

NEW JERSEY SYMPHONY ORCHESTRA

FINANCIAL STATEMENTS

FOR THE PERIOD FROM JULY 1, 2020 THROUGH AUGUST 31, 2020



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

NEW JERSEY SYMPHONY ORCHESTRA

AUGUST 31, 2020

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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 statement of financial position as of August 31, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the period from July 1, 2020 to August 31, 2020, 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 August 31, 2020, and the changes in its net assets and its cash flows for the period from July 1, 2020 to August 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Livingston, New Jersey
January 12, 2021

Sobel & Co, LLC

Certified Public Accountants

NEW JERSEY SYMPHONY ORCHESTRA
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2020

ASSETS

Cash and cash equivalents	\$	1,344,232
Restricted cash and investments		5,333,914
Unconditional promises to give, net		3,549,984
Prepaid expenses		502,640
Other receivables		31,980
Property and equipment, net		125,693
Music library, less accumulated amortization of \$440,543		97,585
Funds held in trust		161,482
		<hr/>
	\$	11,147,510
		<hr/> <hr/>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$	339,447
Deferred revenue		1,319,758
Refundable advance		1,698,900
Funds held for others		29,151
Total Liabilities		<hr/>
		3,387,256
		<hr/>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Without donor restrictions		(2,419,565)
With donor restrictions		10,179,819
Total Net Assets		<hr/>
		7,760,254
		<hr/>
	\$	11,147,510
		<hr/> <hr/>

NEW JERSEY SYMPHONY ORCHESTRA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
PERIOD FROM JULY 1, 2020 TO AUGUST 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Changes in Net Assets without Donor Restrictions:			
Operating Revenues:			
Performance revenue	\$ 690	\$ -	\$ 690
Education and community engagement	2,000	-	2,000
Total Operating Revenues	2,690	-	2,690
Operating Expenses:			
Program costs	907,960	-	907,960
General and administrative	249,150	-	249,150
Total Operating Expenses	1,157,110	-	1,157,110
Loss from Operations	(1,154,420)	-	(1,154,420)
Supplemental Income:			
Interest and dividend income	-	1,019	1,019
Other revenue	16,758	-	16,758
Unrealized gain on investments	-	1,307	1,307
Donated materials, facilities and services	24,820	-	24,820
	41,578	2,326	43,904
Fundraising:			
Annual giving	134,129	507,370	641,499
Endowment contributions	-	30,000	30,000
Change in discount	-	23	23
Net assets released from restrictions	1,805,316	(1,805,316)	-
	1,939,445	(1,267,923)	671,522
Fundraising Expenses:	196,382	-	196,382
Fundraising, Net	1,743,063	(1,267,923)	475,140
Supplemental Income, Net	1,784,641	(1,265,597)	519,044
Changes in Net Assets	630,221	(1,265,597)	(635,376)
Net Assets - Beginning of period	(3,049,786)	11,445,416	8,395,630
Net Assets - End of period	\$ (2,419,565)	\$ 10,179,819	\$ 7,760,254

NEW JERSEY SYMPHONY ORCHESTRA
SUPPLEMENTARY INFORMATION
STATEMENT OF FUNCTIONAL EXPENSES
PERIOD FROM JULY 1, 2020 TO AUGUST 31, 2020

	Program	General and Administrative	Fundraising	Total
Compensation	\$ 489,706	\$ 98,757	\$ 107,095	\$ 695,558
Artistic and professional fees	63,048	35,730	41,520	140,298
Payroll taxes	60,523	7,483	10,826	78,832
Employee benefits	213,665	18,734	17,090	249,489
Supplies	90	587	227	904
Insurance	-	20,462	-	20,462
Printing	-	-	189	189
Rent	-	36,550	-	36,550
Telephone	539	2,949	-	3,488
Postage	4,513	338	587	5,438
Maintenance, repairs and equipment rentals	2,182	15,916	6,632	24,730
Marketing and promotion	49,088	-	4,248	53,336
Library	12,298	-	-	12,298
Depreciation and amortization	6,358	1,804	297	8,459
Provision for uncollectible pledges	-	(5,115)	-	(5,115)
Banking and financing fees	-	1,053	-	1,053
Miscellaneous	5,950	13,902	7,671	27,523
	\$ 907,960	\$ 249,150	\$ 196,382	\$ 1,353,492

NEW JERSEY SYMPHONY ORCHESTRA
STATEMENT OF CASH FLOWS
PERIOD FROM JULY 1, 2020 TO AUGUST 31, 2020

CASH FLOWS USED FOR:

OPERATING ACTIVITIES:

Changes in net assets	\$ (635,376)
Adjustments to reconcile changes in net assets to net cash used for operating activities:	
Depreciation and amortization	8,459
Bad debt recovery	(5,115)
Deferred rent	(846)
Investment gains:	
Unrealized	(1,307)
Funds held in trust	(16,113)
Changes in certain assets and liabilities:	
Unconditional promises to give	235,517
Prepaid expenses	382,329
Other receivables	32,682
Accounts payable and accrued expenses	(280,724)
Deferred revenue	(136,044)
Funds held for others	7,398
Net Cash Used for Operating Activities	<u>(409,140)</u>

INVESTING ACTIVITIES:

Sale of investments	<u>1,751,929</u>
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NET INCREASE IN

CASH AND CASH EQUIVALENTS	1,342,789
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CASH AND CASH EQUIVALENTS:

Beginning of period	<u>1,443</u>
End of period	<u>\$ 1,344,232</u>

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

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.

In the current year, the Organization changed its year end from June 30th to August 31st, and therefore this financial statement represents the two months of activity from July 1, 2020 to August 31, 2020. The Organization changed its fiscal year to more closely align with the timing of the performance season. The financial statements represent the period from July 1, 2020 to August 31, 2020.

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:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - 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. Also included in this classification are 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

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 restricted by donors either for a specified purpose or perpetually.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

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

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.

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.

Uncollectible Unconditional Promises to Give:

The Organization charges off unconditional promises to give when they are determined to be uncollectible. During the period from July 1, 2020 through August 31, 2020, the Organization determined that uncollectible amounts previously written off, but now collectible, totaled \$(5,115). Allowances are estimates based on management's evaluation of outstanding pledges and consideration of historical write-off activity. These unconditional promises to give were taken in as revenue in the statement of activities and changes in net assets.

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.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

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

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.

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.

Funds Held for Others:

In January 2020, the NJSO entered into an agreement with El Sistema New Jersey Alliance ("Alliance") to provide administrative support services, including receiving and distributing funds on behalf of the Alliance in support of its activities. In conjunction with this relationship, NJSO has included \$29,151 in funds held for others at August 31, 2020, that belongs to the Alliance.

Revenue Recognition:

The Organization derives a portion of its revenue from performance revenue. Revenues are recognized at a point in time when the performances are provided by the Organization, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for providing the performance. There are no significant financing components or variable considerations provided to the attendees. 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. In the case of postponed or canceled concerts, as has occurred since March 2020 due to the COVID-19 pandemic, the Organization has reflected ticket donations as fundraising income at the time of the donation, and monies left on account are reflected as deferred revenue.

Revenue With and Without Donor Restrictions:

Contributions are recognized as revenue when the contributions are given. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

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

Revenue With and Without Donor Restrictions: (Continued)

Net assets with donor restrictions are either available for periods after August 31, 2020, or 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 the endowment for operating purposes. Grant revenue is recognized in the fiscal year it is earned.

Underwater Endowment Funds:

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization complies with the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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 two month period ended August 31, 2020, was \$24,820. Donated materials, facilities and services are recorded at their estimated fair value at the date of donation.

Advertising:

NJSO uses advertising to promote its programs among the audiences it serves and expenses them as incurred. Advertising expense for the two month period ended August 31, 2020 was approximately \$21,900 and is included in the statement of functional expenses as marketing and promotion, and printing expenses.

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 for the two month period ended August 31, 2020. At August 31, 2020, there are no significant income tax uncertainties.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

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

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.

Functional Allocation of Expenses:

Costs of providing the Organization's programs, management and general, and fundraising activities are separately summarized in the statement of functional expenses. Accordingly, certain costs have been allocated among program services, management and general, and fundraising activities benefited. Management and general costs include those expenses that are not directly identifiable with any other specific function but do provide for the overall support and direction of the Organization. Library, special events, and provision for uncollectible pledges are directly expensed to their functional activity. All other expenses are allocated amongst the functional activities based on a combination of direct costing and time and effort.

Recent Accounting Pronouncements:

The FASB issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Under this pronouncement, a modified retrospective transition approach is required, and the new standard is applied to all leases existing at the date of the initial application. The effective date for the pronouncement is for periods beginning after December 15, 2021. The Organization is currently evaluating the effect the new standard will have on the financial statements

Subsequent Events:

The Organization has evaluated its subsequent events and transactions occurring after August 31, 2020 through January 12, 2021 the date that the financial statements were available to be issued.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

NOTE 3 - RESTRICTED CASH AND INVESTMENTS:

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

FAIR VALUE MEASUREMENTS			
AS OF AUGUST 31, 2020			
	LEVEL 1	LEVEL 2	TOTAL
Restricted cash	\$ 46,536	\$ -	\$ 46,536
Money market	3,217,102	-	3,217,102
Certificate of deposit	-	2,070,276	2,070,276
Investments at Fair Value	\$ 3,263,638	\$ 2,070,276	\$ 5,333,914

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give are comprised of the following:

	August 31, 2020
Receivable in less than one year	\$ 1,370,677
Receivable in one to five years	1,930,450
Receivable in more than five years	400,000
	3,701,127
Less: Discounts to net present value	(111,917)
Less: Allowance for uncollectible promises	(39,226)
Unconditional Promises to Give, Net	\$ 3,549,984

Unconditional promises to give in more than one year are discounted at 1.57% August 31, 2020.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and equipment is as follows:

	August 31, 2020
Sound stage	\$ 418,831
Office equipment	87,531
Musical instruments	156,275
Scenery and props	86,686
Leasehold improvements	15,072
Furniture and other equipment	230,478
	<hr/> 994,873
Less: Accumulated depreciation	869,180
Property and Equipment, Net	<hr/> \$ 125,693 <hr/>

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 two month period ended August 31, 2020, was \$38,492, included in employee benefits on the statement 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, 2019, 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 related to the mortality projection scale which was changed from MP-2015 to MP-2017 to reflect recent plan experience. 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
AUGUST 31, 2020

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, 2019 and 2018, 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, 2017. 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.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone		Rehabilitation Plan Implemented	Contributions for the Two Month Period Ended August 31 2019	Surcharge Imposed	Expiration Date of Participation Agreement
		2018	2017				
American Federation of Musicians and Employers’ Pension Fund	51-6120204-001	Red	Red	Yes	\$38,492	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, 2019 and 2018, and the notes to the March 31, 2019 and 2018, consolidated financial statements.

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

NOTE 6 - RETIREMENT PLANS: (Continued)

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 two month period ended August 31, 2020, contributions amounted to \$7,027, respectively, included in employee benefits on the statement of functional expenses.

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 and minimum number of services and compensation per year per musician. The musician's contract was negotiated and ratified by the Board of Trustees and Orchestra in May 2018. During 2020, the parties entered into two Side Letters modifying the guarantee for the year ended June 30, 2020 (executed in March and May, 2020) and an additional Side Letter altering terms for the upcoming fiscal year, executed in September 2020. This resulted in a minimum salary of \$2.05 million to musicians for the two month period ended August 31, 2020. NJSO's other employees are not represented by a union.

Leases:

NJSO has an operating lease for administrative office space which expires in 2024. Monthly payments range from approximately \$15,000 to \$17,000 through September 30, 2024. Total office rent expense amounts to \$36,550 for the two month period ended August 31, 2020.

Future minimum rental payments under the lease are as follows:

Fiscal Year Ending	
August 31,	
2021	\$ 204,240
2022	204,240
2023	204,240
2024	204,240
Total	<u>\$ 816,960</u>

There was no rent expense for concert halls for the period ended August 31, 2020.

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

NEW JERSEY SYMPHONY ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

NOTE 7 - COMMITMENTS AND CONTINGENCIES: (Continued)

Leases: (Continued)

Future minimum operating lease payments relating to office equipment leases is \$7,442 for the two month period ending August 31, 2021.

Total rent expense for the various equipment was \$3,639 for the two month period ended August 31, 2020.

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, 2022. 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 - CONDITIONAL PROMISES TO GIVE:

The Organization has been 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 statement of activities and changes in net assets until the promise to give is collected or becomes irrevocable. As of August 31, 2020, \$9,814,533 has been raised for planned giving related to the endowment, and \$3,075,000 has been raised for planned giving for operations. The Organization has also raised \$910,405 in conditional pledges for operations, whereby certain conditions must be met before the amounts can be recognized in the statement of activities and changes in net assets.

NOTE 9 - 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
AUGUST 31, 2020

NOTE 9 - NEW JERSEY CULTURAL TRUST: (Continued)

Through August 31, 2020, 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 10 - 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 net assets with donor restrictions 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 net assets with donor restrictions the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment 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.

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.

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NOTE 10 - ENDOWMENT FUNDS: (Continued)

Endowment net asset composition by type of fund is as follows as of August 31, 2020:

	Perpetual in Nature (Endowments)	Purpose Restrictions	Underwater Endowments	Total
Donor-restricted endowments	\$ 17,431,393	\$ -	\$ (11,187,074)	\$ 6,244,319

Funds with Deficiencies:

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) to permit spending from underwater endowments in accordance with prudent measures required under law.

At August 31, 2020, funds with deficiencies of \$11,187,074 were reported in net assets with donor restrictions.

	August 31, 2020
Fair value of endowment funds	\$ 6,244,319
Original endowment gift amount	17,431,393
Deficiencies of endowment funds	\$ (11,187,074)

Spending Policy:

For the two month period ended August 31, 2020, the Organization may distribute the interest of the endowment investment portfolio value each year, as approved by the Finance Committee.

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NOTE 10 - ENDOWMENT FUNDS: (Continued)

Changes in endowment net assets for the two month period ended August 31, 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	\$ -	\$ 8,017,286	\$ 8,017,286
Investment return, net	-	2,326	2,326
Contributions	-	30,000	30,000
Change in discount	-	23	23
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,805,316)	(1,805,316)
Endowment net assets, August 31, 2020	<u>\$ -</u>	<u>\$ 6,244,319</u>	<u>\$ 6,244,319</u>

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS:

	August 31, 2020
Net Assets with Donor Restrictions:	
Restricted due to time	\$ 3,935,500
Restricted in perpetuity - Endowment	6,244,319
Total Net Assets with Donor Restrictions	<u>\$ 10,179,819</u>

Net assets released from restrictions was \$1,805,316 for the two month period ended August 31, 2020.

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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 32% of the Organization's accounts payables for the period ended August 31, 2020. In addition, three constituents represented 51% of unconditional promises to give for the period ended August 31, 2020.

NOTE 13 - REFUNDABLE ADVANCE:

The Organization obtained a Paycheck Protection Program ("PPP") loan under the CARES Act in April 2020 for \$1,698,900. The loan is to provide the Organization with working capital for the purpose of maintaining employment levels and paying occupancy costs during a stay-at-home period ordered by the governor of New Jersey. Paycheck Protection Program loans may be forgiven in part or in whole if the borrower maintains its employee count, as well as salary levels, during a specified period. The Organization expects to receive full forgiveness of the loan based on the criteria for forgiveness.

Any portion of the loan that is not forgiven must be repaid. Loan payments, if any, are deferred under the PPP Flexibility Act, which extends the deferral period until the date the lender receives the applicable forgiven amount from the Small Business Administration, which is not to exceed 10 months after the covered period, and are payable with interest at 1%, through 2022. The loan is uncollateralized and guaranteed by the Small Business Administration.

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NOTE 14 - LIQUIDITY AND AVAILABILITY:

The following represents the Organization's financial assets at August 31, 2020, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside by the Board that could be drawn upon if the Board of Trustees approves that action.

	August 31, 2020
Cash and cash equivalents	\$ 1,344,232
Unconditional promises to give, net	3,549,984
Other receivables	31,980
Total financial assets	<u>4,926,196</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(3,935,500)
Estimated donor restricted releases	<u>1,370,677</u>
	<u>(2,564,823)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 2,361,373</u>

Endowment funds, including restricted cash and investments, consist of donor-restricted endowments and are not available for general expenditure.

The Organization has goals to maintain financial assets sufficient to meet operating expenses as they become due throughout the year. The Organization is currently engaged in a capital campaign to raise additional funds for operating purposes.

NOTE 15 - RISKS AND UNCERTAINTIES:

The Organization is actively monitoring the recent COVID-19 outbreak and its potential impact on its employees, volunteers, donors, and operations. It is not known at this time how much effect the virus will have on the employees, donors and operations. It is not known at this time how much effect the virus will have on operations and/or financial results. The potential impact of COVID-19 is not foreseeable due to various uncertainties, including the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities.