

NEW JERSEY SYMPHONY ORCHESTRA

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

JUNE 30, 2018 AND 2017



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

NEW JERSEY SYMPHONY ORCHESTRA

JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
New Jersey Symphony Orchestra
Newark, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the New Jersey Symphony Orchestra (“Organization”), a nonprofit organization, which comprise the statements of financial position as of June 30, 2018, and the related statements of activities and changes in net assets 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 auditors consider internal control relevant to the Organization’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 Organization’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 Organization as of June 30, 2018, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards on page 21, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget (“NJOMB”) Circular Letter 15-08, is presented for purposes of additional analysis and is 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. The accompanying schedule of functional expenses, on page 20, which is “unaudited” and the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information marked “unaudited” has not been subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018, on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sobel & Co, LLC

Certified Public Accountants

Livingston, New Jersey
September 14, 2018

NEW JERSEY SYMPHONY ORCHESTRA
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 600	\$ 600
Restricted cash and investments	8,461,296	9,328,742
Grants receivable	250,000	265,235
Unconditional promises to give, net	5,135,155	2,970,394
Prepaid expenses	288,722	178,454
Other receivables	274,845	397,392
Property and equipment, net	140,393	144,794
Music library, less accumulated amortization of \$418,050 and \$407,625, respectively	110,053	113,603
Funds held in trust	124,450	113,298
	<u>\$ 14,785,514</u>	<u>\$ 13,512,512</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$ 1,673,780	\$ 1,055,943
Deferred revenue	1,787,650	1,760,566
Total Liabilities	<u>3,461,430</u>	<u>2,816,509</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	(8,976,357)	(8,022,060)
Temporarily restricted	3,735,886	2,151,765
Permanently restricted	16,564,555	16,566,298
Total Net Assets	<u>11,324,084</u>	<u>10,696,003</u>
	<u>\$ 14,785,514</u>	<u>\$ 13,512,512</u>

NEW JERSEY SYMPHONY ORCHESTRA
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
(With Summarized Comparative Totals for the Year Ended June 30, 2017)

	Year Ended June 30, 2018			2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Changes in Unrestricted Net Assets:				
Operating Revenues:				
Performance revenue	\$ 3,493,255	\$ -	\$ -	\$ 3,493,255
Education and community engagement	270,160	-	-	270,160
Total Operating Revenues	3,763,415	-	-	3,815,575
Operating Expenses:				
Program costs	10,639,162	-	-	10,639,162
General and administrative	1,511,438	-	-	1,358,332
Total Operating Expenses	12,150,600	-	-	11,491,934
Loss from Operations	(8,387,185)	-	-	(7,676,359)
Supplemental Income:				
Government grants	1,000,000	-	-	1,060,940
Interest and dividend income	-	100,893	-	106,483
Other revenue	11,461	-	-	14,074
Realized gain on investments	-	693,896	-	1,319,259
Unrealized (loss) gain on investments	-	(30,847)	-	34,131
Donated materials, facilities and services	233,173	-	-	250,842
	1,244,634	763,942	-	2,785,729
Fundraising:				
Annual giving	5,041,631	2,775,915	-	3,575,856
Endowment contributions	-	-	13,839	5,220
Change in discount	-	-	(15,582)	8,319
Special events	853,982	-	-	1,080,391
Net assets released from restrictions	1,955,736	(1,955,736)	-	-
	7,851,349	820,179	(1,743)	4,669,786
Fundraising expenses	1,663,095	-	-	1,381,531
Fundraising, Net	6,188,254	820,179	(1,743)	3,288,255
Supplemental Income, Net	7,432,888	1,584,121	(1,743)	6,073,984
Changes in Net Assets	(954,297)	1,584,121	(1,743)	(1,602,375)
Net Assets - Beginning of year	(8,022,060)	2,151,765	16,566,298	12,298,378
Net Assets - End of year	\$ (8,976,357)	\$ 3,735,886	\$ 16,564,555	\$ 10,696,003

NEW JERSEY SYMPHONY ORCHESTRA
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2018	2017
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 628,081	\$ (1,602,375)
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Depreciation and amortization	35,502	34,381
Bad debt expense	54,545	10,496
Deferred rent	(1,229)	(68,176)
Investment (gains)/losses:		
Realized	(693,896)	(1,319,259)
Unrealized	30,847	(34,131)
Funds held in trust	(11,152)	(12,878)
Changes in certain assets and liabilities:		
Grants receivable	15,235	13,959
Unconditional promises to give	(2,219,306)	1,219,333
Prepaid expenses	(110,268)	93,083
Other receivables	122,547	(98,841)
Accounts payable and accrued expenses	619,066	(85,777)
Deferred revenue	27,084	(41,402)
Net Cash Used for Operating Activities	<u>(1,502,944)</u>	<u>(1,891,587)</u>
<u>INVESTING ACTIVITIES:</u>		
Payments for purchase of property and equipment and music library	(27,551)	(84,083)
Sale of investments	2,516,623	5,266,100
Purchase of investments	(986,128)	(3,360,432)
Net Cash Provided by Investing Activities	<u>1,502,944</u>	<u>1,821,585</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	(70,002)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>600</u>	<u>70,602</u>
End of year	<u>\$ 600</u>	<u>\$ 600</u>

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - NATURE OF ORGANIZATION:

New Jersey Symphony Orchestra (“NJSO” or “Organization”) is a New Jersey not-for-profit organization whose purpose is to engage the public by performing classical music at the highest caliber in a variety of settings for diverse audiences.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:

The financial statements 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:

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations and currently available for use by the Organization’s Board of Trustees.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash Equivalents:

NJSO considers all highly liquid debt instruments with an original maturity of less than three months to be cash equivalents.

Restricted Cash and Investments:

Restricted cash and investments have been either temporarily or permanently restricted by donors.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value:

Fair value measurements are defined as the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data.
- Level 3:** Valuations based on unobservable inputs that are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Property and Equipment:

Property and equipment is stated at cost or fair market value, at date of gift for donated assets. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from five to ten years.

Music Library:

NJSO's music library was valued by an independent appraiser and recorded at the resulting fair value due to a lack of historical cost information. Subsequent additions have been recorded at cost. Although the value of the library may increase, the applicable sheet music is subject to physical deterioration and, accordingly, is being depreciated over a 25-year period.

Revenue Recognition:

Revenues are recorded in the period of the applicable performance. Subscriptions received for subsequent concert seasons are recorded as deferred subscription revenue. Costs applicable to the generation of such revenue are included in prepaid expenses and are amortized over the subsequent concert season. Grant income is recognized in the fiscal year earned. Additionally, contributions and other income are recognized as revenue when the contributions are given.

Deferred Rent:

The Organization recognizes rent expense on the straight-line basis for financial reporting purposes. The difference between cash payments and expenses are included in accounts payable and accrued expenses as deferred rent.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Advertising:

NJSO uses advertising to promote its programs among the audiences it serves and expenses them as incurred. Advertising expense for the years ended June 30, 2018 and 2017, was approximately \$410,274 and \$511,392, respectively, and is included in the statement of functional expenses as marketing and promotion, and printing expenses.

Restricted and Unrestricted Revenue:

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted net assets are available for periods after June 30, 2018. Permanently restricted net assets are restricted to endowments to be held indefinitely, with no restriction on the use of income. NJSO has received permission from certain donors to borrow against permanently restricted net assets for operating purposes.

Donated Materials, Facilities, and Services:

Significant materials, facilities and services are donated to the Organization by various individuals and other organizations. Donated materials, facilities and services for the years ended June 30, 2018 and 2017, were \$233,173 and \$250,842, respectively. Donated materials, facilities and services are recorded at their estimated fair value at the date of donation, and have been included in revenue and expenses for the respective years.

Uncollectible Pledges:

The Organization charges off unconditional promises to give when they are determined to be uncollectible. During the years ended June 30, 2018 and 2017, the Organization determined that uncollectible amounts totaled approximately \$54,545 and \$10,496, respectively. Allowances are estimates based on management's evaluation of outstanding pledges and consideration of historical write-off activity. These unconditional promises to give were charged off as uncollectible pledges in the statements of activities and changes in net assets.

Investments:

Investment income is presented net of investment advisory/management fees in the statements of activities and changes in net assets. All investment income is credited directly to unrestricted net assets unless otherwise restricted by the donor. All capital appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. All investments are carried at fair value with the related gains and losses included in the statements of activities and changes in net assets, respectively.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes:

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not liable for federal and state income taxes.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during 2018 and 2017. At June 30, 2018 and 2017, there are no significant income tax uncertainties.

Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's best estimates and judgment. Actual results could differ from those estimates.

Financial Statement Reporting for Nonprofits:

The Financial Accounting Standards Board issued an accounting pronouncement, *Presentation of Financial Statements of Not-for-Profit Entities*, that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. It also requires the Organization to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending June 30, 2019. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Summarized Comparative Information:

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 Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events:

The Organization has evaluated its subsequent events and transactions occurring after June 30, 2018 through September 14, 2018, the date that the financial statements were available to be issued.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS:

Restricted cash and investments at fair value are summarized as follows:

**FAIR VALUE MEASUREMENTS
AS OF JUNE 30, 2018**

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Restricted cash	\$ 46,282	\$ -	\$ -	\$ 46,282
Money market	1,979,811	-	-	1,979,811
Mutual funds	4,992,309	-	-	4,992,309
United States Treasury Bills	-	1,442,894	-	1,442,894
Investments at Fair Value	\$ 7,018,402	\$ 1,442,894	\$ -	\$ 8,461,296

**FAIR VALUE MEASUREMENTS
AS OF JUNE 30, 2017**

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Restricted cash	\$ 46,107	\$ -	\$ -	\$ 46,107
Money market	2,142,824	-	-	2,142,824
Certificates of deposit	-	50,154	-	50,154
Mutual funds	7,089,657	-	-	7,089,657
Investments at Fair Value	\$ 9,278,588	\$ 50,154	\$ -	\$ 9,328,742

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - RESTRICTED CASH AND INVESTMENTS: (Continued)

Summary of mutual fund strategies is as follows:

	June 30,	
	2018	2017
World stock	0 %	14 %
Large-cap growth	17 %	14 %
Large-cap blend	19 %	22 %
Large-cap value	13 %	8 %
Small growth	10 %	7 %
Small-cap blend	11 %	8 %
Pacific/Asia ex-Japan stock	12 %	9 %
Foreign large-cap blend	18 %	18 %
Total Mutual Funds	<u>100 %</u>	<u>100 %</u>

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give are comprised of the following:

	June 30,	
	2018	2017
Receivable in less than one year	\$ 2,893,422	\$ 1,363,945
Receivable in one to five years	1,975,000	1,246,420
Receivable in more than five years	500,000	500,000
	<u>5,368,422</u>	<u>3,110,365</u>
Less: Discounts to net present value	(183,799)	(119,668)
Less: Allowance for uncollectible promises	(49,468)	(20,303)
Unconditional Promises to Give, Net	<u>\$ 5,135,155</u>	<u>\$ 2,970,394</u>

Unconditional promises to give in more than one year are discounted at 2.19% and 1.64% at June 30, 2018 and 2017, respectively.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment is as follows:

	June 30,	
	2018	2017
Sound stage	\$ 418,831	\$ 418,831
Office equipment	160,301	160,301
Musical instruments	138,378	136,624
Scenery and props	84,535	84,535
Leasehold improvements	13,172	4,747
Furniture and other equipment	290,903	280,404
	<u>1,106,120</u>	<u>1,085,442</u>
Less: Accumulated depreciation	965,727	940,648
Property and Equipment, Net	<u>\$ 140,393</u>	<u>\$ 144,794</u>

NOTE 6 - RETIREMENT PLANS:

Defined-benefit, Multiemployer Pension Plan:

NJSO participates in a defined-benefit, multiemployer pension plan with the American Federation of Musicians and Employers' Pension Fund ("Plan") covering all eligible musicians. The Plan covers all eligible employees in which the participant earns \$750 in covered earnings by an employer who is required to make contributions to the Plan. Pension expense for this Plan for the years ended June 30, 2018 and 2017, was approximately \$365,203 and \$343,804, respectively, included in employee benefits on the schedules of functional expenses.

The Plan is a multiemployer plan and the individual information for each employer is not available. The actuarial information for the Plan as of March 31, 2017, indicates that the Plan is in "critical" status, as defined in the Pension Protection Act of 2006, because the Plan's actuary determined that the Plan is projected to have an accumulated funding deficiency over the next nine years due to a projected deficiency for the Plan-year ending March 31, 2019. The assumed rate of return used in determining actuarial values to present accumulated benefits was 7.50%. The actuarial information stated that there was a change from the prior year in actuarial assumptions (change in mortality assumption table and the current liability interest rate), but no changes in treatment of actuarial gains and losses, cost methods, or amortization of past or prior service cost. The Entry Age Normal actuarial cost method is used in the actuarial valuation; amortization of gains and losses is over ten years; and the amortization of past or prior service cost is ten years.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - RETIREMENT PLANS: (Continued)

Defined-benefit, Multiemployer Pension Plan: (Continued)

The Plan contributes, on behalf of Plan employees, to a defined-benefit, multiemployer pension plan. The risks of participating in this multiemployer pension plan are different from the risks of participating in single-employer pension plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of the participating employers.
- If a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers.
- If NJSO chooses to stop participating in its multiemployer pension plan, NJSO may be required to pay the Plan an amount based on the unfunded status of the Plan, referred to as a withdrawal liability.

NJSO’s participation in the multiemployer plan for the years ended March 31, 2017 and 2016, is outlined in the following table. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three-digit plan number, if applicable. The most recent “Pension Protection Act” zone status available is for the year beginning April 1, 2016. Among other factors, plans in the red zone are generally less than 65% funded or projected to have a deficit in their funding standard account within 4 years, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “RP Implemented” column indicates plans for which a rehabilitation plan (“RP”) is either pending or has been implemented. The last column lists the expiration date of the participation agreement to which plan contributions are subject.

<u>Pension Fund</u>	<u>EIN/ Pension Plan Number</u>	<u>Pension Protection Act Zone</u>		<u>Rehabilitation Plan Implemented</u>	<u>Contributions for the Year Ended</u>		<u>Surcharge Imposed</u>	<u>Expiration Date of Participation Agreement</u>
		<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>		
American Federation of Musicians and Employers’ Pension Fund	51-6120204-001	Red	Red	Yes	\$423,718	\$423,376	N/A	N/A

The information for this fund was obtained from the Form 5500 filed for the Plan’s year-end at March 31, 2017 and 2016, and the notes to the March 31, 2017 and 2016, consolidated financial statements.

Noncontributory, Defined-contribution Plan

NJSO has a noncontributory, defined-contribution plan for its nonunion employees who have met the Plan’s eligibility requirements. For the years ended June 30, 2018 and 2017, contributions amounted to approximately \$46,978 and \$52,911, respectively, included in employee benefits on the schedules of functional expenses.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

Musicians Agreement:

The NJSO has a master labor agreement with the Musicians Guild of Essex County, Local #16, American Federation of Musicians (representing approximately 65% of NJSO's employees) and the Organization's Orchestra Committee. This agreement, effective from September 1, 2017 through August 31, 2022, guarantees the aggregate minimum for 64 contract musicians for the year ended June 30, 2018, at approximately \$2.35 million. The musician's contract was negotiated and ratified by the Board of Trustees and Orchestra in January 2018. NJSO's other employees are not represented by a union.

Leases:

NJSO had an operating lease for administrative office space which expired in July of 2017. The lease called for monthly rental payments that ranged from approximately \$10,000 to \$22,000 over the term of the lease. A new lease was entered into in August of 2017. Monthly payments range from approximately \$15,000 to \$17,000 through September 30, 2024. Total office rent expense amounts to \$225,073 and \$311,685 for the years ended June 30, 2018 and 2017, respectively.

Future minimum rental payments under the lease are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 186,480
2020	201,280
2021	204,240
2022	204,240
2023	204,240
Thereafter	238,280
Total	<u>\$ 1,238,760</u>

Total rent expense for concert halls was approximately \$616,545 and \$613,801 for the years ended June 30, 2018 and 2017, respectively.

The Organization has various office equipment leases under operating leases that expire at various dates through 2022.

Future minimum operating lease payments are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 11,440
2020	11,440
2021	8,830
2022	518
Total	<u>\$ 32,228</u>

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - COMMITMENTS AND CONTINGENCIES: (Continued)

Leases: (Continued)

Total rent expense for the various equipment was approximately \$28,405 and \$26,127 for the years ended June 30, 2018 and 2017, respectively.

Employment Agreements:

NJSO has entered into an agreement with the Music Director/Conductor for the period from September 1, 2016 through August 31, 2024. The agreement provides for subscription and music directorship program fees as approved by the Board of Trustees.

NJSO has also entered into an agreement with the President/Chief Executive Officer for the period from October 1, 2016 through June 30, 2019. The agreement provides for a base salary and additional benefits as approved by the Board of Trustees.

NJSO has the right to terminate the agreements at any time for cause, or if for reasons other than cause, upon notice of not less than three months.

NOTE 8 - SIGNIFICANT RISKS AND UNCERTAINTIES:

The Organization maintains its funds at financial institutions which, at times, may exceed federally insured limits.

NOTE 9 - CONDITIONAL PROMISES TO GIVE:

The Organization was named as a beneficiary of various revocable trusts and, as such, the grantors may rescind the promise to give at any time. Since these promises to give do not meet the criteria for revenue recognition they are not reflected as a contribution in the statements of activities and changes in net assets until the promise to give is collected or becomes irrevocable.

NOTE 10 - NEW JERSEY CULTURAL TRUST:

The Organization was a recipient of a grant from the New Jersey Cultural Trust (“NJCT”), which concluded in 2016. The grant provided that contributions made to the Organization that are submitted to NJCT for matching funds, and that are certified by NJCT, are to be held in perpetuity in the endowment and classified as permanently restricted net assets. Additionally, the matching funds received by the Organization from the NJCT were to be classified as permanently restricted. The Organization had submitted to NJCT for matching funds contributions totaling \$6,529,983, which were certified by the NJCT.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 - NEW JERSEY CULTURAL TRUST: (Continued)

Through June 30, 2018, a total of \$1,305,997 has been received by the Organization in matching funds from the NJCT, and these matching funds are included in permanently restricted net assets.

NOTE 11 - ENDOWMENT FUNDS:

The Organization follows accounting standards that provide clarification on accounting for donor-restricted endowment funds. The guidance prescribes that the portion of donor-restricted endowment funds that are classified as permanently restricted should not be reduced by losses on the investment of the fund or an organization's appropriations from the fund.

The Board of Trustees' interpretation requires 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, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the program
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (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 Organization
- (7) The investment policies of the Organization

The Board of Trustees' primary objective, in this regard, is to add value and minimize risk in managing the assets of the fund while providing a hedge against inflation into the future. It is the intent of the Board of Trustees to grow the endowment and utilize the total return (income plus capital change) to further the mission of the Organization. In recognition of the prudence required of fiduciaries, reasonable diversification of quality investment securities will be sought where possible, knowing that fluctuating rates of return are a characteristic of the investment market and performance cycles cannot be accurately predicted. The funds may be held in individual securities or mutual funds, may be comprised of domestic and international securities, and will be further diversified into asset classes by their market capitalization.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 - ENDOWMENT FUNDS: (Continued)

It is the policy of the Organization to spend, on an annual basis, a maximum of 4% of the average endowment balance over the prior 20 quarters.

Endowment Net Asset Composition by Type of Fund is as follows as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowment Funds	\$ (7,303,259)	\$ -	\$ 16,564,555	\$ 9,261,296

Changes in Endowment Net Assets, including Board-designated Funds for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ (6,387,556)	\$ -	\$ 16,566,298	\$ 10,178,742
Investment Return:				
Investment income	-	100,893	-	100,893
Net depreciation (realized and unrealized)	-	663,049	-	663,049
Investment Gain, Net	-	763,942	-	763,942
Contributions	-	-	13,839	13,839
Change in discount			(15,582)	(15,582)
Appropriation for expenditure	(915,703)	(763,942)	-	(1,679,645)
Endowment Net Assets, End of year	\$ (7,303,259)	\$ -	\$ 16,564,555	\$ 9,261,296

Endowment Net Asset Composition by Type of Fund is as follows as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowment Funds	\$ (6,387,556)	\$ -	\$ 16,566,298	\$ 10,178,742

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 - ENDOWMENT FUNDS: (Continued)

Changes in Endowment Net Assets, including Board-designated Funds for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	\$ (5,771,739)	\$ -	\$ 16,552,759	\$ 10,781,020
Investment Return:				
Investment income	-	106,483	-	106,483
Net depreciation (realized and unrealized)	-	1,353,390	-	1,353,390
Investment Loss, Net	-	1,459,873	-	1,459,873
Contributions	-	-	5,220	5,220
Change in discount			8,319	8,319
Appropriation for expenditure	(615,817)	(1,459,873)	-	(2,075,690)
Endowment Net Assets, End of year	\$ (6,387,556)	\$ -	\$ 16,566,298	\$ 10,178,742

NOTE 12 - CONCENTRATIONS OF CREDIT RISK:

Financial instruments which potentially subject the Organization to significant concentrations of credit risk consist principally of cash and receivables.

The Organization maintains cash and cash equivalent balances at several financial institutions which in some instances may exceed insured limits.

One vendor represented 45% and two vendors represented 47% of the Organization's accounts payables for the years ended June 30, 2018 and 2017, respectively. In addition, three constituents represented 56% and four constituents 67% of unconditional promises to give for the years ended June 30, 2018 and 2017, respectively.

Two sources represented 15% of the Organization's total revenue for the years ending June 30, 2018 and 2017, respectively, including a government grant and individual pledge.

NEW JERSEY SYMPHONY ORCHESTRA
SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNCTIONAL EXPENSES - UNAUDITED
(With Summarized Comparative Totals for the Year Ended June 30, 2017)

	Year Ended June 30, 2018				2017
	Program	General and Administrative	Fundraising	Total	Total
Compensation	\$ 5,337,141	\$ 590,330	\$ 682,888	\$ 6,610,359	\$ 6,059,315
Artistic and professional fees	939,861	254,127	325,623	1,519,611	1,222,724
Payroll taxes	612,252	46,162	71,766	730,180	695,733
Employee benefits	1,332,836	54,300	76,591	1,463,727	1,335,890
Supplies	15,928	3,527	4,193	23,648	23,702
Insurance	-	92,078	-	92,078	95,977
Printing	136,100	-	13,473	149,573	139,662
Rent	617,040	225,073	-	842,113	932,142
Telephone	10,437	21,179	-	31,616	37,853
Postage	128,037	4,427	18,266	150,730	136,616
Maintenance, repairs and equipment rentals	122,429	75,986	20,020	218,435	177,437
Travel	445,868	26,561	80,271	552,700	559,418
Marketing and promotion	631,925	10,298	126,983	769,206	852,219
Library	96,321	-	-	96,321	70,401
Special events	-	-	215,302	215,302	273,267
Depreciation and amortization	27,217	7,342	943	35,502	34,381
Provision for uncollectible pledges	-	54,545	-	54,545	10,496
Banking and financing fees	-	6,445	-	6,445	4,731
Electronic media	53,423	-	-	53,423	25,950
Miscellaneous	132,347	39,058	26,776	198,181	185,551
	\$ 10,639,162	\$ 1,511,438	\$ 1,663,095	\$ 13,813,695	\$ 12,873,465

NEW JERSEY SYMPHONY ORCHESTRA
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2018

Agency Grantor/Program Title	Grant/Contract Number	Expenditures
New Jersey State Department Council on the Arts	1502X010078	<u>\$ 1,000,000</u>

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
JUNE 30, 2018

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of state awards includes the state grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUBRECIPIENTS:

During the year ended June 30, 2018, the Organization did not provide any funds relating to their state program to subrecipients.

NOTE 3 - INDIRECT COSTS:

The Organization did not elect to use the de minimis cost rate when allocating indirect costs to the state program.

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of June 30, 2018, the Organization did not have any federal loan or loan guarantee programs.

**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
New Jersey Symphony Orchestra
Newark, New Jersey

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 New Jersey Symphony Orchestra (“Organization”), a nonprofit organization, which comprise the statement of financial position as of June 30, 2018, the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’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 Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 Organization’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 Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Sobel & Co, LLC

Certified Public Accountants

Livingston, New Jersey
September 14, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND NEW JERSEY OMB CIRCULAR LETTER 15-08

To the Board of Trustees
New Jersey Symphony Orchestra
Newark, New Jersey

Report on Compliance for the Major State Program

We have audited the New Jersey Symphony Orchestra's ("Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJOMB") Circular Letter 15-08 that could have a direct and material effect on the Organization's major state program for the year ended June 30, 2018. The Organization's major state program is identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and the NJOMB Circular Letter 15-08. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major State Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with Uniform Guidance and the NJOMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and the NJOMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

Sobel & Co, LLC

Certified Public Accountants

Livingston, New Jersey
September 14, 2018

NEW JERSEY SYMPHONY ORCHESTRA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on the basic financial statements of the New Jersey Symphony Orchestra was an unmodified opinion.

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

State Financial Assistance

Internal control over the major program:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes No

The auditors' report issued on compliance for the major program was an unmodified opinion.

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and NJ OMB Circular Letter 15-08

Yes No

The following program was designated as a major program:

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Name of State Program or Cluster</u>
N/A	1502X010078	New Jersey State Council on the Arts

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? Yes No

II. Financial Statement Finding

NONE

III. Compliance Finding

NONE

NEW JERSEY SYMPHONY ORCHESTRA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

IV. Prior Audit Findings

NONE