THE MONTCLAIR ART MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals for 2016)

THE MONTCLAIR ART MUSEUM
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JUNE 30, 2017 AND 2016

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of The Montclair Art Museum (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017, 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.

Auditors' 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 Montclair Art Museum as of June 30, 2017 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-matter Regarding Change in Accounting Principle

As discussed in Note 3 to the financial statements, the Center adopted ASU 2015-03, *Interest-Imputation of Interest* (Subtopic 835-30): *Simplifying the Presentation of Debt Issue Costs*. Our opinion is not modified with respect to that matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited The Montclair Art Museum's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants and State Aid*, and are also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Montclair Art Museum's internal control over financial reporting and compliance.

Mt. Arlington, New Jersey
September 29, 2017

Nisivoccia LLP

THE MONTCLAIR ART MUSEUM
STATEMENT OF FINANCIAL POSITION

	June 30, 2017	June 30, 2016
ASSETS		
Cash and cash equivalents	$ 537,168	$ 861,557
Cash - restricted	38,011	67,383
Accounts receivable	50,117	98,277
Inventories, catalogs and brochures	43,235	38,517
Grants receivable	78,437	197,913
Pledges receivable, net	1,950,966	3,231,306
Prepaid expenses and other current assets	60,624	54,089
Investments, at market value	10,022,226	8,944,712
Investments, at market value - restricted	1,071,385	1,005,163
Buildings, grounds and equipment, at cost, net of accumulated depreciation	10,428,313	10,822,131
Total assets	$ 24,280,482	$ 25,321,048
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 266,095	$ 502,570
Deferred revenue	319,696	315,423
Note payable	5,200	10,400
Economic Development Authority Bonds, net of deferred financing costs less accumulated amortization of $25,913 and $17,730, in 2017 and 2016, respectively	3,737,297	3,961,192
Total liabilities	4,328,288	4,789,585
Net assets:		
Unrestricted:		
Undesignated	6,754,533	8,485,354
Board designated	11,508,412	10,159,915
Temporarily restricted	1,009,204	1,412,183
Permanently restricted	680,045	474,011
Total net assets	19,952,194	20,531,463
Total liabilities and net assets	$ 24,280,482	$ 25,321,048

THE MONTCLAIR ART MUSEUM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Support, revenue and gains:					
Grants	$ 602,684	$ 23,500		$ 626,184	$ 815,152
Donations	671,821	195,723	$ 7,255	874,799	3,002,749
Membership dues	360,396			360,396	342,946
Art school tuition	710,827			710,827	759,815
Education programs	130,706	12		130,718	134,377
Curatorial programs	239,429			239,429	214,525
Admission fees	228,358			228,358	94,797
Special events	618,574			618,574	648,598
Income from investments	281,950	29,714	2,022	313,686	271,488
Net realized and unrealized gain (loss) on investments	801,691	81,707		883,398	(126,954)
Sales of merchandise	104,411			104,411	43,726
Rental income	150,722			150,722	147,397
Other revenue	9,039			9,039	7,845
Net assets released from restrictions	536,878	(536,878)			
Total support, revenue and gains	5,447,486	(206,222)	9,277	5,250,541	6,356,461
Expenses:					
Program services:					
Curatorial	1,936,641			1,936,641	1,464,291
Education	1,646,750			1,646,750	1,646,850
Membership	207,639			207,639	190,594
Store	348,820			348,820	311,722
Total program services	4,139,850			4,139,850	3,613,457
Supporting services:					
Management	498,120			498,120	460,213
Fundraising	766,334			766,334	750,980
Total supporting services	1,264,454			1,264,454	1,211,193
Total expenses	5,404,304			5,404,304	4,824,650
Change in net assets before changes related to collection items not capitalized	43,182	(206,222)	9,277	(153,763)	1,531,811
Net proceeds from acquisition of collection items	(425,506)			(425,506)	(508,527)
Change in net assets	(382,324)	(206,222)	9,277	(579,269)	1,023,284
Net assets, beginning of year	18,645,269	1,412,183	474,011	20,531,463	19,508,179
Transfer of net assets		(196,757)	196,757		
Net assets, end of year	$ 18,262,945	$ 1,009,204	$ 680,045	$19,952,194	$20,531,463

THE MONTCLAIR ART MUSEUM
STATEMENT OF CASH FLOWS

	Year ended June 30, 2017	Year ended June 30, 2016
Operating activities:		
Change in net assets	$ (579,269)	$ 1,023,284
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	503,754	471,629
Amortization of bond financing costs charged to interest expense	8,183	8,183
Net realized and unrealized (gain) loss on investments	(884,233)	126,954
Interest and dividends restricted for permanent investment	(2,022)	(1,451)
Contributions restricted for endowment	(7,255)	(4,343)
Donated securities	(211,238)	(45,567)
Changes in operating assets and liabilities:		
Accounts receivable	48,160	(53,517)
Inventories, catalogs and brochures	(4,718)	(73)
Grants receivable	119,476	(100,000)
Pledges receivable	1,280,340	(716,811)
Prepaid expenses and other current assets	(6,535)	(230)
Accounts payable and accrued expenses	(236,475)	234,270
Deferred revenue	4,273	(17,178)
Net cash provided by operating activities	32,441	925,150
Investing activities:		
Capital expenditures	(109,936)	(1,076,871)
Acquisition of investments	(4,083,909)	(3,419,901)
Proceeds from maturity/sale of investments	4,035,644	4,271,322
Net cash used in investing activities	(158,201)	(225,450)
Financing activities:		
Principal payments of bonds payable	(232,078)	(223,798)
Principal payments of note payable	(5,200)	(5,200)
Interest and dividends restricted for permanent reinvestment	2,022	1,451
Investment in permanent endowment	7,255	4,343
Net cash used in financing activities	(228,001)	(223,204)
Net increase (decrease) in cash and cash equivalents	(353,761)	476,496
Cash and cash equivalents, beginning of year	928,940	452,444
Cash and cash equivalents, end of year	$ 575,179	$ 928,940
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 145,840	$ 154,120
Supplemental disclosures of noncash activity:		
Unrealized gain (loss) on investments	$ 459,957	$ (287,487)
Donated securities	$ 211,238	$ 45,567

THE MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

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

Mission Statement

The Montclair Art Museum, along with its Yard School of Art, engages a diverse community through its distinctive collection of American and Native American art, exhibitions, and educational programs that link art to contemporary life in a global context.

Vision and Values Statement

After 100 years of service, MAM is recognized as the leading American art museum and community art school in Northern New Jersey. As an organization, we value: artistic beauty, inference and diversity, both individual and group creativity, and the importance of all arts to a civil, inclusive and progressive society. We seek to open eyes to art; open hearts and minds to others; and open opportunities for all. Towards our second-century mission, we will invigorate our collections and curatorial presentations, expand our educational services and audience, support artists and their work and connections, embrace new media and technology, and pursue productive institutional partnerships. We will also secure MAM's financial stability and preserve its facilities and other assets in a prudent and sustainable way.

Diversity Statement

The Montclair Art Museum is committed to being an inclusive and diverse organization, one that respects and welcomes individual differences in order to offer the most meaningful art experience to the widest possible audience. We strive to cultivate an environment that fosters productivity, creativity, and individual satisfaction by celebrating such differences as race, gender, nationality, age, religion, sexual orientation, and physical abilities.

A summary of significant accounting policies is described below:

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 *Financial Statements of Not-for-Profit Organizations. Financial Statements of Not-for-Profit Organizations* established standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. *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.

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Net Assets

All financial transactions have been recorded as either unrestricted, temporarily restricted or permanently restricted net assets.

Unrestricted net assets consist of unrestricted amounts that are available for use in carrying out the mission of the Museum and include those expendable resources which may have been designated for special use by the Board of Trustees.

Temporarily restricted net assets represent those amounts which are donor-restricted for specific purposes or time periods. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities. Restricted gains and other income earned on investments, whose restrictions are satisfied in the same accounting period, are reported as unrestricted net assets.

Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds which mandate that the original principal be retained in perpetuity. This original principal is reported as a permanently restricted net asset, the income from which may be either temporarily restricted or unrestricted, depending on the donor's specifications.

In accordance with its financial planning, the Board of Trustees has designated a portion of the unrestricted net assets as board-designated funds. The Board of Trustees annually allocates a portion of the income earned on these funds to defray operating expenses.

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 unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets 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.

Revenue and Support Recognition

Contributions are recognized when the donor makes a promise to give to the Museum, that is, in substance, unconditional. Conditional promises to give and intentions to give are not recorded. Government grants are recognized as support and revenue during the period earned.

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities.

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Revenue and Support Recognition (Cont'd)

Restricted gains and investment income whose restrictions are satisfied in the same accounting period are reported as unrestricted income.

The Museum accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Museum does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as unearned grant revenue in the statement of financial position.

Deferred Revenue

Deferred revenue consists 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.

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 $38,011 and $67,383 of restricted cash as of June 30, 2017 and 2016, respectively. The funds are restricted for educational and curatorial program activities.

Inventories

Inventories are comprised principally of merchandise available for sale and are carried at the lower of cost or market.

Contributions and Pledges Receivable

Contributions and pledges receivable are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions and pledges receivable due in one year are recorded at their net realizable value. Contributions and pledges due in more than one year are recorded at the present value of their net realizable value using risk-adjusted rates applicable to the year in which the contributions are received to discount the amounts.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Accounts Receivable/Pledges Receivable and Allowances for Uncollectible Accounts

Accounts receivable 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 accounts receivable. The Museum established an allowance for uncollectible accounts with respect to pledges of $16,250 at both June 30, 2017 and 2016.

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 unrestricted net assets, unless there are explicit restrictions that specify how the assets are to be used. Proceeds from the sale of fixed assets, if unrestricted, are transferred to the unrestricted net assets, or if restricted, to temporarily restricted net assets for fixed asset acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

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

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

Deferred Bond Financing Costs

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

The Museum follows the provisions of FASB issued 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 balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization of debt issuance costs should be reported as interest expense.

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. Generally, interest and dividend income from investments, which have not been restricted by outside donors, are used to defray operating expenses of the Museum.

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

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 MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Fair Value Measurements (Cont'd)

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, 2017 and 2016.

The carrying amounts of *cash and cash equivalents, receivables, other assets, accounts payable and accrued expenses, and other liabilities* approximate fair value because of the short term maturity of these instruments.

Long-term debt is carried at amortized cost. The Museum believes it can obtain similar loans at similar terms; therefore the Museum has determined that amortized cost approximates fair value.

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

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

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk.

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.

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

Fair Value Measurements (Cont'd)

Management, in conjunction with its Investment Manager, review investments for other than temporary decline in accordance with the requirements of fair value measurements. The Museum's investments consist primarily of investments in mutual funds, equity and fixed income securities. Within the fund balance 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-temporary impaired at June 30, 2016.

Concentrations of Credit Risk

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

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

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

Estimates

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

Total Columns

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with The Museum's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Advertising

It is the Museum's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2017 and 2016 was $56,450 and $56,033 respectively.

THE MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

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.

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 entities that are not private foundations within the meaning of Section 509(a) and qualify 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, 2017. 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.

Functional Expenses

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 MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

New Accounting Pronouncements

In April 2015, the FASB issued 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 balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal periods beginning after December 15, 2015. The amendments in the ASU has been adopted by the Museum.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2017 through the date of the auditors' report and the date the financial statements were available to be issued, September 29, 2017. 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.

Note 2 - Pledges Receivable

Pledges receivable representing unconditional promises to give at June 30, 2017 and 2016, are as follows:

	June 30,	
	2017	2016
Receivable in less than one year	$ 123,534	$ 1,738,697
Receivable in one to five years	1,887,767	1,545,500
Less: discount to net present value at 2%, respectively	(44,085)	(36,641)
Less: allowance for uncollectible pledges	(16,250)	(16,250)
Net unconditional pledges receivable	$ 1,950,966	$ 3,231,306

Note 3 - Buildings, Grounds and Equipment

Buildings, grounds and equipment at June 30, 2017 and 2016, are comprised of the following:

	Estimated Useful Lives	June 30, 2017	June 30, 2016
Grounds		$ 132,700	$ 132,700
Buildings	25-40 years	17,101,210	17,036,584
Equipment	3-10 years	2,741,699	2,738,269
		19,975,609	19,907,553
Less: accumulated depreciation		9,547,296	9,085,422
		$ 10,428,313	$ 10,822,131

Total depreciation expense charged to operations for the years ended June 30, 2017 and 2016 was $503,754 and $471,629 respectively.

Note 4 - Investments- Donor Designated Endowments (SPMIFA)

The Museum's endowment consists 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted 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 preceeding 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.

THE MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(Continued)

Note 4 - Investments- Donor Designated Endowments (SPMIFA) (Cont'd)

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, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds		$ 550,215	$ 680,045	$ 1,230,260
Board-designated endowment funds	$ 11,508,412			11,508,412
Total funds	$ 11,508,412	$ 550,215	$ 680,045	$12,738,672

Changes in endowment net assets as of June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets:				
Beginning of year	$ 10,159,915	$ 672,388	$ 474,011	$11,306,314
Contributions	1,362,895	100	7,255	1,370,250
Investment income	281,949	29,714	2,022	313,685
Net appreciation	725,893	81,707		807,600
Transfers		(196,757)	196,757	
Amounts appropriated for expenditure	(1,022,240)	(36,937)		(1,059,177)
End of year	$ 11,508,412	$ 550,215	$ 680,045	$12,738,672

THE MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(Continued)

Note 5 - Investments

Investments at June 30, 2017 are comprised of the following:

	June 30, 2017			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	$ 102,808	$ 127,272		$ 24,464
Real estate	108,568	122,500		13,932
Consumer non-cyclical	682,546	873,008		190,462
Consumer cyclical	447,011	474,786		27,775
Energy	359,540	367,159		7,619
Financials	383,294	615,780		232,486
Health care	293,465	360,030		66,565
Industrials	425,536	511,019		85,483
Technology	498,988	785,092		286,104
Utilities	206,221	258,123		51,902
Total	3,507,977	4,494,769		986,792
Fixed income securities:				
Corporate bonds	4,012,840		$ 4,089,530	76,690
Mortgage-backed securities	2,740		3,169	429
Total	4,015,580		4,092,699	77,119
Mutual funds:				
Equity funds	1,531,653	1,747,079		215,426
Fixed income - taxable funds	317,670	311,380		(6,290)
Balanced funds	372,470	447,684		75,214
Total	2,221,793	2,506,143		284,350
	$ 9,745,350	$ 7,000,912	$ 4,092,699	$ 1,348,261

Note 5 - Investments (Cont'd)

Investments at June 30, 2016 are comprised of the following:

	June 30, 2016			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	$ 103,509	$ 119,146		$ 15,637
Communications	39,993	51,663		11,670
Consumer non-cyclical	517,778	583,368		65,590
Consumer cyclical	715,521	771,121		55,600
Energy	359,627	368,123		8,496
Financials	2,408,354	2,516,334		107,980
Health care	356,912	464,887		107,975
Industrials	142,245	160,040		17,795
Technology	427,454	550,860		123,406
Utilities	235,696	302,665		66,969
Total	5,307,089	5,888,207		581,118
Fixed income securities:				
Corporate bonds	3,431,934		$ 3,513,867	81,933
Mortgage-backed securities	3,075		3,583	508
Total	3,435,009		3,517,450	82,441
Mutual funds:				
Fixed income - taxable funds	160,411	151,400		(9,011)
Balanced funds	353,510	392,818		39,308
Total	513,921	544,218		30,297
	$ 9,256,019	$ 6,432,425	$ 3,517,450	$ 693,856

The Museum had restricted investments in 2017 and 2016, in the amount of $1,071,385 and $1,005,163, respectively.

Return on investments at June 30, 2017 and 2016, is comprised of the following:

	Year Ended June 30,	
	2017	2016
Interest and dividend income	$ 313,686	$ 271,488
Realized gain on investments	424,276	160,533
Unrealized gain (loss) on investments	459,957	(287,487)
Total return on investments	$ 1,197,919	$ 144,534

Note 6 - 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, 2017 and 2016, 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, 2017 and 2016, the Museum contributed $18,129 and $14,380 respectively, to the plan.

Note 7 - Note Payable

In August 2013, the Museum entered into a five year financing agreement for an upgrade to its heating, ventilating, and air conditioning system valued at $26,000. The note is payable in quarterly installments of $1,300 through 2018. The amount due was $5,200 and $10,400 at June 30, 2017 and 2016, respectively.

Note 8 - Bonds and Derivatives

During 2002 and 2001, the Museum constructed a three-story addition (the "Project") to the existing museum structure. Additionally, a significant portion of the existing building has been 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 Project was financed by $6,000,000 of 2000 Series Economic Development Authority Bonds (the "Bonds") issued by the State of New Jersey on June 1, 2000 (the "issue date"). The proceeds of the Bonds were loaned to the Museum pursuant to a loan agreement dated June 1, 2000 with PNC Bank, National Association that is secured by an irrevocable letter of credit in the amount of $6,098,630.

In May 2007, the Museum entered into an agreement with JPMorgan Chase Bank, N.A. to replace the PNC Bank, N.A. letter of credit in the amount of $5,346,465 and extend it to April 30, 2012, which was subsequently extended until October 2015. The letter of credit was terminated as part of the refinancing described below.

In April 2014, the Museum refinanced the 2000 Series bonds 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%. On June 1, 2014, the first payment started at $30,811, including principal and interest, and thereafter recurring monthly payments with a total of $369,734 per year.

Note 8 - Bonds and Derivatives (Cont'd)

Deferred bond financing costs incurred in connection with the related debt liability are being amortized using the effective interest method over the life of the bond. Deferred bond financing costs are presented net of accumulated amortization of $25,913 and $17,730 as of June 30, 2017 and 2016, respectively, and are reported in the statement of financial position as a direct deduction from the carrying amount of the related debt liability. Amortization of these costs amounted to $8,183 for the year ended June 30, 2017 and 2016 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
2018	$ 240,273	$ (8,183)	$ 232,090
2019	248,738	(8,183)	240,555
2020	257,195	(8,183)	249,012
2021	266,563	(8,183)	258,380
2022	275,954	(8,183)	267,771
Thereafter	2,553,589	(64,100)	2,489,489
Total	$ 3,842,312	$ (105,015)	$ 3,737,297

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

Note 9 - Commitments and Contingency

Operating leases

The Museum has entered into various equipment agreements expiring through November 2021. The following is a schedule of future minimum lease payments required under operating leases that have terms in excess of one year at June 30, 2017:

Year Ending June 30,	Amount
2018	$ 21,457
2019	21,457
2020	20,286
2021	17,724
	$ 80,924

Rent expense on the above agreements amounted to $35,978 and $31,816 for the years ended June 30, 2017 and 2016, respectively.

Note 9 - Commitments and Contingency (Con'd)

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 is 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.

Note 10 - Concentrations

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

This funding represented the following percentage of total support and revenue, excluding net realized and unrealized gains on investments, as follows for the years ended:

	June 30,	
	2017	2016
Government and foundation grants	13%	10%
Public, corporate and individual donors	22%	49%
Membership dues	8%	5%

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

	June 30,	
	2017	2016
Government and foundation grants	4%	3%
Public, corporate and individual donors	94%	94%

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of:

	June 30,	
	2017	2016
Curatorial and education activities	$ 1,009,204	$ 1,412,183

Net assets released from restrictions in 2017 amounted to $536,878 due to satisfaction of specific program requirements.

Note 12 - Permanently Restricted Net Assets

Permanently restricted net assets are held for curatorial and education activities in the amount of $680,045 and $474,011 for the years ended June 30, 2017 and 2016, respectively. A portion of the investment income from these funds is allocated to temporarily restricted net assets annually based on donor stipulations. The principal balance of these funds may not be used without donor consent.

Note 13 - In-Kind Contribution

The Federal Council on the Arts and Humanities approved the Museums request for federal indemnity for the *Matisse and American Art* exhibition under the Arts and Artifacts Indemnity Act. The indemnification is to protect the Museum against loss or damage for eligible art works, artifacts, and objects within the traveling exhibition. The value for this service for the fiscal year ended June 30, 2017 was determined by management to be $220,000 and is included in donation revenue and insurance expense in the financial statements. The Museum also received donated services and assistance from an appraiser with its Arts and Artifacts Indemnity Program application. The value for this service for the fiscal year ended June 30, 2017 was determined by management to be $15,000 and is included in donation revenue and professional services in the financial statements.

SUPPLEMENTARY INFORMATION

THE MONTCLAIR ART MUSEUM
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	Program Services:					Supporting Services:			Total	
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	2017	2016
Salaries and wages	$ 640,052	$ 744,881	$ 26,732	$ 142,153	$ 1,553,818	$ 167,972	$ 305,196	$ 473,168	$ 2,026,986	$ 2,034,702
Pension plan contributions	6,094	5,098	216	270	11,678	3,430	3,021	6,451	18,129	14,380
Other employee benefits	33,556	28,006	1,376	2,585	65,523	20,716	9,383	30,099	95,622	98,814
Payroll taxes	58,366	68,386	3,171	11,550	141,473	18,409	28,821	47,230	188,703	201,390
Total personnel services	738,068	846,371	31,495	156,558	1,772,492	210,527	346,421	556,948	2,329,440	2,349,286
Cost of goods sold				60,807	60,807				60,807	28,046
Facilities, equipment and telephone	126,951	138,552	25,782	33,045	324,330	25,858	16,706	42,564	366,894	405,309
Insurance	293,117	34,901	6,361	7,951	342,330	14,987	6,818	21,805	364,135	129,986
Interest and other financing fees						145,840		145,840	145,840	162,303
Marketing, printing, photography and publications	95,992	49,815	25,676	6,012	177,495	601	6,502	7,103	184,598	118,284
Miscellaneous	17,972	18,039	3,318	3,897	43,226	20,075	1,369	21,444	64,670	71,671
Postage, shipping and transportation	169,981	14,526	16,805	492	201,804	926	4,177	5,103	206,907	135,375
Professional and other services	240,292	259,132	37,555	22,615	559,594	58,671	53,572	112,243	671,837	524,572
Special events							303,300	303,300	303,300	255,223
Supplies and special program supplies	52,766	83,912	20,347	7,068	164,093	15,597	22,432	38,029	202,122	172,966
Total expenses before depreciation and amortization	1,735,139	1,445,248	167,339	298,445	3,646,171	493,082	761,297	1,254,379	4,900,550	4,353,021
Depreciation and amortization	201,502	201,502	40,300	50,375	493,679	5,038	5,037	10,075	503,754	471,629
Total expenses	$ 1,936,641	$ 1,646,750	$ 207,639	$ 348,820	$ 4,139,850	$ 498,120	$ 766,334	$ 1,264,454	$ 5,404,304	$ 4,824,650

SEE INDEPENDENT AUDITORS' REPORT

THE MONTCLAIR ART MUSEUM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass-through Entity's ID Number	Contract Number	Amount Expended	Pass-through to Subrecipients
National Endowment for the Arts:					
Passed-through New Jersey State Council On the Arts:					
Promotion of the Arts-Grants to Organizations and Individuals	45.024	N/A	16-4100-7045	$ 40,000	$ -
Total expenditures of federal awards				$ 40,000	$ -

THE MONTCLAIR ART MUSEUM
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2017

State Grantor/ Pass-through Grantor/ Program Title	Contract Number	Contract Period	Amount Expended
State of New Jersey Department of State			
New Jersey State Council on the Arts:			
General Operating Support	1705X010125	07/01/16-06/30/17	$ 298,817
Total expenditures of state awards			$ 298,817

THE MONTCLAIR ART MUSEUM
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
JUNE 30, 2017

Note 1 - General

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state financial assistance programs of The Montclair Art Museum. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the New Jersey State Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. All federal and state financial assistance received directly from federal and state agencies, as well as financial assistance passed through other government agencies is included on the appropriate schedules. Because these schedules present only a selected portion of the operations of The Museum, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Museum.

Note 2 - Basis of Accounting

The accompanying schedules of expenditures of federal and state awards are presented using the accrual basis of accounting which is described in Note 1 to the financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and New Jersey State Circular 15-08-OMB, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Federal and State Financial Reports

The regulations and guidelines governing the preparation of federal and state financial reports vary by federal and state agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal and state financial reports do not necessarily agree with the amounts reported in the accompanying schedules of expenditures of federal and state awards, which is prepared on the accrual basis explained in Note 1.

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

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, 2017, 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 September 29, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

To the Board of Trustees of
The Montclair Art Museum

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.

Nisivoccia LLP

Mt. Arlington, New Jersey
September 29, 2017

THE MONTCLAIR ART MUSEUM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

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 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.

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.

Findings and Responses for Federal Awards:

- None noted

Findings and Responses for State Awards:

- None noted

THE MONTCLAIR ART MUSEUM
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2017

Status of Prior Year Findings:

There were no audit findings in the prior year.

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

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, 2017 and have issued our report thereon dated September 29, 2017.

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, 2017 Final Report Form submitted to the New Jersey State Council on the Arts for grants indicated on the Schedules of Expenditures of Federal and State Awards requires adjustment. However, our audit was not directed primarily toward obtaining knowledge of any misstatements.

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

Mt. Arlington, New Jersey
September 29, 2017

Nisivoccia LLP