risk, primarily include cash and cash equivalents and investments, which are carried at fair value. During the years, the balances in these institutions exceed the Federal Deposit Insurance Corporation insurance level. Generally, these deposits may be redeemed upon demand, therefore, bear minimal risk. The Museum places its investments in equity and debt securities at the direction of its Board of Trustees, while it monitors the credit risks associated with these institutions on an ongoing basis.

Grants receivable are due from governmental funding agencies and pledges receivable are primarily with corporations and individuals.

Approximately 68% and 71% of the Museum's governmental grants and appropriation revenue was received from one governmental agency in 2013 and 2012.

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