

**The Newark Museum Association**  
Financial Statements and Federal and  
State Financial and Compliance Reports  
Together with Independent Auditors' Report  
December 31, 2012

## The Newark Museum Association

### Financial Statements and Federal and State Financial and Compliance Reports Together with Independent Auditors' Report

December 31, 2012

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## Independent Auditors' Report

**Board of Trustees  
The Newark Museum Association**

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

We have audited the accompanying financial statements of The Newark Museum Association (the "Museum"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Newark Museum Association as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of New Jersey Department of Treasury Circular 04-04 OMB are presented for purposes of additional analysis' 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.

The financial statements of the Museum as of December 31, 2011, were audited by other auditors whose report dated May 15, 2012, expressed an unmodified opinion on those statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013 on our consideration of the Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Museum's internal control over financial reporting and compliance.

*O'Connor Davies, LLP*

New York, New York  
March 27, 2013

## The Newark Museum Association

### Statements of Financial Position

	December 31,	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,840,110	\$ 6,998,969
Grants receivable	1,282,787	1,852,384
Contributions receivable, net	1,100,072	1,903,510
Prepaid expenses and other assets	779,311	901,403
Investments	42,626,254	40,804,260
Property and equipment, net	<u>15,657,673</u>	<u>15,807,032</u>
	<u>\$ 69,286,207</u>	<u>\$ 68,267,558</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 741,437	\$ 750,983
Loan payable	1,000,000	500,000
Refundable advances	<u>21,573</u>	<u>-</u>
Total Liabilities	<u>1,763,010</u>	<u>1,250,983</u>
Net Assets		
Unrestricted	50,239,093	49,616,130
Temporarily restricted	4,270,081	4,501,949
Permanently restricted	<u>13,014,023</u>	<u>12,898,496</u>
Total Net Assets	<u>67,523,197</u>	<u>67,016,575</u>
	<u>\$ 69,286,207</u>	<u>\$ 68,267,558</u>

**The Newark Museum Association**

Statement of Activities  
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
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	3,253,431	1,383,960	-	4,637,391
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>\$ 16,544,732</u>	<u>\$ (231,868)</u>	<u>\$ 115,527</u>	<u>\$ 16,428,391</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	3,357,029	-	-	3,357,029
Depreciation	<u>1,930,111</u>	<u>-</u>	<u>-</u>	<u>1,930,111</u>
Total Operating Expenses	<u>17,145,633</u>	<u>-</u>	<u>-</u>	<u>17,145,633</u>
Change in Net Assets from Operations	<u>(600,901)</u>	<u>(231,868)</u>	<u>115,527</u>	<u>(717,242)</u>
<b>NON-OPERATING ACTIVITIES</b>				
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
<b>NET ASSETS</b>				
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**

Statement of Activities  
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
Operating revenues, gains, and other support				
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	<u>3,023,284</u>	<u>(3,023,284)</u>	<u>-</u>	<u>-</u>
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>
Operating Expenses				
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
Interest expense	1,790	-	-	1,790
Other general and administrative	3,141,945	-	-	3,141,945
Depreciation	<u>1,988,912</u>	<u>-</u>	<u>-</u>	<u>1,988,912</u>
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>
<b>NON-OPERATING ACTIVITIES</b>				
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	<u>(776,404)</u>	<u>-</u>	<u>-</u>	<u>(776,404)</u>
Total Non-Operating Activities	<u>(6,112,248)</u>	<u>-</u>	<u>-</u>	<u>(6,112,248)</u>
Change in Net Assets	<u>(8,195,054)</u>	<u>(606,125)</u>	<u>315,856</u>	<u>(8,485,323)</u>
<b>NET ASSETS</b>				
Beginning of year	<u>57,811,184</u>	<u>5,108,074</u>	<u>12,582,640</u>	<u>75,501,898</u>
End of year	<u>\$ 49,616,130</u>	<u>\$ 4,501,949</u>	<u>\$ 12,898,496</u>	<u>\$ 67,016,575</u>

**The Newark Museum Association**

Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 506,622	\$ (8,485,323)
Adjustments to reconcile change in net assets to net cash from operating activities		
Permanently restricted gifts	(115,527)	(265,856)
Depreciation and other non-cash charges	1,930,111	1,988,912
Bad debt expense	162,360	42,535
Write-off of Signature Project costs	-	4,862,248
Present value discount on contributions receivable	(138,258)	(28,864)
Realized and unrealized (gains) losses on investments	(3,586,969)	800,216
Purchases and sales of collections, net	(1,223,864)	761,763
Changes in operating assets and liabilities		
Grants receivable	569,597	(1,389,289)
Contributions receivable	679,336	522,642
Prepaid expenses and other assets	122,092	(114,681)
Accounts payable and accrued expenses	(9,546)	(21,422)
Advances on government contracts	21,573	-
Net cash from Operating Activities	(1,082,473)	(1,327,119)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,780,752)	(1,254,875)
Purchase of securities	(16,907,447)	(31,083,577)
Proceeds from sale of securities	18,672,422	33,258,623
Purchase of collections	(1,192,945)	(776,404)
Proceeds from sale of collections	2,416,809	14,641
Net Cash from Investing Activities	1,208,087	158,408
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted gifts received	215,527	414,194
Proceeds from loan	1,000,000	1,000,000
Payment of loan	(500,000)	(500,000)
Net Cash from Financing Activities	715,527	914,194
Net Change in Cash and Cash Equivalents	841,141	(254,517)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	6,998,969	7,253,486
End of year	\$ 7,840,110	\$ 6,998,969
<b>OTHER SUPPLEMENTARY CASH INFORMATION</b>		
Interest paid	\$ 5,133	\$ 1,790

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 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 Association of Museums (AAM) in 2008.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 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, 2012 and 2011

### 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, 2012 and 2011.

#### ***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, 2012 and 2011

### 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 highly 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, 2012 and 2011

### 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, 2012 and 2011

### 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.

#### *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 2009.

#### *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 27, 2013.

### 3. Contributions Receivable

Contributions receivable consisted of the following:

	<u>2012</u>	<u>2011</u>
Due less than one year	\$ 596,000	\$ 347,537
Due between one year and five years	668,126	1,758,285
Total	<u>1,264,126</u>	<u>2,105,822</u>
Less: Allowance for uncollectible accounts	(120,000)	(20,000)
Discount for present value at 5%	<u>(44,054)</u>	<u>(182,312)</u>
	(164,054)	(202,312)
Net	<u>\$ 1,100,072</u>	<u>\$ 1,903,510</u>

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 4. Fair Value Measurements

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

	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	-	7,215,513	-	7,215,513
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>\$ 16,134,751</u>	<u>\$ 5,660,640</u>	<u>\$ 42,726,254</u>
	2011			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 816,954	\$ -	\$ -	\$ 816,954
Equities				
Consumer	4,675,555	-	-	4,675,555
Energy	1,557,617	-	-	1,557,617
Financials	2,736,452	-	-	2,736,452
Health Care	3,238,290	-	-	3,238,290
Industrials	2,229,963	-	-	2,229,963
Information Technology	2,930,975	-	-	2,930,975
Materials	1,518,196	-	-	1,518,196
Telecommunications	477,414	-	-	477,414
Mutual funds				
Moderate Allocation	328,490	-	-	328,490
Fixed-income securities				
U.S. Treasury securities	-	6,578,844	-	6,578,844
Corporate bonds	-	4,175,522	-	4,175,522
Collateralized mortgage obligations	-	3,408,062	-	3,408,062
International (developed)	-	722,626	-	722,626
Hedge Fund: Long/Short Equity	-	-	5,409,300	5,409,300
Total	<u>\$ 20,509,906</u>	<u>\$ 14,885,054</u>	<u>\$ 5,409,300</u>	<u>\$ 40,804,260</u>

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 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:

	2012	2011
Balance, beginning of year	\$ 5,409,300	\$ 5,312,929
Change in unrealized gains	251,340	96,371
Balance, end of year	\$ 5,660,640	\$ 5,409,300

Information regarding alternative investments valued at NAV using the practical expedient at December 31, 2012, is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Fund: Long/Short Equity (see "a" below)	\$ 5,660,640	\$ -	Quarterly	45 days

- a. 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. NAV shall be determined on an accrual basis of accounting in accordance with international accounting standards. The Museum's investment is beyond the initial one year lock up.

### 5. Property and Equipment

Property and equipment consisted of the following:

	2012	2011
Building improvements	\$ 47,993,290	\$ 46,288,160
Furniture, fixtures and equipment	4,284,977	4,276,991
	52,278,267	50,565,151
Less accumulated depreciation	38,403,443	36,473,332
	13,874,824	14,091,819
Construction in progress	1,782,849	1,715,213
Total Property and Equipment	\$ 15,657,673	\$ 15,807,032

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. 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.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 5. Property and Equipment (*continued*)

Depreciation expense consisted of the following:

	Estimated Useful Life Years	2012	2011
Building improvements	15 to 25	\$ 1,767,382	\$ 1,800,903
Furniture, fixtures, and equipment	7	<u>162,729</u>	<u>188,009</u>
Total Depreciation		<u>\$ 1,930,111</u>	<u>\$ 1,988,912</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:

	2012	2011
Capital projects	\$ 1,620,000	\$ 1,413,752
Exhibitions	880,524	1,249,295
Education and other program services	1,863,375	1,338,902
Operating, trustees' room and gallery maintenance	<u>-</u>	<u>500,000</u>
Total	<u>\$ 4,363,899</u>	<u>\$ 4,501,949</u>

The temporarily restricted net assets included unappropriated investment income of \$1,242,067 and \$601,861 at December 31, 2012 and 2011, respectively, on permanently restricted net assets.

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

	2012	2011
Capital projects	\$ 422,765	\$ 864,372
Exhibitions	355,894	647,848
Education and other program services	714,882	799,291
Operating, trustees' room and gallery maintenance	1,337,572	697,388
Art acquisition	<u>-</u>	<u>14,385</u>
Total	<u>\$ 2,831,113</u>	<u>\$ 3,023,284</u>

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 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>2012</u>	<u>2011</u>
Education and other program services	\$ 9,147,250	\$ 9,147,251
Operating, trustees' room and gallery maintenance	3,766,773	3,651,245
Art acquisition	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 13,014,023</u>	<u>\$ 12,898,496</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 \$1,242,067 and \$601,861 as of December 31, 2012 and 2011, respectively.

Permanent restricted net assets include cumulative matching contributions from the New Jersey Cultural Trust that totaled \$941,536 as of December 31, 2012 and 2011.

### 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 2012 was 6%. Actual returns in any given year may vary from this amount.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 9. Endowments *(continued)*

The following table summarizes the changes in the endowment funds in 2012 and 2011:

	2012			
	Unrestricted	Temporarily	Permanently	Total
	Board Designated	Restricted	Restricted	
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, net of investment fees	2,959,021	1,383,960	-	4,342,981
Release from restrictions	743,754	(743,754)	-	-
Transfer of Board-designated assets to operating fund	(1,800,000)	-	-	(1,800,000)
Appropriation for operating expenses (spending policy)	(1,926,760)	-	-	(1,926,760)
Endowment net assets, end of year	<u>\$ 29,823,443</u>	<u>\$ 1,242,067</u>	<u>\$ 12,922,626</u>	<u>\$ 43,988,136</u>
	2011			
	Unrestricted	Temporarily	Permanently	
	Board Designated	Restricted	Restricted	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	<u>\$ 27,516,079</u>	<u>\$ 601,861</u>	<u>\$ 12,707,099</u>	<u>\$ 40,825,039</u>

### 10. Investment Return Income and Expense

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

	2012	2011
Dividends and interest	\$ 1,050,422	\$ 1,016,086
Net realized and unrealized gains (losses) on investments	<u>3,586,969</u>	<u>(800,216)</u>
Total	<u>\$ 4,637,391</u>	<u>\$ 215,870</u>

Investment expense, which is presented within other general and administrative expenses, amounted to \$294,409 and \$347,478 for December 31, 2012 and 2011, respectively.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 11. Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Program services		
Exhibitions	\$ 5,048,534	\$ 5,077,814
Education and public programs	3,747,369	3,699,647
Registrar and curatorial	<u>2,941,996</u>	<u>2,764,699</u>
Total program services	<u>11,737,899</u>	<u>11,542,160</u>
Supporting services		
General and administrative	3,294,722	3,113,761
Fundraising	<u>2,113,012</u>	<u>1,944,465</u>
Total supporting services	<u>5,407,734</u>	<u>5,058,226</u>
Total	<u>\$ 17,145,633</u>	<u>\$ 16,600,386</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).

#### ***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 2012 remained unchanged.

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

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 12. Retirement Plans *(continued)*

#### *Pension Plan (continued)*

The Museum's participation in these plans for the years ended December 31, 2012 and 2011 is outlined in the table below:

Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status		FIP/RP Status	The Museum Contributions		Surcharge Imposed	Collective Bargaining Agreement Exp. Date
		2012	2011	Pending/Implementd	2012	2011		
	11-2001170							
The Cultural Institutions Pension Plan	001	Green	Green	N/A	\$ 512,848	\$ 487,546	No	6/30/2013

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.

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 2012 and 2011 totaled \$631,272 and \$608,694, which consisted of \$489,586 and \$469,257 for the Pension Plan, \$57,684 and \$53,342 for the Savings Plan, \$21,019 and \$21,294 for Group Life and Welfare Plan, and \$62,983 and \$64,801 for plan administration, respectively.

## The Newark Museum Association

Notes to Financial Statements  
December 31, 2012 and 2011

### 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 June 30, 2013. 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 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 is due on June 30, 2013 and currently bears interest at 2.81% per year. Interest on the loans totaled \$5,133. Subsequent to year end, the Museum paid this balance.

#### *Leases*

Annual minimum future rental payments under non-cancelable operating leases as of December 31, 2012 are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2013	\$ 50,784
2014	50,784
2015	38,874
2016	3,144
2017	<u>2,358</u>
	<u>\$ 145,944</u>

Total rent expense amounted to \$71,136 and \$79,832 in 2012 and 2011, 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.

\* \* \* \* \*

**The Newark Museum Association**

OMB Circular A-133 and New Jersey Circular 04-04 OMB  
Schedules and Reports  
December 31, 2012

## The Newark Museum Association

### Schedule of Expenditures of Federal Awards Year Ended December 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grant Number</u>	<u>Federal Expenditures</u>
Department of Energy:			
Conservation Research and Development	81.086	DE-EE0004304	<u>\$ 333,248</u>
Institute of Museum and Library Services:			
Conservation Project Support	45.303	IC-05-11-0204-11	19,570
Museums for America	45.301	MA-05-12-0423-12	<u>17,226</u>
Total Institute of Museum and Library Services			<u>36,796</u>
National Endowment for the Arts:			
Promotion of the Arts_Grants to Organizations and Individuals	45.024	11-4400-7027	<u>30,000</u>
National Endowment for Humanities:			
Promotion of the Humanities_Professional Development	45.163	AP-50080-11	31,223
Promotion of the Humanities_Challenge Grants	45.130	CH-50876-11	<u>161,570</u>
Total National Endowment for Humanities			<u>192,793</u>
Total Expenditures of Federal Awards			<u>\$ 592,837</u>

See independent auditors' report and notes to schedule of expenditures of federal and state awards

**The Newark Museum Association**

Schedule of Expenditures of State Awards  
Year Ended December 31, 2012

<u>State Grantor Department/Program Title</u>	<u>State Grant Number</u>	<u>State Expenditures</u>
New Jersey Council on the Arts (NJSCA):		
General Operating Support	1205X01TheN	\$ 500,000
General Operating Support	1305X010112	<u>1,000,000</u>
Total New Jersey Council on the Arts		1,500,000
 New Jersey State Division of Travel and Tourism:		
Cooperative Marketing Program - Angels and Tomboys	Not available	12,000
 New Jersey Historic Trust:		
Capital Project: Ballantine House & Carriage House Restoration	2008.2116	<u>850</u>
		<u>\$ 1,512,850</u>

See independent auditors' report and notes to schedule of expenditures of federal and state awards

## **The Newark Museum Association**

Notes to Schedule of Expenditures of Federal and State Awards  
Year Ended December 31, 2012

### **1. Basis of Presentation**

The accompanying Schedules of Expenditures of Federal and State Awards (the "Schedules") includes the federal and state grant activity of The Newark Museum Association (the "Museum") under programs of the federal and state governments for the year ended December 31, 2012. The information in these Schedules is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the State of New Jersey Department of Treasury Circular 04-04-OMB. Because the Schedules present only a selected portion of the operations of the Museum, they are not intended to and do not present the financial position, changes in net assets or cash flows of the Museum.

### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### **3. Subrecipients**

For the year ended December 31, 2012, the Museum provided no funds to subrecipients.

**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***

**Independent Auditors' Report**

**Board of Trustees  
The Newark Museum Association**

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 Newark Museum Association (the "Museum"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2013.

**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 opinions 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-01 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Museum's financial statements are free from 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*.

We noted certain matters that we reported to management of the Museum in a separate letter dated March 27, 2013.

### **The Newark Museum Association Response to Findings**

The Museum's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Museum's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Connor Davies, LLP*

New York, New York  
March 27, 2013

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

**Independent Auditors' Report**

**Board of Trustees  
The Newark Museum Association**

**Report on Compliance for Each Major Federal Program**

We have audited The Newark Museum Association's (the "Museum") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Museum's major federal programs for the year ended December 31, 2012. The Museum's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Museum's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Museum's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Museum's compliance.

***Basis for Qualified Opinion on the Conservation Research and Development Program***

As described in the accompanying schedule of findings and questioned costs, the Museum did not comply with requirements regarding CFDA 81.086, Conservation Research and Development, as described in items 2012-02 and 2012-03 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Museum to comply with the requirements applicable to that program.

***Qualified Opinion on the Conservation Research and Development Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Museum complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Conservation Research and Development Program for the year ended December 31, 2012.

***Other Matters***

The Museum's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Museum's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of the Museum is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Museum's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-01 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Museum's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Museum's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*O'Connor Davies, LLP*

New York, New York  
March 27, 2013

**Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of State Awards Required by State of New Jersey Department of Treasury Circular Letter 04-04 OMB**

**Independent Auditors' Report**

**Board of Trustees  
The Newark Museum Association**

**Report on Compliance for Each Major State Program**

We have audited The Newark Museum Association's (the "Museum") compliance with the types of compliance requirements described in the State of New Jersey Department of Treasury Circular 04-04 OMB that could have a direct and material effect on each of the Museum's major state programs for the year ended December 31, 2012. The Museum's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Museum's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and New Jersey Circular 04-04 Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid Payments. Those standards and New Jersey Circular 04-04 OMB require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Museum's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Museum's compliance.

***Opinion on Each Major State Program***

In our opinion, the Museum complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012.

**Report on Internal Control Over Compliance**

Management of the Museum is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Museum's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with New Jersey Circular 04-04 OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey Circular 04-04 OMB. Accordingly, this report is not suitable for any other purpose.

*O'Connor Davies, LLP*

**The Newark Museum Association**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Type of auditors' report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) OMB Circular A-133?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.086	Conservation Research and Development

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

State Awards

Internal control over major programs:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with New Jersey Circular 04-04 OMB?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Identification of major programs

<u>State Number(s)</u>	<u>Name of State Program</u>
1205X01TheN	General Operating Support
1305X010112	General Operating Support

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

## The Newark Museum Association

### Schedule of Findings and Questioned Costs Year Ended December 31, 2012

#### Section II – Financial Statement Findings

##### 2012-01 Grants Management

**Condition:** Our audit determined the Museum's internal controls over grants management disclosed weaknesses in the monitoring efforts to ensure the terms and conditions of the grant awards are being met.

**Criteria:** As a condition of receiving federal funding, regulations require the Museum maintain effective grants management to ensure adequate overall oversight and monitoring of federal awards.

**Effect:** The Museum did not ensure that the required reports were submitted timely and other monitoring requirements were observed such as preparing and reconciling the federal financial reports from the accounting records and determining the allocation of the federal and cost sharing portion of the grants were proper.

**Recommendation:** The Museum should implement a process to ensure grant managers receive annual training on the requirements governing the submission of timely and accurate reports, allowable costs, grant monitoring, and grant closeout procedures. In addition, the grants management activities should be concentrated within the accounting department opposed to having the development and accounting departments split responsibilities.

**Management response:** See Exhibit A - Corrective Action Plan

#### Section III – Federal Award Findings and Questioned Costs

##### 2012-02 Reporting - Untimely Submissions

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.086	Conservation Research and Development

**Condition:** Our audit determined the Museum's submission of the Federal Financial Report (FFR) and progress reports were late.

**Criteria:** As a condition of receiving federal funding, regulations require the Museum to submit FFR's and progress reports within 30 days of the end of each calendar quarter.

**The Newark Museum Association**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012

Section III – Federal Award Findings and Questioned Costs (*continued*)

2012-02 Reporting - Untimely Submissions (*continued*)

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.086	Conservation Research and Development

Effect: We reviewed the FFR's and progress reports throughout the grant period for the audited grant and determined that three of the four FFR and progress report submissions were late. The untimely reports were submitted as many as 26 days after the due date.

Recommendation: We noted that the failure to enforce the timely submissions of FFR's and progress reports compromises the Museum's ability to ensure the proper use of grant funds, and increases the risk that the Museum will fund projects that are ineffective or failing to meet their objectives. We recommend that the Museum address this issue by providing grant managers with training about the submission of timely reports.

Management response: See Exhibit A - Corrective Action Plan

2012-03 Reporting - Inaccurate Submissions

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.086	Conservation Research and Development

Condition: Our audit determined the Museum's submission of the FFR's were inaccurate.

Criteria: As a condition of receiving federal funding, regulations require the Museum to maintain effective grants management to ensure accurate results are reported to the granting agency.

Effect: We reviewed the FFR's throughout the grant period for the audited grant and determined that three of the four FFR submissions were inaccurate. The Museum was unable reconcile the FFR's due to the lack of sufficient reconciliations and accounting records. In addition, the Museum was unable to reconcile the allocation of the federal and cost sharing portion of the grants.

**The Newark Museum Association**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2012

Section III – Federal Award Findings and Questioned Costs (*continued*)

2012-03 Reporting - Inaccurate Submissions (*continued*)

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.086	Conservation Research and Development

Recommendation: The Museum should implement a process to ensure the financial reports are reconciled to the accounting records in order to verify the submissions are accurately reported to the granting agencies. We recommend that the Museum implement a grants administration manual and educate the grant managers with entity-wide training which defines the rules that govern the Museum's grant awards.

Management response: See Exhibit A - Corrective Action Plan

Section IV – Prior Year Findings

Financial Statements

Item 2011-01

Condition: After the year-end financial statements closing, a number of adjustments were noted. In the previous year's audit, a material weakness on internal control over financial report was noted, on which a corrective action plan was adopted in early 2012.

Status: Management is continuing to implement and update its corrective action plan.



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## Exhibit A – Corrective Action Plan

### 2012-01 Grants Management

Management Response: The Museum will implement joint training programs for its accounting and grants managers on the requirements governing the submission of timely and accurate reports, allowable costs, grant monitoring and grant close out procedures. The Museum has already begun grant orientation and management discussions with relevant Museum departments and will meet monthly to communicate and record project activity, including but not limited to budgeting, expenses, timely reporting, close out procedures and any other grant-related issues/questions. Additionally, the financial reporting management activities will be transferred to the accounting department for a more controlled oversight and monitoring. Additionally, monthly grant monitoring meetings will enable more timely draw-downs from restricted grant funds.

### 2012-02 Reporting – Untimely Submissions

Management Response: In relation to finding 2012-01, the Museum will implement a training program for its accounting and grant managers to reinforce and educate all relevant departments about the importance of receiving, recording and sharing information on a timely basis, thus ensuring that required FFR reporting deadlines are met. Additionally, the transfer of the financial and reporting activities to the accounting department will assure more timely submissions of FFR's and related progress reports.

### 2012-03 Reporting – Inaccurate Submissions

Management Response: In relation to findings 2012-01 and 2012-02, the Museum will implement a training program for its accounting and grant managers to reinforce and educate them on the rules that govern the Museum's grant awards. Existing grant policies and procedures will be reviewed and updated whenever necessary. With the transfer of financial reporting activities to the accounting department, there will be consistency ensuring that all financial reports are reconciled to the accounting records, which will in turn verify that submissions are accurately reported to the granting agencies.