THE MONTCLAIR ART MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2014

(With Comparative Totals for 2013)

THE MONTCLAIR ART MUSEUM
TABLE OF CONTENTS
JUNE 30, 2014 AND 2013

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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, 2014, 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 auditor's 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, 2014 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited The Montclair Art Museum's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey State Circular 04-04-OMB, *Single Audit Policy for Recipients of Federal Grants, State 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 October 15, 2014, 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
October 15, 2014

Nisivoccia LLP

THE MONTCLAIR ART MUSEUM
STATEMENT OF FINANCIAL POSITION

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	$ 390,111	$ 1,067,445
Cash - restricted	23,344	79,822
Accounts receivable	69,208	56,677
Inventories, catalogs and brochures	52,126	66,003
Grants receivable	115,993	37,044
Pledges receivable, net	3,086,473	3,235,313
Prepaid expenses and other current assets	120,034	18,527
Investments, at market value	10,121,797	8,693,739
Investments, at market value - restricted	1,082,991	757,621
Buildings, grounds and equipment, at cost, net of accumulated depreciation	10,543,012	10,895,901
Bond financing costs, net of accumulated amortization	129,564	36,642
Total assets	$ 25,734,653	$ 24,944,734
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 430,689	$ 376,941
Deferred revenue	349,298	320,742
Note payable	20,800	
Economic Development Authority Bonds	4,514,759	4,460,000
Total liabilities	5,315,546	5,157,683
Net assets:		
Unrestricted:		
Undesignated	7,933,228	9,067,881
Board designated	10,676,454	9,550,073
Temporarily restricted	1,351,681	712,606
Permanently restricted	457,744	456,491
Total net assets	20,419,107	19,787,051
Total liabilities and net assets	$ 25,734,653	$ 24,944,734

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

THE MONTCLAIR ART MUSEUM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Support, revenue and gains:					
Grants	$ 631,472	$ 169,500		$ 800,972	$ 673,956
Donations	1,159,347	573,877		1,733,224	1,759,751
Membership dues	312,118			312,118	379,107
Art school tuition	742,139			742,139	662,883
Education programs	149,323			149,323	104,530
Curatorial programs	2,985			2,985	25,514
Admission fees	49,584			49,584	110,236
Special events	916,622			916,622	384,290
Interest income	9			9	8
Income from investments	249,772	21,125	$ 1,253	272,150	140,462
Net realized and unrealized gain on investments	1,004,210	65,939		1,070,149	493,216
Sales of merchandise	78,534			78,534	197,726
Rental income	117,184			117,184	187,714
Other revenue	915			915	1,825
Net assets released from restrictions	191,366	(191,366)			
Total support, revenue and gains	5,605,580	639,075	1,253	6,245,908	5,121,218
Expenses:					
Program services:					
Curatorial	1,458,088			1,458,088	1,544,149
Education	1,696,893			1,696,893	1,528,063
Membership	192,495			192,495	291,261
Store	335,417			335,417	392,252
Total program services	3,682,893			3,682,893	3,755,725
Supporting services:					
Management	583,525			583,525	538,966
Fundraising	889,538			889,538	734,762
Total supporting services	1,473,063			1,473,063	1,273,728
Total expenses and gains	5,155,956			5,155,956	5,029,453
Change in net assets before changes related to collection items not capitalized	449,624	639,075	1,253	1,089,952	91,765
Net proceeds from sale or (acquisitions) of collection items	(457,896)			(457,896)	(34,277)
Change in net assets	(8,272)	639,075	1,253	632,056	57,488
Net assets, beginning of year	18,617,954	712,606	456,491	19,787,051	19,729,563
Net assets, end of year	$ 18,609,682	$ 1,351,681	$ 457,744	$ 20,419,107	$ 19,787,051

THE MONTCLAIR ART MUSEUM
STATEMENT OF CASH FLOWS

	Year ended June 30, 2014	2013
Operating activities:		
Change in net assets	$ 632,056	$ 57,488
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	478,795	478,414
Unamortized bond financing costs charged to interest expense	36,642	
Net realized and unrealized gain on investments	(1,070,149)	(493,216)
Interest and dividends restricted for long-term investment	(1,253)	(895)
Donated securities	(70,310)	
Changes in operating assets and liabilities:		
Accounts receivable	(12,531)	(30,023)
Inventories, catalogs and brochures	13,877	(11,339)
Grants receivable	(78,949)	2,914
Pledges receivable	148,840	360,752
Prepaid expenses and other current assets	(101,507)	41,848
Accounts payable and accrued expenses	53,748	99,975
Deferred revenue	28,556	(27,233)
Net cash provided by operating activities	57,815	478,685
Investing activities:		
Capital expenditures	(98,542)	(117,063)
Acquisition of investments	(6,063,332)	(8,767,302)
Proceeds from maturity/sale of investments	5,450,363	4,284,360
Net cash used in investing activities	(711,511)	(4,600,005)
Financing activities:		
Proceeds from issuance of Series 2014 bonds	4,549,200	
Payments for bond-related financing costs	(130,928)	
Principal payments of bonds payable	(34,441)	
Repayment of Series 2000 bonds	(4,460,000)	(800,000)
Principal payments of note payable	(5,200)	(9,482)
Interest and dividends restricted for permanent reinvestment	1,253	895
Net cash used in financing activities	(80,116)	(808,587)
Net decrease in cash and cash equivalents	(733,812)	(4,929,907)
Cash and cash equivalents, beginning of year	1,147,267	6,077,174
Cash and cash equivalents, end of year	$ 413,455	$ 1,147,267
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 202,542	$ 221,292
Supplemental disclosures of noncash activity:		
Unrealized gain (loss) on investments	$ 876,660	$ (549,418)
Fixed assets acquired by issuance of note payable	$ 26,000	$ -
Donated securities	$ 70,310	$ -

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

THE MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1- Organization and Summary of Significant Accounting Policies

Organization

The Montclair Art Museum (the "Museum") 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

As the Montclair Art Museum approaches its Centennial in 2014, we seek to elevate our profile as a nationally recognized leader of mid-sized, regional art museums. Valuing diversity, innovation, and the importance of art to society, we will invigorate our curatorial presentations, expand our educational mission, promote greater connections to our community, engage in fruitful partnerships that reach deep into our region and beyond, embrace new media and technologies, pursue responsible facilities management and environmental impact, and secure our financial stability.

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 are 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 for 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.

Net Assets

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

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

Net Assets (Cont'd)

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.

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

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

Revenue and Support Recognition (Cont'd)

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 $23,344 and $79,822 of restricted cash as of June 30, 2014 and 2013, respectively. The funds are restricted for educational and curatorial program activities.

Inventories

Inventories consist 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 pledges in the amount of $16,250 at June 30, 2014 and 2013, 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 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 *Accounting for the Impairment or Disposal of Long-Lived Assets.*

Investments

The Museum records investments in accordance with *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

Fair Value Measurements

In accordance with FASB ASC Topic 820, *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 assets 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.

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

Fair Value Measurements (Cont'd)

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 820 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.

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

Fair Value Measurements (Cont'd)

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, 2014 and 2013.

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. However, the Museum believes it can obtain similar loans at similar terms; therefore the Museum has determined it 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 at year end.

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.

U.S. government 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. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Museum's investments and the amounts reported in the statement of financial position and the statement of activities.

Management reviews 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, 2014.

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

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, 2013, from which the summarized information was derived.

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.

Bond Financing Costs

Loan financing costs are amortized over the term of the bond. Amortization expense charged to operations for the years ended June 30, 2014 and 2013 was $1,364 and $5,361, respectively.

Advertising

It is the Museum's policy to expense advertising costs as incurred. Advertising expense for the years ended June 30, 2014 and 2013 was $81,451 and $91,923 respectively.

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

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, 2014. 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. The Museum is subject to examinations at any time within three years from the latest filing date for federal and four years from the latest filing date for 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. Management 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.

New Pronouncements

In October 2012, the FASB issued ASU 2012-05 which provides guidance on the classification of the sale proceeds of donated financial assets in the statement of cash flows in the financial statements of a not-for-profit organization. The cash receipts from the sale of those financial assets which are directed without any limitations imposed by the organization and converted nearly immediately to cash should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities.

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

New Pronouncements (Cont'd)

Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit organization. The guidance is effective for fiscal years beginning after June 15, 2013. For fiscal years beginning before October 22, 2012, early adoption is permitted only if a not-for-profit organization's financial statements for those fiscal years within those years have not yet been made available for issuance. The adoption of the guidance did not have a material effect on the Museum's business, financial position, results of operations or liquidity

In February 2013, the FASB issued ASU 2013-03 which amended its guidance regarding the applicability of fair value disclosures to nonpublic entities. The requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3) does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. The amendments in the pronouncements, which are effective upon release of the standard, affect nonpublic entities that have total assets of $100 million or more or that have one or more derivative instruments.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after June 30, 2014 through the date of the auditors' report and the date of issuance on October 15, 2014. 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, 2014 and 2013, are as follows:

	June 30,	
	2014	2013
Receivable in less than one year	$ 1,250,963	$ 548,090
Receivable in one to five years	1,910,000	2,830,000
Less: discount to net present value at 2%, respectively	(58,240)	(126,527)
Less: allowance for uncollectible pledges	(16,250)	(16,250)
Net unconditional pledges receivable	$ 3,086,473	$ 3,235,313

During the year ended June 30, 2013, the Museum has received indication of a gift in the form of a bequest which is revocable during the donor's lifetime. In addition, during the year ended June 30, 2014, a contributor has agreed to contribute $500,000, conditional upon certain matching requirements. Due to the uncertain nature of these intentions, the Museum has not recognized an asset or contribution revenue for the gifts. The estimated total of intentions to give approximated $750,000 at June 30, 2014.

Note 3 - Buildings, Grounds and Equipment

Buildings, grounds and equipment at June 30, 2014 and 2013, are comprised of the following:

	Estimated Useful Lives	June 30, 2014	June 30, 2013
Grounds		$ 132,700	$ 132,700
Buildings	25-40 years	16,016,492	15,972,611
Equipment	3-10 years	2,542,981	2,460,956
		18,692,173	18,566,267
Less: accumulated depreciation		8,149,161	7,670,366
		$ 10,543,012	$ 10,895,901

Total depreciation expense charged to operations for the years ended June 30, 2014 and 2013 was $477,431and $473,053 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.

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

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 proceeding 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, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds		$ 684,594	$ 457,744	$ 1,142,338
Board-designated endowment funds	$ 10,676,454			10,676,454
Total funds	$ 10,676,454	$ 684,594	$ 457,744	$11,818,792

Changes in endowment net assets as of June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets:				
Beginning of year	$ 9,550,073	$ 375,791	$ 456,491	$10,382,355
Contributions	950,735	251,290		1,202,025
Investment income	249,772	21,125	1,253	272,150
Net appreciation	921,763	65,939		987,702
Amounts appropriated for expenditure	(995,889)	(29,551)		(1,025,440)
End of year	$ 10,676,454	$ 684,594	$ 457,744	$11,818,792

THE MONTCLAIR ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

Note 5 - Investments

Investments at June 30, 2014 and 2013 are comprised of the following:

	June 30, 2014			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	$ 70,154	$ 91,824		$ 21,670
Communications	52,540	58,487		5,947
Consumer non-cyclical	655,223	715,918		60,695
Consumer cyclical	955,148	1,042,875		87,727
Energy	569,275	668,765		99,490
Financials	961,482	1,079,895		118,413
Health care	420,091	487,289		67,198
Industrials	509,193	651,098		141,905
Technology	825,583	964,195		138,612
Utilities	453,752	525,160		71,408
Total	5,472,441	6,285,506		813,065
Fixed income securities:				
Corporate debt	2,760,998		$ 2,773,625	12,627
US government and its agencies	4,421		5,409	988
Total	2,765,419		2,779,034	13,615
Mutual funds:				
Equity funds	917,914	1,054,363		136,449
Fixed income - taxable funds	709,327	706,950		(2,377)
Balanced funds	317,422	378,935		61,513
Total	1,944,663	2,140,248		195,585
	$ 10,182,523	$ 8,425,754	$ 2,779,034	$ 1,022,265

	June 30, 2013			
	Cost	Fair Value (Level 1)	Fair Value (Level 2)	Unrealized Gain (Loss)
Equity securities (by sector):				
Basic materials	$ 111,192	$ 111,249		$ 57
Communications	66,076	65,881		(195)
Consumer non-cyclical	470,414	486,712		16,298
Consumer cyclical	386,947	433,873		46,926
Energy	296,820	278,672		(18,148)
Financials	620,118	663,546		43,428
Health care	314,036	378,633		64,597
Industrials	416,523	489,982		73,459
Technology	330,414	338,553		8,139
Utilities	502,646	511,422		8,776
Total	3,515,186	3,758,523		243,337
Fixed income securities:				
Corporate debt	2,464,058		$ 2,415,826	(48,232)
US government and its agencies	5,848		7,016	1,168
Total	2,469,906		2,422,842	(47,064)
Mutual funds:				
Equity funds	1,850,545	1,781,889		(68,656)
Fixed income - taxable funds	1,180,828	1,167,970		(12,858)
Balanced funds	308,106	320,136		12,030
Total	3,339,479	3,269,995		(69,484)
	$ 9,324,571	$ 7,028,518	$ 2,422,842	$ 126,789

Note 5 - Investments (Cont'd)

The Museum had restricted investments in 2014 and 2013, in the amount of $1,082,991 and $757,621, respectively.

Return on investments at June 30, 2014 and 2013, is comprised of the following:

	Year Ended June 30,	
	2014	2013
Interest and dividend income	$ 272,150	$ 140,462
Realized gain on investments	193,489	1,042,634
Unrealized gain (loss) on investments	876,660	(549,418)
Total return on investments	$ 1,342,299	$ 633,678

Note 6 - Tax Sheltered Annuity Plan

The Museum maintains an annuity plan for the benefit of all employees with over one year's employment. The plan allows employees to make tax deferred contributions which are used to purchase annuity contracts from an insurance company. The Museum will match the employees' contributions up to a maximum of 3% and 2% as June 30, 2014 and 2013, respectively. 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, 2014 and 2013, the Museum did not make a discretionary contribution to the plan.

Annuities are payable to the participant under various options beginning on the employee's normal retirement date. The Museum may terminate this arrangement with the insurance company by notification in writing and the termination will be effective as of the date of the notice. Termination of the plan will not affect amounts due participants under the plan. During the years ended June 30, 2014 and 2013, the Museum contributed $18,104 and $13,852 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 $20,800 at June 30, 2014.

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.

Note 8 - Bonds and Derivatives (Cont'd)

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 proceeds of the 2014 Series were used to refund the 2000 Series and pay part of the issuance costs related thereto. 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.

Annual principal payments on the bond obligation are as follows:

Year Ending June 30,	Amount
2015	$ 216,581
2016	223,811
2017	232,097
2018	240,274
2019	248,740
Thereafter	3,353,256
Total	$4,514,759

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 report, 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 December 2014. 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, 2014:

Year Ending June 30,	Amount
2015	$ 29,018
2016	28,022
2017	28,022
2018	28,022

Rent expense on the above agreements amounted to $24,750 and $26,535 for the years ended June 30, 2014 and 2013, respectively.

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.

Note 9 - Commitments and Contingency (Cont'd)

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 as 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,	
	2014	2013
Government, corporate and foundation grants	15%	14%
Public, corporate and individual donors	33%	38%
Membership dues	6%	8%

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

	June 30,	
	2014	2013
Government, corporate and foundation grants	4%	1%
Public, corporate and individual donors	94%	97%

Note 11- Temporarily restricted net assets

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

	June 30,	
	2014	2013
Curatorial and education activities	$ 1,351,681	$ 712,606

Net assets released from restrictions in 2014 amounted to $191,366 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 $457,744 and $456,491 for the years ended June 30, 2014 and 2013, 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.

SUPPLEMENTARY INFORMATION

THE MONTCLAIR ART MUSEUM
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	Program Services:					Supporting Services:			Total	
	Curatorial	Education	Membership	Store	Total	Management	Fundraising	Total	2014	2013
Salaries and wages	$ 638,631	$ 714,612	$ 20,786	$ 124,747	$ 1,498,776	$ 162,389	$ 343,197	$ 505,586	$ 2,004,362	$ 1,792,964
Pension plan contributions	9,265	3,869	213	266	13,613	2,123	2,368	4,491	18,104	13,850
Other employee benefits	50,761	26,208	1,531	4,041	82,541	11,902	6,973	18,875	101,416	91,401
Payroll taxes	55,208	71,254	3,374	11,247	141,083	18,200	34,514	52,714	193,797	206,803
Total personnel services	753,865	815,943	25,904	140,301	1,736,013	194,614	387,052	581,666	2,317,679	2,105,018
Cost of goods sold				60,179	60,179				60,179	118,991
Facilities, equipment and telephone	137,843	149,975	27,889	35,528	351,235	21,958	14,540	36,498	387,733	470,808
Insurance	44,073	23,826	4,493	5,617	78,009	9,857	11,751	21,608	99,617	94,534
Interest and other financing fees						202,542		202,542	202,542	259,610
Marketing, printing, photography and publications	50,443	79,369	31,386	11,671	172,869	917	7,964	8,881	181,750	183,901
Miscellaneous	20,601	41,386	4,175	4,382	70,544	1,909	4	1,913	72,457	64,660
Postage, shipping and transportation	74,806	38,976	10,168	1,661	125,611	4,331	6,701	11,032	136,643	206,495
Professional and other services	142,876	274,608	21,288	24,448	463,220	137,379	23,837	161,216	624,436	634,580
Special events							368,803	368,803	368,803	197,396
Supplies and special program supplies	42,063	81,292	28,888	3,751	155,994	5,230	64,098	69,328	225,322	215,046
Total expenses before depreciation and amortization	1,266,570	1,505,375	154,191	287,538	3,213,674	578,737	884,750	1,463,487	4,677,161	4,551,039
Depreciation and amortization	191,518	191,518	38,304	47,879	469,219	4,788	4,788	9,576	478,795	478,414
Total expenses	$ 1,458,088	$ 1,696,893	$ 192,495	$ 335,417	$ 3,682,893	$ 583,525	$ 889,538	$ 1,473,063	$ 5,155,956	$ 5,029,453

THE MONTCLAIR ART MUSEUM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass-through Grantor's Number	Contract Number	Amount Expended
National Endowment for the Arts:				
Passed-through New Jersey State Council On the Arts:				
Promotion of the Arts-Partnership Agreements	45.025	N/A	1405X010037	$ 10,000
Total expenditures of federal awards				$ 10,000

THE MONTCLAIR ART MUSEUM
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2014

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	1405X010037	07/01/13-06/30/14	$ 261,652
The New Jersey Cultural Trust:			
Institutional and Financial Stabilization	14CULT504AFS	11/07/13-11/07/14	12,320
Total expenditures of state awards			$ 273,972

SEE INDEPENDENT AUDITORS' REPORT AND NOTES TO THE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

THE MONTCLAIR ART MUSEUM
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
JUNE 30, 2014

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. All 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.

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.

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.

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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, 2014, 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 October 15, 2014.

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.

Mt. Arlington, New Jersey
October 15, 2014

Nisivoccia LLP

THE MONTCLAIR ART MUSEUM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

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, 2014

Status of Prior Year Findings:

There were no audit findings in the prior year.

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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, 2014 and have issued our report thereon dated October 15, 2014.

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, 2014 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
October 15, 2014

Nisivoccia LLP