

The Montclair Art Museum

Financial Statements

June 30, 2023 and 2022



NISIVOCCIA
ASSURANCE • TAX • ADVISORY

The Montclair Art Museum
Table of Contents
June 30, 2023 and 2022

	<u>Page No.</u>
Independent Auditors' Report	1
<u>Financial Statements</u>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	7
Statement of Cash Flows	9
Notes to the Financial Statements	10
<u>Supplementary Information</u>	
Schedule of Expenditures of State Awards	34
Notes to the Schedule of Expenditures of State Awards	35
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36
Schedule of Findings and Responses	38
Summary Schedule of Prior Year Findings	39
Independent Auditors' Report on the New Jersey State Council of the Arts Final Report	40

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Montclair Art Museum (a nonprofit organization) (the "Museum") which comprise the statement of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Montclair Art Museum as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Notes 2 and 11 to the financial statements, the Museum changed its method of accounting for leases as of July 1, 2022 due to the adoption of Accounting Standard Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

To the Board of Trustees of
The Montclair Art Museum

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards are presented for purposes of additional analysis as required by New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants and State Aid*, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

To the Board of Trustees of
The Montclair Art Museum

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2023, on our consideration of The Montclair Art Museum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Montclair Art Museum's internal control over financial reporting and compliance.

Nisiroccia LLP

Mt. Arlington, New Jersey
September 22, 2023

The Montclair Art Museum
Statement of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,784,768	\$ 1,732,050
Cash - restricted	276,035	147,754
Accounts receivable	34,626	41,247
Employee retention credit receivable		608,435
Inventories, catalogs and brochures	27,933	32,695
Grants receivable	349,364	149,032
Pledges receivable, net	190,157	203,418
Prepaid expenses and other current assets	52,644	66,169
Investments, at market value	11,489,419	11,304,494
Investments, at market value - restricted	936,854	1,072,460
Finance lease right of use asset, net	11,655	
Buildings, grounds and equipment, at cost, net of accumulated depreciation	<u>8,066,626</u>	<u>8,394,818</u>
Total assets	<u>\$ 24,220,081</u>	<u>\$ 23,752,572</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 284,499	\$ 252,025
Finance lease liability	11,655	
Deferred revenue	326,895	389,403
Note payable		4,940
Economic Development Authority Bonds, net of deferred financing costs	<u>2,287,440</u>	<u>2,562,736</u>
Total liabilities	<u>2,910,489</u>	<u>3,209,104</u>
Net assets:		
Without donor restrictions:		
Undesignated	16,064,694	15,302,469
Board designated	<u>3,121,540</u>	<u>3,210,477</u>
Total net assets without donor restrictions	<u>19,186,234</u>	<u>18,512,946</u>
With donor restrictions	<u>2,123,358</u>	<u>2,030,522</u>
Total net assets	<u>21,309,592</u>	<u>20,543,468</u>
Total liabilities and net assets	<u>\$ 24,220,081</u>	<u>\$ 23,752,572</u>

See Accompanying Notes to Financial Statements

The Montclair Art Museum
Statement of Activities
Year Ended June 30, 2023

	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total
Support, revenue and gains:			
Grants	\$ 557,754	\$ 354,488	\$ 912,242
Donations	2,296,129	130,808	2,426,937
Membership dues	323,638		323,638
Art school tuition	788,085		788,085
Education programs	131,070		131,070
Curatorial programs	35,274		35,274
Admission fees	101,968		101,968
Special events	654,761	84,862	739,623
Income from investments	457,924	35,887	493,811
Net realized and unrealized gain on investments	662,013	50,852	712,865
Sales of merchandise, net	33,337		33,337
Rental income	227,007		227,007
Other revenue	267		267
Net assets released from restrictions	564,061	(564,061)	
Total support, revenue and gains	<u>6,833,288</u>	<u>92,836</u>	<u>6,926,124</u>
Expenses:			
Program services:			
Curatorial	1,682,143		1,682,143
Education	1,988,351		1,988,351
Membership	418,794		418,794
Store	345,331		345,331
Total program services	<u>4,434,619</u>		<u>4,434,619</u>
Supporting services:			
Management	467,103		467,103
Fundraising	998,098		998,098
Total supporting services	<u>1,465,201</u>		<u>1,465,201</u>
Total expenses	5,899,820		5,899,820
Change in net assets before changes related to collection items not capitalized	<u>933,468</u>	<u>92,836</u>	<u>1,026,304</u>
Net proceeds from acquisition of collection items	<u>(260,180)</u>		<u>(260,180)</u>
Change in net assets	673,288	92,836	766,124
Net assets, beginning of year	<u>18,512,946</u>	<u>2,030,522</u>	<u>20,543,468</u>
Net assets, end of year	<u>\$ 19,186,234</u>	<u>\$ 2,123,358</u>	<u>\$ 21,309,592</u>

See Accompanying Notes to Financial Statements

The Montclair Art Museum
Statement of Activities
Year Ended June 30, 2022

	Net Assets Without Donor Restriction	Net Assets With Donor Restriction	Total
Support, revenue and gains:			
Grants	\$ 692,827	\$ 203,696	\$ 896,523
Government grant - PPP loan forgiveness	492,419		492,419
Donations	3,113,160	38,976	3,152,136
In-kind contributions	5,775		5,775
Membership dues	308,006		308,006
Art school tuition	572,167		572,167
Education programs	68,012		68,012
Curatorial programs	1,714		1,714
Admission fees	75,669		75,669
Special events	677,413	125,000	802,413
Income from investments	286,445	19,085	305,530
Net realized and unrealized loss on investments	(1,327,421)	(112,826)	(1,440,247)
Sales of merchandise, net	11,824		11,824
Rental income	161,637		161,637
Employee retention credit	608,435		608,435
Other revenue	300		300
Net assets released from restrictions	709,622	(709,622)	
Total support, revenue and gains	<u>6,458,004</u>	<u>(435,691)</u>	<u>6,022,313</u>
Expenses:			
Program services:			
Curatorial	1,567,208		1,567,208
Education	1,801,975		1,801,975
Membership	199,399		199,399
Store	316,684		316,684
Total program services	<u>3,885,266</u>		<u>3,885,266</u>
Supporting services:			
Management	539,830		539,830
Fundraising	1,032,437		1,032,437
Total supporting services	<u>1,572,267</u>		<u>1,572,267</u>
Total expenses	5,457,533		5,457,533
Change in net assets before changes related to collection items not capitalized	<u>1,000,471</u>	<u>(435,691)</u>	<u>564,780</u>
Net proceeds from acquisition of collection items	<u>(161,005)</u>		<u>(161,005)</u>
Change in net assets	839,466	(435,691)	403,775
Net assets, beginning of year	17,803,480	2,336,213	20,139,693
Transfer of net assets	<u>(130,000)</u>	<u>130,000</u>	
Net assets, end of year	<u>\$ 18,512,946</u>	<u>\$ 2,030,522</u>	<u>\$ 20,543,468</u>

See Accompanying Notes to Financial Statements

The Montclair Art Museum
Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services:					Supporting Services:			Total
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	
Salaries and wages	\$ 750,453	\$ 911,799	\$ 208,668	\$ 171,715	\$ 2,042,635	\$ 248,476	\$ 363,669	\$ 612,145	\$ 2,654,780
Pension plan contributions	4,362	4,649	94	1,149	10,254	6,823	4,901	11,724	21,978
Other employee benefits	52,367	99,128	8,523	25,131	185,149	15,427	14,723	30,150	215,299
Payroll taxes	77,780	98,339	35,213	14,967	226,299	32,626	34,832	67,458	293,757
Total personnel services	884,962	1,113,915	252,498	212,962	2,464,337	303,352	418,125	721,477	3,185,814
Facilities, equipment and telephone	141,633	155,449	31,413	35,132	363,627	11,504	14,259	25,763	389,390
Finance lease expense		4,222			4,222				4,222
Insurance	54,904	27,340	5,468	6,835	94,547	10,898	684	11,582	106,129
Interest and other financing fees		1,711			1,711	68,575		68,575	70,286
Marketing, printing, photography and publications	26,540	33,769	21,524	4,300	86,133	430	3,302	3,732	89,865
Miscellaneous	5,197	8,951	1,844	1,579	17,571	3,481	6,341	9,822	27,393
Postage, shipping and transportation	103,713	19,335	9,562	58	132,668	251	2,074	2,325	134,993
Professional and other services	207,838	348,952	24,620	27,016	608,426	59,339	49,330	108,669	717,095
Special events							472,974	472,974	472,974
Supplies and special program supplies	48,026	65,377	29,998	5,116	148,517	4,040	25,776	29,816	178,333
Total expenses before depreciation	1,472,813	1,779,021	376,927	292,998	3,921,759	461,870	992,865	1,454,735	5,376,494
Depreciation	209,330	209,330	41,867	52,333	512,860	5,233	5,233	10,466	523,326
Total expenses	<u>\$ 1,682,143</u>	<u>\$ 1,988,351</u>	<u>\$ 418,794</u>	<u>\$ 345,331</u>	<u>\$ 4,434,619</u>	<u>\$ 467,103</u>	<u>\$ 998,098</u>	<u>\$ 1,465,201</u>	<u>\$ 5,899,820</u>

See Accompanying Notes to Financial Statements

The Montclair Art Museum
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services:					Supporting Services:			Total
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	
Salaries and wages	\$ 742,322	\$ 846,679	\$ 39,465	\$ 148,880	\$ 1,777,346	\$ 253,423	\$ 507,360	\$ 760,783	\$ 2,538,129
Pension plan contributions	4,083	4,525		1,019	9,627		779	779	10,406
Other employee benefits	54,649	70,276	5,141	22,975	153,041	16,316	17,831	34,147	187,188
Payroll taxes	64,243	77,864	4,128	11,403	157,638	23,923	42,294	66,217	223,855
Total personnel services	865,297	999,344	48,734	184,277	2,097,652	293,662	568,264	861,926	2,959,578
Facilities, equipment and telephone	144,130	169,031	29,154	37,125	379,440	22,565	14,915	37,480	416,920
Insurance	65,219	38,234	6,882	8,603	118,938	17,649	8,293	25,942	144,880
Interest and other financing fees						82,913		82,913	82,913
Marketing, printing, photography and publications	25,232	29,115	21,628	4,171	80,146	392	3,037	3,429	83,575
Miscellaneous	2,438	4,507	1,386	298	8,629	50,236	904	51,140	59,769
Postage, shipping and transportation	38,530	12,739	10,300	53	61,622	512	1,053	1,565	63,187
Professional and other services	160,732	286,223	21,823	23,711	492,489	64,688	47,758	112,446	604,935
Special events							343,826	343,826	343,826
Supplies and special program supplies	58,395	55,547	18,045	6,638	138,625	2,032	39,206	41,238	179,863
Total expenses before depreciation	1,359,973	1,594,740	157,952	264,876	3,377,541	534,649	1,027,256	1,561,905	4,939,446
Depreciation	207,235	207,235	41,447	51,808	507,725	5,181	5,181	10,362	518,087
Total expenses	<u>\$ 1,567,208</u>	<u>\$ 1,801,975</u>	<u>\$ 199,399</u>	<u>\$ 316,684</u>	<u>\$ 3,885,266</u>	<u>\$ 539,830</u>	<u>\$ 1,032,437</u>	<u>\$ 1,572,267</u>	<u>\$ 5,457,533</u>

See Accompanying Notes to Financial Statements

The Montclair Art Museum
Statement of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 766,124	\$ 403,775
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	523,326	518,087
Amortization of bond financing costs charged to interest expense	12,416	12,063
Amortization of finance lease obligation	4,222	
Net present value amortization adjustment	703	(490)
Change in allowance for bad debt	(734)	(3,346)
Net realized and unrealized (gain) loss on investments	(712,865)	1,440,247
Interest and dividends restricted for permanent investment	(1,857)	(1,388)
Donated securities	(45,935)	(97,672)
Donated gifts in kind		(5,775)
Government grant - PPP loan forgiveness		(486,807)
Changes in operating assets and liabilities:		
Accounts receivable	6,621	(36,993)
Employee retention credit receivable	608,435	(608,435)
Inventories, catalogs and brochures	4,762	8,738
Grants receivable	(200,332)	21,932
Pledges receivable	13,292	287,191
Prepaid expenses and other current assets	13,525	4,108
Accounts payable and accrued expenses	32,474	41,901
Deferred revenue	(62,508)	90,505
Net cash provided by operating activities	<u>961,669</u>	<u>1,587,641</u>
Cash flows from investing activities:		
Capital expenditures	(195,134)	(122,014)
Acquisition of investments	(5,509,826)	(7,124,489)
Proceeds from maturity/sale of investments	6,219,307	6,070,129
Net cash provided by (used in) investing activities	<u>514,347</u>	<u>(1,176,374)</u>
Cash flows from financing activities:		
Payments for bond-related financing costs		(35,543)
Principal repayments of bonds payable	(287,712)	(303,648)
Principal repayments of note payable	(4,940)	(4,940)
Principal repayments of finance lease obligations	(4,222)	
Interest and dividends restricted for permanent reinvestment	1,857	1,388
Net cash used in financing activities	<u>(295,017)</u>	<u>(342,743)</u>
Net increase in cash, cash equivalents, and restricted cash	1,180,999	68,524
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,879,804</u>	<u>1,811,280</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 3,060,803</u>	<u>\$ 1,879,804</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 57,870</u>	<u>\$ 70,850</u>
Supplemental disclosures of noncash activity:		
Unrealized gain (loss) on investments	<u>\$ 754,822</u>	<u>\$ (2,205,755)</u>
Donated securities	<u>\$ 45,935</u>	<u>\$ 97,672</u>
Donated gifts in kind	<u>\$ -</u>	<u>\$ 5,775</u>

See Accompanying Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

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

Mission Statement

The Museum, through art, creates experiences that inspire, challenge, and foster community to shape our shared future.

The Museum collects, exhibits, preserves, and interprets American and Native American art, honoring the creative accomplishments of a diverse range of artists, past and present.

Vision, Values and Diversity Statement

The Museum’s vision and values guide its actions:

- Respect – The Museum cares for the works in its collection, artistic expression, the land and environment, and the people it serves.
- Collaboration - Through partnerships with artists, scholars, community members, and institutions, the Museum ensures that it’s collective work reflects diverse perspectives, input, and expertise.
- Engagement and Education – Through exhibitions; family, student, and public programs; and studio art classes, the Museum cultivates creativity and personal expression, and sparks critical conversations and learning for people of all ages and abilities.
- Inclusion – The Museum strives to create an accessible and welcoming environment that fosters open dialogue and empathy for all.

2. Summary of Significant Accounting Policies

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

Financial Statement Presentation

The Museum prepares its financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") *Accounting for Contributions Received and Made*, and FASB ASC *Presentation of Financial Statements of Not-for-Profit Entities*. FASB ASC, *Presentation of Financial Statements of Not-for-Profit Entities* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories: net assets with donor restrictions and net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. In addition, the standard requires the presentation of qualitative information on how The Museum manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a nonprofit's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes to the financial statements. FASB ASC, *Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions.

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

Net assets without donor restrictions are comprised of net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets in the amounts of \$3,121,540 and \$3,210,477 as of June 30, 2023 and 2022, respectively, to be held for specific purposes and board-designated endowment.

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

Art Collections

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The Museum's policy for the use of proceeds of deaccessioned collection items is solely for the acquisition of collection items and not for the direct care of existing collections.

Revenue and Support Recognition

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

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

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

Disaggregation of Revenue

In the following table, revenue is disaggregated by timing of satisfaction of performance obligations for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Performance obligations satisfied at a point in time	<u>\$ 1,789,359</u>	<u>\$ 1,481,877</u>
Performance obligations satisfied over time	<u>\$ 323,638</u>	<u>\$ 308,006</u>

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

Deferred Revenue

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

The following table provides information about significant changes in deferred revenue for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Deferred revenue, beginning of year	\$ 389,403	\$ 298,898
Revenue recognized that was included in deferred revenue at the beginning of year	(389,403)	(298,898)
Increase in deferred revenue due to cash received during the period	<u>326,895</u>	<u>389,403</u>
Deferred revenue, end of year	<u><u>\$ 326,895</u></u>	<u><u>\$ 389,403</u></u>

Cash Equivalents and Restricted Cash

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature within three months or less. The Museum has \$276,035 and \$147,754 of restricted cash as of June 30, 2023 and 2022, respectively. The funds are restricted for educational and curatorial program activities.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the sum of the corresponding amounts within the statement of cash flows for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,784,768	\$ 1,732,050
Cash - restricted	<u>276,035</u>	<u>147,754</u>
Total	<u><u>\$ 3,060,803</u></u>	<u><u>\$ 1,879,804</u></u>

Inventories

Inventories are comprised principally of merchandise available for sale in the gift shop located on the premises. At June 30, 2023 and 2022, the Museum has stated inventories prospectively at the lower of cost or net realizable value. Inventories amounted to \$27,933 and \$32,695 at June 30, 2023 and 2022, respectively.

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

Accounts, grants, and pledges receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. The Museum established an allowance for uncollectible accounts with respect to pledges of \$3,417 and \$4,151 at June 30, 2023 and 2022, respectively. Management has recorded a discount on pledged amounts of \$703 and \$0 at June 30, 2023 and 2022, respectively.

Buildings, Grounds and Equipment

Buildings, grounds and equipment are recorded at cost when purchased or, at fair value at date of gift, when donated. Cost includes the allocation of interest incurred in connection with the construction. Gifts of long-lived assets are reported as an increase in net assets without donor restrictions, unless there are explicit restrictions that specify how the assets are to be used. Proceeds from the sale of fixed assets, if without donor restrictions, are transferred to the net assets without donor restrictions, or if restricted, to net assets with donor restrictions for fixed asset acquisitions.

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

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

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

Deferred Bond Financing Costs

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

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

Investments

The Museum records investments in accordance with FASB ASC, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under this standard, securities purchased for investment are carried at market value; those received as gifts are recorded at market value at date of gift and all investments in debt securities are reported at their fair market values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income or loss (including interest and dividends) and gains and losses on the sale of investments are included in the statement of activities unless the income or loss is restricted by the donor or law. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. That impairment charge would be included in the statement of activities and a new cost basis would be established. For the years ended June 30, 2023 and 2022, the Museum did not record any impairment charge in the statement of activities.

Leases

In February 2016, the FASB issued guidance ASC 842, *Leases* to increase transparency and comparability among companies by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Museum adopted FASB ASC 842, with a date of initial application of July 1, 2022, by applying the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases* (Topic 842): Targeted Improvements. The Museum did not restate prior comparative periods as presented under FASB ASC 840 and instead evaluated whether a cumulative effect adjustment to net assets as of July 1, 2022, was necessary for the cumulative impact of adoption of FASB ASC 842. The Museum recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Museum elected the available practical expedients to account for existing capital and operating leases as finance and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

ROU assets represent the Museum's right to use leased assets over the term of the lease. Lease liabilities represent the Museum's contractual obligation to make lease payments and are measured at the present value of the future lease payments over the lease term. ROU assets are calculated as the present value of the future lease payments adjusted by any deferred rent liability and lease incentives. ROU assets and lease liabilities are recognized at the lease commencement date.

The Museum has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Museum has applied the risk-free rate option to the equipment class of assets.

As a result of the adoption of the new lease accounting guidance, the Museum recognized on September 1, 2022 a lease liability of \$17,588, which represents the present value of the remaining finance lease payments of \$21,360, discounted using the implied interest rate of 13.50%, and a right-of-use asset of \$17,588. Each year's change (reduction) in the lease liability will be cash payments made net of interest expense.

The Museum has elected for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less, but greater than 1 month at lease commencement, and do not include an option to purchase the underlying asset that the Museum is reasonably certain to exercise. The Museum recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

The standard did not have a material impact on the Museum's statement of financial position, statement of activities, nor statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for finance leases.

Fair Value Measurements

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

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The measurement of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As the Museum is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC are described below:

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

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

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

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk.

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

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

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

Management, in conjunction with its Investment Manager, review investments for other than temporary decline in accordance with the requirements of fair value measurements. The Museum's investments are comprised primarily of investments in mutual funds, equity and fixed income securities.

Within the balance of the funds certain individual investments may have fair values measured below cost. The severity of any impairment and the duration of any impairment correlate with current market conditions.

Based upon the near-term prospects of the issuer of any of those securities in relation to the severity and duration of the impairment, and based upon the Museum's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Museum does not consider those investments to be other-than-temporarily impaired at June 30, 2023.

Concentrations of Credit Risk

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

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

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

Estimates

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

Contributed Services

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

In-Kind Contributions

The Museum follows the provisions of ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which requires nonprofits to present contributed nonfinancial assets as a separate line item in the statement of activities apart from contributions of cash or other financial assets.

In-kind contributions are reflected as contributions at their fair value on the date of donation and are reported as without donor restrictions unless explicit donor stipulations specify how donated assets must be used. During the years ended June 30, 2023 and 2022, the Museum benefited from donated furniture and equipment in the amount of \$0 and \$5,775, respectively. This amount has been reported as in-kind contribution revenue and a corresponding capitalized asset or expense in accordance with the Museum's capitalization policy.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to a program based on level of activity. Support costs are allocated to a program based on total program costs.

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

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

Advertising

It is the Museum's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2023 and 2022 amounted to \$30,842 and \$23,248, respectively.

Income Taxes

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

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

The Museum does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the fiscal year ended June 30, 2023. However, the Museum is subject to regular audit by tax authorities. The Museum believes that it has appropriate support for the positions taken on its tax returns.

Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued each year. Management believes its nonprofit status would be upheld upon examination.

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

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2023 through the date of the independent auditors' report and the date the financial statements were available to be issued, September 22, 2023. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

3. Liquidity and Availability

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

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

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

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

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

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations continue to be met through the Museum's endowment and investment policy which ensures adequate liquid assets.

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

As of June 30, 2023 and 2022, the following table shows the total financial assets held by the Museum and the amounts of those financial assets that could readily be made available within one year of the statement of financial position date to meet general expenditures:

The Montclair Art Museum
Notes to the Financial Statements
June 30, 2023 and 2022

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 2,784,768	\$ 1,732,050
Cash - restricted	276,035	147,754
Accounts receivable	34,626	41,247
Grants receivable	349,364	149,032
Pledges receivable, net	190,157	203,418
Investments, at market value	11,489,419	11,304,494
Investments, at market value - restricted	936,854	1,072,460
Total financial assets	16,061,223	14,650,455
Less amounts not available to be used within one year:		
Cash - restricted	(276,035)	(147,754)
Investments, at market value - restricted	(936,854)	(1,072,460)
Board designated funds	(3,121,540)	(3,210,477)
Net assets with donor restrictions	(2,123,358)	(2,030,522)
Financial assets not available to be used within one year	(6,457,787)	(6,461,213)
Financial assets available to meet general expenditures within one year	\$ 9,603,436	\$ 8,189,242

4. Pledges Receivable

Pledges receivable representing unconditional promises to give at June 30, 2023 and 2022, are as follows:

	2023	2022
Receivable in less than one year	\$ 179,277	\$ 207,569
Receivable in one to five years	15,000	
Less: discount to net present value at 2%	(703)	
Less: allowance for uncollectible pledges	(3,417)	(4,151)
Net unconditional pledges receivable	\$ 190,157	\$ 203,418

5. Buildings, Grounds and Equipment

Buildings, grounds and equipment at June 30, 2023 and 2022, are comprised of the following:

	Estimated Useful Lives	2023	2022
Grounds		\$ 132,700	\$ 132,700
Buildings	25-40 years	17,492,424	17,367,968
Equipment	3-10 years	2,698,187	2,669,127
Construction in Progress		41,618	
		20,364,929	20,169,795
Less: accumulated depreciation		12,298,303	11,774,977
		\$ 8,066,626	\$ 8,394,818

Total depreciation expense charged to operations for the years ended June 30, 2023 and 2022 was \$523,326 and \$518,087 respectively.

6. Investments - Donor Designated Endowments (SPMIFA)

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

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

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

Investment Return Objectives, Risk Parameters and Strategies. The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested by approved third party institutional managers in well diversified investments, which include equity and debt securities, that are intended over time to result in an inflation-protected rate of return while maintaining sufficient liquidity to make an annual distribution of up to 5%. Accordingly, the Museum expects its endowment assets, over time, to produce an average gross rate of return of approximately 6-7% annually. Actual returns in any given year may vary from this amount.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation among managers, asset classes and investment strategies are intended not to expose the fund to unacceptable levels of risk.

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

In establishing this policy, the Museum considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

The Museum intends that the current spending policy should allow its endowment funds, net of appropriations, to grow at a nominal average rate of 1-2% annually, which is consistent with the Museum's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of June 30, 2023 is as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds		\$ 1,498,800	\$ 1,498,800
Board-designated endowment funds	\$ 3,121,540		3,121,540
Total funds	<u>\$ 3,121,540</u>	<u>\$ 1,498,800</u>	<u>\$ 4,620,340</u>

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Donor-restricted endowment funds		\$ 1,469,450	\$ 1,469,450
Board-designated endowment funds	\$ 3,210,477		3,210,477
Total funds	<u>\$ 3,210,477</u>	<u>\$ 1,469,450</u>	<u>\$ 4,679,927</u>

The Montclair Art Museum
Notes to the Financial Statements
June 30, 2023 and 2022

Changes in endowment net assets as of June 30, 2023 are as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Endowment net assets:			
Beginning of year	\$ 3,210,477	\$ 1,469,450	\$ 4,679,927
Investment income	62,416	35,887	98,303
Net appreciation	111,378	50,852	162,230
Amounts appropriated for expenditure	(262,731)	(57,389)	(320,120)
End of year	<u>\$ 3,121,540</u>	<u>\$ 1,498,800</u>	<u>\$ 4,620,340</u>

Changes in endowment net assets as of June 30, 2022 are as follows:

	Net Assets With Board Designation	Net Assets With Donor Restrictions	Total Net Endowment Assets
Endowment net assets:			
Beginning of year	\$ 3,908,710	\$ 1,578,191	\$ 5,486,901
Contributions		31,000	31,000
Investment income	47,321	19,085	66,406
Net depreciation	(283,985)	(112,826)	(396,811)
Transfers (see Note 14)	(295,564)		(295,564)
Amounts appropriated for expenditure	(166,005)	(46,000)	(212,005)
End of year	<u>\$ 3,210,477</u>	<u>\$ 1,469,450</u>	<u>\$ 4,679,927</u>

The Montclair Art Museum
Notes to the Financial Statements
June 30, 2023 and 2022

7. Investments

Investments at June 30, 2023 are comprised of the following:

	June 30, 2023			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	\$ 378,076	\$ 450,659		\$ 72,583
Communications	124,216	205,665		81,449
Consumer non-cyclical	298,173	520,376		222,203
Consumer cyclical	345,572	390,046		44,474
Energy	222,692	235,051		12,359
Financials	492,006	753,289		261,283
Healthcare	690,256	1,000,994		310,738
Industrials	735,733	993,235		257,502
Real estate	226,781	295,360		68,579
Technology	656,873	1,137,896		481,023
Utilities	528,587	670,052		141,465
Total	4,698,965	6,652,623		1,953,658
Fixed income securities:				
Corporate bonds	2,428,038		\$ 2,359,181	(68,857)
Mortgage-backed securities	1,218		1,252	34
Total	2,429,256		2,360,433	(68,823)
Mutual funds:				
Equity funds	850,278	838,358		(11,920)
Fixed income - taxable funds	2,091,287	1,864,529		(226,758)
Balanced funds	372,481	710,330		337,849
Total	3,314,046	3,413,217		99,171
	\$ 10,442,267	\$ 10,065,840	\$ 2,360,433	\$ 1,984,006

The Montclair Art Museum
Notes to the Financial Statements
June 30, 2023 and 2022

Investments at June 30, 2022 are comprised of the following:

	June 30, 2022			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	\$ 349,468	\$ 386,172		\$ 36,704
Communications	128,755	204,307		75,552
Consumer non-cyclical	315,147	441,349		126,202
Consumer cyclical	528,913	564,283		35,370
Energy	235,069	243,262		8,193
Financials	575,311	735,044		159,733
Healthcare	1,001,604	1,255,188		253,584
Industrials	624,008	734,245		110,237
Real estate	319,429	378,555		59,126
Technology	1,008,061	1,293,763		285,702
Utilities	500,837	711,256		210,419
Total	5,586,602	6,947,424		1,360,822
Fixed income securities:				
Corporate bonds	1,832,573		\$ 1,765,513	(67,060)
Mortgage-backed securities	1,413		1,503	90
Total	1,833,986		1,767,016	(66,970)
Mutual funds:				
Equity funds	836,043	784,299		(51,744)
Fixed income - taxable funds	2,656,685	2,272,097		(384,588)
Balanced funds	372,481	606,118		233,637
Total	3,865,209	3,662,514		(202,695)
	\$ 11,285,797	\$ 10,609,938	\$ 1,767,016	\$ 1,091,157

The Museum had restricted investments in the amount of \$936,854 and \$1,072,460 at June 30, 2023 and 2022, respectively.

Return on investments for the years ended June 30, 2023 and 2022, is comprised of the following:

	2023	2022
Interest and dividend income	\$ 493,811	\$ 305,530
Realized gain on investments	43,310	869,489
Unrealized gain (loss) on investments	754,822	(2,205,755)
Investment fees	(85,267)	(103,981)
Total return on investments	<u>\$ 1,206,676</u>	<u>\$ (1,134,717)</u>

8. 403(b) Retirement Plan

The Museum provides a 403(b) retirement plan for the benefit of employees that work at least half time on an annual basis. The plan allows employees to make tax deferred contributions which are used to purchase mutual funds. The Museum matches the employees' contributions up to a maximum of 2% of annual salary. The Museum may elect to make an employer discretionary contribution for employees with at least two years of service. For the years ended June 30, 2023 and 2022, the Museum did not make discretionary contributions to the plan.

Employees may draw from their plans upon retirement, termination or hardship. Termination of the plan will not affect amounts due to participants under the plan. During the years ended June 30, 2023 and 2022, the Museum contributed \$21,976 and \$10,406 respectively, to the plan.

9. Note Payable

In August 2017, The Museum entered into a five year financing agreement for equipment valued at \$24,700. The note is payable in quarterly installments of \$1,235 through June 30, 2023. The total amount due under those notes was \$0 and \$4,940 at June 30, 2023 and 2022, respectively.

10. Bonds and Derivatives

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

The 2001 expansion of the Museum was financed by the issuance of \$5.4 million of tax-exempt bonds through the New Jersey Economic Development Authority (The Montclair Art Museum Project) Series 2000. In April 2014, the Museum refinanced the original debt for the construction and rehabilitation with the 2014 series, designated as the New Jersey Economic Development Authority Economic Development Bonds (The Montclair Art Museum Project) Series 2014 with an initial principal amount of \$4,549,200. The 2014 Series have a maturity date of April 1, 2030, and a fixed interest rate of 3.42%.

Due to the adverse effect of the COVID-19 pandemic, the Museum received a waiver of principal payments on 2014 series debt from April 2021 to September 2021. The principal payment waivers, totaling \$130,180, reduced the Museum's ability to fully amortize the 2014 debt by its expected maturity.

In August 2021, the Museum amended its New Jersey Economic Development Authority Bonds to lower the interest rate for the remaining term of the loan. The new rate on the loan was set at 2.2% from August 1, 2021 until April 1, 2030. The new monthly loan payment is \$30,865, and fees related to the refinancing will be amortized over the remaining life of the bonds. The 2021 loan rate amendment will allow the 2014 debt to be fully amortized by its maturity.

Bond financing costs incurred in connection with the related debt liability are being amortized using a method that approximates the effective interest method over the life of the bond. Deferred bond financing costs are presented net of accumulated amortization of \$83,123 and \$70,707 as of June 30, 2023 and 2022, respectively, and are reported in the statement of financial position as a direct deduction from the carrying amount of the related debt liability.

Amortization of these costs amounted to \$12,416 and \$12,063 for the years ended June 30, 2023 and 2022, respectively, and is reported as interest expense in the statement of activities.

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

Year Ending June 30,	Future Minimum Payments	Deferred Financing Bond Costs	Total
2024	\$ 321,145	\$ (12,415)	\$ 308,730
2025	327,968	(12,415)	315,553
2026	335,360	(12,415)	322,945
2027	342,916	(12,415)	330,501
2028	350,594	(12,415)	338,179
Thereafter	694,305	(22,773)	671,532
Total	<u>\$ 2,372,288</u>	<u>\$ (84,848)</u>	<u>\$ 2,287,440</u>

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

11. Commitments and Contingency

Leases

The Museum has entered into an equipment finance agreement expiring August 2025. This finance lease require monthly payments totaling approximately \$593. Lease expense is recognized on a straight-line basis over the lease term.

Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Because the Museum is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments used to determine the lease liabilities. The Museum's leases do not include termination options for either party to the lease, guaranteed residual values or restrictive financial or other covenants.

The total lease costs under FASB, ASC 842 for the year ended June 30, 2023 amounted to \$4,222.

The Montclair Art Museum
Notes to the Financial Statements
June 30, 2023 and 2022

The future minimum lease liabilities under this noncancellable finance lease as of June 30, 2023 are as follows:

Year Ending June 30,	Amount
2024	\$ 7,120
2025	7,120
2026	604
Total future payments	14,844
Less: present value discount of future payments	(3,189)
Total lease liabilities	<u>\$ 11,655</u>

Other information related to the Museum's finance lease as of and for the year ended June 30, 2023 are as follows:

Operating cash flows from finance leases (i.e. Interest)	\$ 1,711
Financing cash flows from finance leases (i.e. principal portion)	\$ 4,222
ROU assets obtained in exchange for new finance lease liabilities	\$ 17,588
Weighted-average remaining lease term in years for finance leases	2.17
Weighted-average discount rate for finance leases	13.50%

The Museum has entered into various equipment agreements expiring through December 2025. These leases require monthly payments totaling approximately \$1,745. Lease expense is recognized on a straight-line basis over the lease term.

The total lease costs under FASB ASC, 840 (pre adoption of the new standards) for the year ended June 30, 2022 amounted to \$32,678.

The aggregate minimum lease payments under these operating leases as of June 30, 2022, were as follows:

Year Ending June 30,	Amount
2023	\$ 20,180
2024	20,180
2025	19,130
2026	4,833
	<u>\$ 64,323</u>

Government grants

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

Contingency and Risk Management

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

The Museum became party to a lawsuit filed by an individual in October 2019. The Museum's insurance carrier promptly retained counsel to assist in evaluating and defending against the claim. On September 16, 2022, the lawsuit settled for a total amount of \$150,000 which will be paid entirely by the Museum's insurance carrier.

12. Concentrations

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

This funding represented the following percentage of total support and revenue, excluding net realized and unrealized gains (losses) on investments, as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Government and foundation grants	15%	19%
Public, corporate and individual donors	40%	42%
Membership dues	5%	4%

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

	<u>2023</u>	<u>2022</u>
Government and foundation grants	61%	39%
Public, corporate and individual donors	39%	61%

13. Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Subject to time restriction for future expenditures:		
Curatorial and education activities	\$ 624,558	\$ 561,072
Endowments:		
Subject to Museum endowment spending policy and appropriation:		
General use	801,296	773,803
Not subject to spending policy and appropriation:		
Held in perpetuity	<u>697,504</u>	<u>695,647</u>
	<u><u>\$ 2,123,358</u></u>	<u><u>\$ 2,030,522</u></u>

Net assets released from restrictions as of June 30, 2023 and 2022 amounted to \$564,061 and \$709,622, respectively, due to satisfaction of specific program requirements.

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

14. Transfer of Board-Designated Net Assets

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

The Museum has interpreted the resolution based on guidelines provided with the goal of insuring the survival of the collection and the operating institution as well as to augment funds for staff compensation and benefits. The directive states that over the next 24 months, starting April 2020, “Income (not principal) from endowment funds or trusts distributable as to income held by a museum and that are normally restricted to purposes other than general operations such as art acquisition, conservation, or research” and “the income (not principal) from funds generated by deaccessioned works of art, regardless of whether the works were deaccessioned before or after the date of these resolutions” can be used for general operations.

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

15. Refundable Advance

In April 2020 and March 2021, the Museum applied for and received funding under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). During the years ended June 30, 2022 and 2021, the Museum use the entire proceeds for purposes consistent with the PPP and recognized the entire PPP funding as contribution revenue (governmental grant) in the statement of activities.

The Small Business Administration ("SBA") reserves the right to audit PPP funding forgiveness for ten years from the date that forgiveness was awarded.

16. Employee Retention Credit

For the year ended June 30, 2022, the Museum has recognized \$608,435 in refundable tax credits through the Employee Retention Credit under the CARES Act for payroll tax expenses incurred during 2021.

17. Transfer of Net Assets

During the year ended June 30, 2022, the Museum had a transfer of net assets previously designated as without donor restrictions to with donor restrictions in the amount of \$130,000.

The Montclair Art Museum
Schedule of Expenditures of State Awards
Year Ended June 30, 2023

<u>State Grantor/ Pass-through Grantor/ Program Title</u>	<u>Contract Number</u>	<u>Contract Period</u>	<u>Amount Expended</u>
State of New Jersey Department of State New Jersey State Council on the Arts: General Operating Support	C-2305X010091	07/01/22 - 06/30/23	\$ 397,400
State of New Jersey Department of State New Jersey Historic Trust	2023.Z002	06/21/23 - 06/21/25	<u>248,488</u>
Total expenditures of state awards			<u><u>\$ 645,888</u></u>

See Accompanying Notes to the Schedule of Expenditures of State Awards

The Montclair Art Museum
Notes to the Schedule of Expenditures of State Awards
Year Ended June 30, 2023

1. General

The accompanying schedule of expenditures of state awards presents the activity of all state financial assistance programs of The Montclair Art Museum. The information in the schedule is presented in accordance with the requirements of the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All state financial assistance received directly from state agencies, as well as financial assistance passed through other government agencies are included on the appropriate schedule. Because this schedule presents only a selected portion of the operations of the Museum, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Museum.

2. Basis of Accounting

The accompanying schedule of expenditures of state awards is presented using the accrual basis of accounting which is described in Note 2 to the financial statements. Such expenditures are recognized following the cost principles contained in the New Jersey State Circular 15-08-OMB, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Sub-recipients

No state awards were provided to sub-recipients.

4. Relationship to State Financial Reports

The regulations and guidelines governing the preparation of state financial reports vary by state agencies and among programs administered by the same agency. Accordingly, the amounts reported in the state financial reports do not necessarily agree with the amounts reported in the accompanying schedule of expenditures of state awards, which is prepared on the accrual basis explained in Note 2.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Montclair Art Museum (the "Museum") (a nonprofit organization) which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

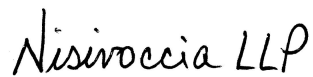
To the Board of Trustees of
The Montclair Art Museum

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Nisiroccia LLP". The script is cursive and fluid.

Mt. Arlington, New Jersey
September 22, 2023

The Montclair Art Museum
Schedule of Findings and Responses
Year Ended June 30, 2023

I. Summary of Auditors' Results:

An unmodified report was issued on The Montclair Art Museum's financial statements.

The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of The Montclair Art Museum.

The audit did not disclose any noncompliance which is material in relation to the financial statements of The Montclair Art Museum.

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

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

III. Findings and Responses for State Awards:

None noted

The Montclair Art Museum
Summary Schedule of Prior Year Findings
Year Ended June 30, 2023

Status of Prior Year Findings:

There were no audit findings in the prior year.

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

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

We have audited the financial statements of The Montclair Art Museum (the "Museum") (a nonprofit organization) for the year ended June 30, 2023 and have issued our report thereon dated September 22, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that any information, as it relates to accounting matters, contained in the Museum's June 30, 2023 Final Report Form submitted to the New Jersey State Council on the Arts for grants indicated on the Schedule of Expenditures of State Awards requires adjustment. However, our audit was not directed primarily toward obtaining knowledge of any misstatements.

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

Nisivoccia LLP

Mt. Arlington, New Jersey
September 22, 2023