

THE NEWARK MUSEUM ASSOCIATION

Financial Statements

For the Years Ended December 31, 2011 and 2010

With Report of Independent Auditors

THE NEWARK MUSEUM ASSOCIATION
December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
The Newark Museum Association

We have audited the accompanying statements of financial position of The Newark Museum Association (the Museum) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Museum's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads "Mitchell & Titus, LLP".

May 15, 2012

THE NEWARK MUSEUM ASSOCIATION

Statement of Financial Position

As of December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash	\$ 4,976,829	\$ 1,858,705	\$ 163,435	\$ 6,998,969
Grants receivable	1,352,384	500,000	-	1,852,384
Contributions receivable, net	170,730	1,541,383	191,397	1,903,510
Prepaid expenses and other assets	901,403	-	-	901,403
Investments	27,658,735	601,861	12,543,664	40,804,260
Property and equipment, net	15,807,032	-	-	15,807,032
Total assets	<u>\$ 50,867,113</u>	<u>\$ 4,501,949</u>	<u>\$ 12,898,496</u>	<u>\$ 68,267,558</u>
LIABILITIES AND NET ASSETS				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 750,983	\$ -	\$ -	\$ 750,983
Loan payable	500,000	-	-	500,000
Total liabilities	<u>1,250,983</u>	<u>-</u>	<u>-</u>	<u>1,250,983</u>
Commitments				
<i>Net assets</i>				
Unrestricted	49,616,130	-	-	49,616,130
Temporarily restricted	-	4,501,949	-	4,501,949
Permanently restricted	-	-	12,898,496	12,898,496
Total net assets	<u>49,616,130</u>	<u>4,501,949</u>	<u>12,898,496</u>	<u>67,016,575</u>
Total liabilities and net assets	<u>\$ 50,867,113</u>	<u>\$ 4,501,949</u>	<u>\$ 12,898,496</u>	<u>\$ 68,267,558</u>

The accompanying notes are an integral part of these financial statements.

THE NEWARK MUSEUM ASSOCIATION

Statement of Financial Position

As of December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash	\$ 5,868,633	\$ 1,270,090	\$ 114,763	\$ 7,253,486
Grants receivable	463,095	-	-	463,095
Contributions receivable, net	50,000	2,248,426	289,735	2,588,161
Prepaid expenses and other assets	786,722	-	-	786,722
Investments	30,011,822	1,589,558	12,178,142	43,779,522
Property and equipment, net	21,403,317	-	-	21,403,317
Total assets	<u>\$ 58,583,589</u>	<u>\$ 5,108,074</u>	<u>\$ 12,582,640</u>	<u>\$ 76,274,303</u>
LIABILITIES AND NET ASSETS				
<i>Liabilities</i>				
Accounts payable and accrued expenses	<u>\$ 772,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 772,405</u>
Commitments				
<i>Net assets</i>				
Unrestricted	57,811,184	-	-	57,811,184
Temporarily restricted	-	5,108,074	-	5,108,074
Permanently restricted	-	-	12,582,640	12,582,640
Total net assets	<u>57,811,184</u>	<u>5,108,074</u>	<u>12,582,640</u>	<u>75,501,898</u>
Total liabilities and net assets	<u>\$ 58,583,589</u>	<u>\$ 5,108,074</u>	<u>\$ 12,582,640</u>	<u>\$ 76,274,303</u>

The accompanying notes are an integral part of these financial statements.

THE NEWARK MUSEUM ASSOCIATION
Statement of Activities
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
<i>Operating revenues, gains, and other support</i>				
Governmental grants and appropriations	\$ 7,354,484	\$ 500,000	\$ -	\$ 7,854,484
Contributions and pledges	1,913,820	1,897,972	265,856	4,077,648
Membership dues	774,615	-	-	774,615
Educational and membership tours	530,357	-	-	530,357
Investment income	146,683	69,187	-	215,870
Other revenue	774,337	-	-	774,337
Donor-stipulated change in restriction	-	(50,000)	50,000	-
Net assets released from restriction	3,023,284	(3,023,284)	-	-
Total operating revenues, gains, and other support	<u>14,517,580</u>	<u>(606,125)</u>	<u>315,856</u>	<u>14,227,311</u>
<i>Operating expenses</i>				
Salaries	7,070,987	-	-	7,070,987
Employee benefits and payroll taxes	2,097,225	-	-	2,097,225
Building operations	1,030,618	-	-	1,030,618
Electric, gas, and water	758,267	-	-	758,267
Display and programs	510,642	-	-	510,642
Other general and administrative	3,143,735	-	-	3,143,735
Depreciation	1,988,912	-	-	1,988,912
Total operating expenses	<u>16,600,386</u>	<u>-</u>	<u>-</u>	<u>16,600,386</u>
Change in net assets from operations	<u>(2,082,806)</u>	<u>(606,125)</u>	<u>315,856</u>	<u>(2,373,075)</u>
NON-OPERATING ACTIVITIES				
Write off of Signature Project costs (including costs capitalized in prior years of \$4,862,248)	(5,350,485)	-	-	(5,350,485)
Sale of collection items	14,641	-	-	14,641
Collections purchased	(776,404)	-	-	(776,404)
Total non-operating activities	<u>(6,112,248)</u>	<u>-</u>	<u>-</u>	<u>(6,112,248)</u>
Change in net assets	(8,195,054)	(606,125)	315,856	(8,485,323)
Net assets, beginning of year	57,811,184	5,108,074	12,582,640	75,501,898
Net assets, end of year	<u>\$ 49,616,130</u>	<u>\$ 4,501,949</u>	<u>\$ 12,898,496</u>	<u>\$ 67,016,575</u>

The accompanying notes are an integral part of these financial statements.

THE NEWARK MUSEUM ASSOCIATION

Statement of Activities

For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
<i>Operating revenues, gains, and other support</i>				
Governmental grants and appropriations	\$ 10,087,554	\$ -	\$ 15,273	\$ 10,102,827
Contributions and pledges	1,725,035	5,057,825	635,828	7,418,688
Membership dues	727,107	-	-	727,107
Educational and membership tours	562,725	-	-	562,725
Investment income	2,700,780	1,589,558	-	4,290,338
Other revenue	763,706	-	-	763,706
Net assets released from restriction	2,971,087	(2,971,087)	-	-
 Total operating revenues, gains, and other support	 <u>19,537,994</u>	 <u>3,676,296</u>	 <u>651,101</u>	 <u>23,865,391</u>
<i>Operating expenses</i>				
Salaries	7,442,009	-	-	7,442,009
Employee benefits and payroll taxes	2,526,902	-	-	2,526,902
Building operations	567,440	-	-	567,440
Electric, gas, and water	813,568	-	-	813,568
Display and programs	711,119	-	-	711,119
Other general and administrative	5,387,444	-	-	5,387,444
Depreciation	1,978,810	-	-	1,978,810
 Total operating expenses	 <u>19,427,292</u>	 <u>-</u>	 <u>-</u>	 <u>19,427,292</u>
Change in net assets from operations	<u>110,702</u>	<u>3,676,296</u>	<u>651,101</u>	<u>4,438,099</u>
NON-OPERATING ACTIVITIES				
Sale of collection items	3,869	-	-	3,869
Collections purchased	(1,416,634)	-	-	(1,416,634)
Total non-operating activities	<u>(1,412,765)</u>	<u>-</u>	<u>-</u>	<u>(1,412,765)</u>
Change in net assets	(1,302,063)	3,676,296	651,101	3,025,334
Net assets, beginning of year	<u>59,113,247</u>	<u>1,431,778</u>	<u>11,931,539</u>	<u>72,476,564</u>
Net assets, end of year	<u>\$ 57,811,184</u>	<u>\$ 5,108,074</u>	<u>\$ 12,582,640</u>	<u>\$ 75,501,898</u>

The accompanying notes are an integral part of these financial statements.

THE NEWARK MUSEUM ASSOCIATION
 Statements of Cash Flows
 For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES		
Change in net assets	\$ (8,485,323)	\$ 3,025,334
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Permanently restricted gifts	(265,856)	(651,101)
Depreciation and other non-cash charges	1,988,912	4,053,274
Write off of Signature Project costs	4,862,248	-
(Decrease) increase in present value discount on contributions receivable	(28,864)	211,176
Realized and unrealized losses (gains) on investments	800,216	(3,312,167)
Purchases and sales of collections, net	761,763	1,412,765
<i>Changes in operating assets and liabilities</i>		
(Increase) decrease in grants receivable	(1,389,289)	858,126
Decrease (increase) in contributions receivable	565,177	(1,765,364)
Increase in prepaid expenses and other assets	(114,681)	(46,004)
Decrease in accounts payable and accrued expenses	(21,422)	(344,945)
Decrease in advances	-	(765,450)
Net cash (used in) provided by operating activities	(1,327,119)	2,675,644
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,254,875)	(2,022,429)
Purchase of securities	(31,083,577)	(18,403,983)
Proceeds from sale of securities	33,258,623	19,638,693
Purchase of collections	(776,404)	(1,416,634)
Proceeds from sale of collections	14,641	3,869
Net cash used in investing activities	158,408	(2,200,484)
FINANCING ACTIVITIES		
Permanently restricted gifts received	414,194	811,288
Proceeds from loan	1,000,000	-
Payment of loan	(500,000)	(20,249)
Net cash provided by financing activities	914,194	791,039
Net increase in cash	(254,517)	1,266,199
Cash, beginning of year	7,253,486	5,987,287
Cash, end of year	\$ 6,998,969	\$ 7,253,486
OTHER SUPPLEMENTARY CASH INFORMATION		
Interest paid	\$ 1,790	\$ -

The accompanying notes are an integral part of these financial statements.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 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'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 Association of Museums (AAM) in 2008.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 1 **THE 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, the Billy Johnson Auditorium and certain properties with construction currently in progress.

Current construction was preceded by an organizational growth and strategic positioning plan, prepared by the Museum as the organization began its second century of existence. The Board of Trustees (the Trustees) authorized an all encompassing expansion project, the Signature Project, for which the quiet phase of fund-raising campaign continued until the dramatic change in financial climate, as well as a decline in governmental funding for the Museum operation, led to a re-evaluation of the project.

The Trustees adopted a revised Signature Campaign for Sustainability and Growth that addressed the operating requirements of the Museum within the context of a redirected capital need based upon the core capital infrastructure elements of the Signature Project. It comprises four parts:

a) Development of the Southeast Corner of the Museum Campus—While the initial plan was to replace the demolished building with a new structure, economics have preempted this plan, as well as new concerns about the viability of the adjacent 1860 Polhemus House, and that House's capacity to withstand demolition of the adjoining property. Following an intense investigation, the resulting high cost of stabilization and restoration led to the decision to request regulatory permission to demolish both buildings jointly. The Museum has obtained all necessary final approvals for demolition to take place, and the work is progressing.

Regulatory approvals have also been granted for the new temporary site plan commissioned by the Museum that envisions developing the corner as 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. The estimated cost of this project totals approximately \$1.2 million.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 1 **THE MUSEUM** (*continued*)

b) New African Galleries: An Expansive Vision of a Continent, Past and Present—This major collections-based project will result in a new suite of galleries totaling 8,400 square feet devoted to the arts of Africa, past and present. The new galleries will double the space currently available for the exhibition of African art, becoming one of the largest such dedicated spaces in an American museum and allowing for a greater percentage of the collection to be on display. The collection is one of the most culturally and artistically diverse in the West. Built through a distinctive “whole continent” approach, the holdings embrace the range of art-making practices in Africa in varied media.

c) Endowing the Future of the Newark Museum—One of the first initiatives of the original Signature Project campaign, this effort is geared toward endowing the future of the Museum.

d) Growth Capital Fund and Working Capital Reserves—New core element of the Signature Campaign for Sustainability and Growth is the goal to build Growth Capital Fund and Working Capital Reserves. In the past, annual state appropriations and advance payment schedules of general operating support from the City of Newark (the City) have been adequate for annual operating needs. Without this stable financial base, the Museum projects requiring increasing levels of bridge support for operations. Rather than borrow from external sources, the Trustees have determined to raise \$10.0 million as fundraising capacity building and to cover operating deficits that may occur until the financial goals of the Signature Campaign for Sustainability and Growth are realized.

With the revised Signature Campaign for Sustainability and Growth, in an era of significantly diminished government funding, it is anticipated that the Museum will emerge with a number of key projects completed and a demonstrably stronger financial model to serve the institution for decades to come.

The operating activities of the Museum are supported by a diversified funding base, a significant portion of which is government funding from the City and State of New Jersey. Consequently, decreases in government funding will have an adverse impact on the Museum. 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.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Museum have been prepared on the accrual basis.

Net Asset Classification

The Museum's net assets have been presented and classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions.

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. As discussed in Notes 7 and 10, the Board has designated a portion of the Museum's unrestricted net assets for various purposes.

Temporarily restricted—Funds that the Museum may use, in accordance with donors' restrictions, for specific purposes or upon the passage of time (see Note 8).

Permanently restricted—Funds where donor-imposed restrictions stipulate that the resources be maintained permanently. 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 (see Note 9).

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP) 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 amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Governmental Grants and Appropriations

Cost-reimbursement governmental grants are recognized as revenue 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, 2011 and 2010.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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.

Contributed Services

A substantial number of volunteers have made significant contributions of their time in support of the Museum's mission. The value of 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.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Expense Allocations

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. See Note 11 for the functional classification of expenses.

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.

Property and Equipment

The land occupied by the Museum's buildings was appropriated in a prior year and reserved by the City of Newark for the Museum's collections, which are maintained for public exhibition, education, and research in the furtherance of public service. The land had a de minimus value and the original buildings were fully depreciated at that time. Accordingly, no value has been assigned for such land and buildings in the accompanying financial statements.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Property and Equipment *(continued)*

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 (see Note 6).

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.

Tax Status

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.

Management analyzed the tax positions taken by the Museum and concluded that as of December 31, 2011, there were no uncertain tax positions taken or are expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying financial statements.

The Museum is subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the Museum is no longer subject to income tax examinations for years ended on or prior to December 31, 2007 under Federal and State of New Jersey tax jurisdictions.

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Due less than one year	\$ 347,537	\$ 1,011,180
Due between one year and five years	<u>1,758,285</u>	<u>1,808,157</u>
Total	2,105,822	2,819,337
<i>Less:</i>		
Allowance for uncollectible accounts	(20,000)	(20,000)
Fair value adjustment	<u>(182,312)</u>	<u>(211,176)</u>
	<u>(202,312)</u>	<u>(231,176)</u>
Net	<u>\$ 1,903,510</u>	<u>\$ 2,588,161</u>

NOTE 4 INVESTMENTS

The Museum's investments, carried at fair value, consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 816,954	\$ 3,376,794
Equity securities		
<i>U.S. equities</i>		
Large capitalization	12,790,067	13,654,266
Midsize capitalization	3,315,604	3,248,510
Small capitalization	374,694	552,596
International (developed)	2,884,097	2,138,481
Emerging markets	<u>-</u>	<u>287,497</u>
	19,364,462	19,881,350
Mutual fund—portfolio of equities and fixed income	328,490	334,019
<i>Fixed-income securities</i>		
U.S. Treasury securities	6,578,844	4,305,995
Corporate bonds	4,175,522	6,817,250
Collateralized mortgage obligations	3,408,062	3,751,185
International (developed)	<u>722,626</u>	<u>-</u>
	14,885,054	14,874,430
Alternative investments	<u>5,409,300</u>	<u>5,312,929</u>
Total	<u>\$ 40,804,260</u>	<u>\$ 43,779,522</u>

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

	<u>2011</u>	<u>2010</u>
Dividends and interest	\$ 1,016,086	\$ 978,171
Net realized and unrealized (losses) gains on investments	<u>(800,216)</u>	<u>3,312,167</u>
Total	<u>\$ 215,870</u>	<u>\$ 4,290,338</u>

THE NEWARK MUSEUM ASSOCIATION
Schedule of Prior Year's Audit Findings and Recommendations
For the Year Ended December 31, 2011

NOTE 4 INVESTMENTS *(continued)*

Investment expense, which is presented within other general and administrative expenses, amounted to \$347,478 and \$277,122 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5 FAIR VALUE MEASUREMENTS

The Museum follows the accounting standards on fair value measurements that establish a hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally ranges from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value.

Level 1: Measurements that are most observable are based on quoted prices of identical instruments obtained from principal markets in which they are traded. Closing prices are both readily available and represent fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.

Level 2: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks, and others.

Level 3: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

The following table provides the fair value hierarchy of the Museum's financial instruments as of December 31, 2011 and 2010:

	2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash (interest-bearing accounts)	\$ 31,122	\$ -	\$ -	\$ 31,122
<i>Investments</i> (see Note 4)				
Cash equivalents	816,954	-	-	816,954
Equities	19,364,462	-	-	19,364,462
Mutual funds	328,490	-	-	328,490
Fixed-income securities	-	14,885,054	-	14,885,054
Alternative investments	-	-	5,409,300	5,409,300
Total investments	<u>20,509,906</u>	<u>14,885,054</u>	<u>5,409,300</u>	<u>40,804,260</u>
Total	<u>\$ 20,541,028</u>	<u>\$ 14,885,054</u>	<u>\$ 5,409,300</u>	<u>\$ 40,835,382</u>

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NOTE 5 FAIR VALUE MEASUREMENTS *(continued)*

	2010			
	Level 1	Level 2	Level 3	Total
Cash (interest-bearing accounts)	\$ 18,136	\$ -	\$ -	\$ 18,136
<i>Investments</i> (see Note 4)				
Cash equivalents	3,376,794	-	-	3,376,794
Equities	19,881,350	-	-	19,881,350
Mutual funds	334,019	-	-	334,019
Fixed-income securities	-	14,874,430	-	14,874,430
Alternative investments	-	-	5,312,929	5,312,929
Total investments	23,592,163	14,874,430	5,312,929	43,779,522
Total	\$ 23,610,299	\$ 14,874,430	\$ 5,312,929	\$ 43,797,658

The alternative investments consist primarily of the Museum's equity in a limited partnership managed by a third-party investment manager (the Fund). The Fund's objective is to achieve maximum total return by investing primarily in equity securities, as well as other securities. The fair value of the alternative investments is based on the NAV per share applicable to the equity class of the Museum's investments in the partnership as determined by the investment manager and reported in the partnership's audited financial statements as of December 31, 2011 and 2010.

The changes in the fair value of investments measured with Level 3 inputs follow:

	2011	2010
Balance, beginning of year	\$ 5,312,929	\$ 4,727,238
Unrealized gain—investments held at end of year	96,371	585,691
Balance, end of year	\$ 5,409,300	\$ 5,312,929

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2011	2010
Building improvements	\$ 46,288,160	\$ 45,040,870
Furniture, fixtures, and equipment	4,276,991	4,084,063
	50,565,151	49,124,933
<i>Less:</i> Accumulated depreciation	36,473,332	34,484,420
	14,091,819	14,640,513
Construction in progress	1,715,213	6,762,804
Total property and equipment	\$ 15,807,032	\$ 21,403,317

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NOTE 6 **PROPERTY AND EQUIPMENT** *(continued)*

In 2010, construction in progress included the costs associated with the design, construction, and other asset acquisition activities related to the Signature Project. During 2011, the Museum completed its 2012-2016 Long Range Plan, which included an assessment of the capital infrastructure elements of its Signature Campaign for Sustainability and Growth (see Note 1). As a result, the Museum discontinued further work on numerous projects once considered for its Signature Project, and recognized a write off of previously capitalized costs of approximately \$4.9 million in the accompanying 2011 statement of activities.

Depreciation expense consisted of the following:

	Estimated Useful Life Years	2011	2010
Building improvements	15 to 25	\$ 1,800,903	\$ 1,748,518
Furniture, fixtures, and equipment	7	<u>188,009</u>	<u>230,292</u>
Total depreciation		<u>\$ 1,988,912</u>	<u>\$ 1,978,810</u>

NOTE 7 **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 deaccessioned 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 (see Note 10).

NOTE 8 **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes:

	2011	2010
Capital projects	\$ 1,413,752	\$ 2,104,136
Exhibitions	1,249,295	763,100
Education and other program services	1,338,902	1,897,028
Operating, trustees' room and gallery maintenance	500,000	329,974
Art acquisition	-	<u>13,826</u>
Total	<u>\$ 4,501,949</u>	<u>\$ 5,108,074</u>

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NOTE 8 **TEMPORARILY RESTRICTED NET ASSETS** *(continued)*

The temporarily restricted net assets included unappropriated investment income of \$601,861 and \$1,589,558 at December 31, 2011 and 2010, respectively, on permanently restricted net assets (see Note 10).

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

	2011	2010
Capital projects	\$ 864,372	\$ 1,926,525
Exhibitions	647,848	167,202
Education and other program services	799,291	877,360
Operating, trustees' room and gallery maintenance	697,388	-
Art acquisition	14,385	-
Total	\$ 3,023,284	\$ 2,971,087

NOTE 9 **PERMANENTLY RESTRICTED NET ASSETS**

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

	2011	2010
Education and other program services	\$ 9,147,251	\$ 9,147,251
Operating, trustees' room and gallery maintenance	3,651,245	3,335,389
Art acquisition	100,000	100,000
Total	\$ 12,898,496	\$ 12,582,640

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 \$601,861 and \$1,589,558 as of December 31, 2011 and 2010, respectively (see Notes 8 and 10).

Permanent restricted net assets include cumulative matching contributions from the New Jersey Cultural Trust that totaled \$941,536 as of December 31, 2011 and 2010.

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NOTE 10 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.

On June 10, 2009, the State of New Jersey enacted the Uniform Prudent Management of Institutional Funds Act (NJ UPMIFA), the provisions of which apply to funds existing on, or established after, that date and to decisions made and actions taken after that date. The Museum has interpreted the NJ UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until the Museum appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the NJ UPMIFA. In determining whether to appropriate or accumulate, the Museum considers the following factors:

- The duration and preservation of the endowment fund
- Purposes of the Museum and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policy of the Museum

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NOTE 10 **ENDOWMENTS** *(continued)*

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, of approximately 5% annually. Actual returns in any given year may vary from this amount.

The following table summarizes the changes in the endowment funds during the year ended December 31, 2011 and 2010:

	2011			
	Unrestricted Board Designated (Note 7)	Temporarily Restricted (Note 8)	Permanently Restricted (Note 9)	Total
Endowment net assets, beginning of year	\$ 29,870,792	\$ 1,589,558	\$ 12,292,905	\$ 43,753,255
Contributions received	-	-	414,194	414,194
Investment income	146,681	69,187	-	215,868
Release from restrictions	699,953	(699,953)	-	-
Transfer of Board-designated assets to operating fund	(1,768,252)	-	-	(1,768,252)
Appropriation for operating expenses (spending policy)	(1,470,807)	-	-	(1,470,807)
Other adjustments	37,712	(356,931)	-	(319,219)
Endowment net assets, end of year	\$ 27,516,079	\$ 601,861	\$ 12,707,099	\$ 40,825,039

	2010			
	Unrestricted Board Designated (Note 7)	Temporarily Restricted (Note 8)	Permanently Restricted (Note 9)	Total
Endowment net assets, beginning of year	\$ 30,117,225	\$ -	\$ 11,481,617	\$ 41,598,842
Contributions received	93,653	-	811,288	904,941
Reclassification of investment income	(1,086,574)	1,086,574	-	-
Investment income	3,748,484	502,984	-	4,251,468
Appropriations	(3,001,996)	-	-	(3,001,996)
Endowment net assets, end of year	\$ 29,870,792	\$ 1,589,558	\$ 12,292,905	\$ 43,753,255

Unexpended investment income of \$1,086,574 related to permanently restricted net assets prior to 2010 was reclassified to temporarily restricted net assets from unrestricted to comply with the requirements of NJ UPMIFA.

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NOTE 11 FUNCTIONAL EXPENSES

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

	2011	2010
<i>Program services</i>		
Exhibitions	\$ 5,077,814	\$ 7,260,231
Education and public programs	3,699,647	3,183,775
Registrar and curatorial	2,764,699	2,577,718
Total program services	11,542,160	13,021,724
<i>Supporting services</i>		
General and administrative	3,113,761	2,962,232
Fundraising	1,944,465	3,443,336
Total supporting services	5,058,226	6,405,568
Total	\$ 16,600,386	\$ 19,427,292

NOTE 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).

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.

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).

The employer contribution rate for 2011 remained unchanged.

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

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NOTE 12 **RETIREMENT PLANS** (*continued*)

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.

CIRS is responsible for administering all aspects of the 401(k) Plan, including the selection of investment providers for the Savings Plan.

Group and Life and Welfare Plan

The Museum also participants 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 2011 and 2010 totaled \$608,694 and \$628,236, which consisted of \$469,257 and \$477,200 for the Pension Plan, \$53,342 and \$56,664 for the Savings Plan, \$21,294 and \$25,917 for Group Life and Welfare Plan, and \$64,801 and \$68,455 for plan administration, respectively.

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NOTE 13 COMMITMENTS

Line of Credit and Loan Payable

The Museum maintains a line of credit in the aggregate amount of \$2,000,000 from JPMorgan Chase Bank, N.A., expiring on December 31, 2012. 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 2011, the Museum borrowed \$1,000,000 from the line of credit, of which \$500,000 was an outstanding loan payable at December 31, 2011. The loan is due on December 31, 2012 and currently bears interest at 2% per year. Interest on the loans totaled \$1,790.

No advances and interest expense were paid in 2010 on the line of credit.

Leases

Annual minimum future rental payments under non-cancelable operating leases as of December 31, 2011 are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2012	\$ 50,555
2013	47,640
2014	47,640
2015	<u>44,295</u>
	<u>\$ 190,130</u>

Total rent expense amounted to \$79,832 and \$96,201 in 2011 and 2010, respectively.

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NOTE 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. Cash and cash equivalents are maintained within three banking institutions. 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. One of these institutions is the custodian of approximately \$35.1 million of the Museum's investments. Another major financial institution manages its alternative investments of approximately \$5.4 million. 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.

NOTE 15 SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through May 15, 2012, the date the financial statements were approved for issuance. There were no subsequent events that should be accounted for or require disclosure in the accompanying financial statements.