

**SOUTH ORANGE PERFORMING  
ARTS CENTER, INC.**

**Financial Statements  
June 30, 2014 and 2013**

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
South Orange Performing Arts Center, Inc.  
South Orange, New Jersey

We have audited the accompanying statements of financial position of South Orange Performing Arts Center, Inc. as of June 30, 2014 and 2013, and the related statements of activities, cash flows and functional expenses for the years then ended.

### **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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Orange Performing Arts Center, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Spire Group, PC*

Clark, New Jersey  
November 10, 2014

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Statements of Financial Position  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 87,358	\$ 104,812
Accounts receivable - net	70,206	47,665
Pledges receivable - net	63,660	140,450
Prepaid expenses and other current assets	18,454	18,741
Property and equipment - net	<u>3,110</u>	<u>10,564</u>
<b>Total Assets</b>	<u>\$ 242,788</u>	<u>\$ 322,232</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 144,281	\$ 139,386
Deferred revenue	<u>28,592</u>	<u>153,712</u>
<b>Total Liabilities</b>	<u>172,873</u>	<u>293,098</u>
<b>Net Assets</b>		
Unrestricted net assets	<u>69,915</u>	<u>29,134</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 242,788</u>	<u>\$ 322,232</u>

See accompanying notes.

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Statements of Activities  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Support and Revenue</b>		
Support		
Individual contributions	\$ 333,085	\$ 572,949
Gala and special events	78,826	13,705
Corporate contributions	18,722	16,123
Foundation grants	39,500	19,680
Government grants	65,000	4,751
Government contributions and subsidies	324,018	286,167
Donations in kind	<u>325,485</u>	<u>-</u>
Total support	<u>1,184,636</u>	<u>913,375</u>
Revenue		
Performance revenues	809,350	511,054
Ticket processing fees	94,302	77,082
Rental revenue and CAM – Bow Tie Cinemas	224,214	266,251
Mainstage rental	134,372	87,616
Mainstage rental – Seton Hall University	197,816	180,000
Loft rental	135,183	121,887
Concession and merchandise sales	46,424	17,523
Investment and other revenues	<u>1,286</u>	<u>735</u>
Total revenue	<u>1,642,947</u>	<u>1,262,148</u>
<b>Total Support and Revenue</b>	<u>2,827,583</u>	<u>2,175,523</u>
<b>Expenses</b>		
Program services	2,099,129	1,937,632
Management and general	494,697	532,765
Fundraising	<u>192,976</u>	<u>178,713</u>
<b>Total Expenses</b>	<u>2,786,802</u>	<u>2,649,110</u>
<b>Change in Net Assets Before Extraordinary Item</b>	<u>40,781</u>	<u>(473,587)</u>
<b>Extraordinary Item - Transfer of Assets and Liabilities to the Township of South Orange Village</b>	-	3,152,121
<b>Net Assets (Deficit) - Beginning of Years</b>	<u>29,134</u>	<u>(2,649,400)</u>
<b>Net Assets - End of Years</b>	<u>\$ 69,915</u>	<u>\$ 29,134</u>

See accompanying notes.

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Statements of Cash Flows  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 40,781	\$ 2,678,534
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	10,103	418,438
Bad debts	21,498	18,035
(Gain) on sale of securities	(127)	(642)
Value of donated securities	(15,660)	(51,765)
Forgiveness of debt by Township of South Orange Village	-	(3,152,121)
Change in operating assets and liabilities		
Accounts receivable	(44,039)	(31,920)
Prepaid expenses and other current assets	288	(6,842)
Pledges receivable	76,790	(144,810)
Accounts payable and accrued expenses	4,894	242,033
Deferred revenue	(125,120)	57,294
<b>Net Cash (Used) Provided by Operating Activities</b>	<u>(30,592)</u>	<u>26,234</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of equipment	(2,649)	-
Proceeds from sale of investments	15,787	52,407
<b>Net Cash Provided by Investing Activities</b>	<u>13,138</u>	<u>52,407</u>
<b>Net Change in Cash and Cash Equivalents</b>	(17,454)	78,641
<b>Cash and Cash Equivalents - Beginning of Years</b>	<u>104,812</u>	<u>26,171</u>
<b>Cash and Cash Equivalents - End of Years</b>	<u>\$ 87,358</u>	<u>\$ 104,812</u>
<b>Supplementary Information</b>		
<b>Noncash Activities</b>		
Transfer of assets to Township of South Orange Village	\$ -	\$ 12,356,757
Forgiveness of debt by Township of South Orange Village	\$ -	\$ (15,304,348)
Donation in kind by the Township of South Orange Village	\$ 310,890	\$ -
<b>Cash paid for</b>		
Interest	\$ 4	\$ 1,689
Taxes	\$ -	\$ -

See accompanying notes.

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Statements of Functional Expenses  
For the Years Ended June 30, 2014 and 2013**

	2014				2013			
	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising	Total
Production costs	\$ 807,607	\$ -	\$ -	\$ 807,607	\$ 585,050	\$ -	\$ -	\$ 585,050
Salaries and wages	355,834	299,671	84,447	739,952	275,997	271,555	92,065	639,617
Payroll taxes and benefits	68,899	32,052	16,337	117,288	43,626	32,569	15,214	91,409
Marketing	199,460	-	-	199,460	214,430	-	-	214,430
Special events	-	-	63,556	63,556	-	-	-	-
Professional fees	65,800	88,470	1,935	156,205	-	123,205	38,675	161,880
Occupancy costs	432,411	10,419	-	442,830	120,076	4,955	1,239	126,270
Office & technology	88,708	25,348	6,574	120,630	14,430	14,220	4,879	33,529
Telephone/internet	12,453	12,453	4,054	28,960	13,722	13,523	4,639	31,884
Insurance	17,785	2,820	1,084	21,689	52,196	8,498	2,710	63,404
Miscellaneous	40,574	23,056	14,888	78,518	16,059	45,813	15,108	76,980
Bow Tie Cinema pass-thru	-	-	-	-	204,530	-	-	204,530
Interest	-	4	-	4	-	1,689	-	1,689
Depreciation	9,598	404	101	10,103	397,516	16,738	4,184	418,438
<b>Total</b>	<b>\$ 2,099,129</b>	<b>\$ 494,697</b>	<b>\$ 192,976</b>	<b>\$ 2,786,802</b>	<b>\$ 1,937,632</b>	<b>\$ 532,765</b>	<b>\$ 178,713</b>	<b>\$ 2,649,110</b>

See accompanying notes.



## **SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

### **Notes to Financial Statements June 30, 2014 and 2013**

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#### **Note 1 - Nature of the Organization and Summary of Significant Accounting Policies**

##### **Nature of the Organization**

South Orange Performing Arts Center, Inc. (the "Organization") is a not-for-profit organization incorporated under the law of the State of New Jersey.

The South Orange Performing Arts Center, in its intimate venue, connects audiences to artists through performances, partnerships and arts education activities that reflect the diversity of the region. The Center is committed to presenting superb cultural programming, the highest standards of financial and managerial excellence, and broad accessibility to the public. At the core of its mission, are the organization's goals to be a regional center for the performing and visual arts, and a catalyst for the economic vitality and growth of the Township of South Orange Village.

##### **Basis of Accounting**

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

##### **Classification of Net Assets**

Unrestricted net assets represent the portion of the Organization's net assets that are available for its general operations.

Temporarily restricted net assets have donor imposed restriction that permit the Organization to use up or expend the donated assets as specified and the restriction is satisfied either by the passage of time or by actions of the Organization. The Organization has no temporarily restricted net assets.

Permanently restricted net assets have donor imposed restrictions that neither expire by passage of time nor can be fulfilled by actions of the Organization. The Organization has no permanently restricted net assets.

##### **Support and Revenue**

Revenues are recognized as amounts are earned and are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations or temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

##### **Contributions**

The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

##### **Estimates and Uncertainties**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

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**Note 1 - Nature of the Organization and Summary of Significant Accounting Policies (Continued)**

**Concentration of Credit Risk**

Financial instruments which potentially subject the Organization to significant credit risk consist principally of cash and cash equivalents. The Organization maintains cash deposits with various financial institutions, which limits exposure to any one institution.

**Cash Equivalents**

Cash equivalents include money market funds and all other highly liquid short-term investments purchased with maturities of three months or less.

**Accounts Receivable**

Accounts receivable are recorded at cost. On a periodic basis, the Organization evaluates its accounts receivable to determine if any portion is uncollectible. Based upon prior collections history, management determines when and allowance for doubtful accounts is necessary.

**Promises to Give and Related Pledges Receivable**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions were 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.

**Property and Equipment**

Property and equipment are stated at cost if purchased, fair value if donated. Depreciation is computed when assets are placed in service, primarily on the straight-line method, over the following useful lives:

Furniture and office equipment	5 – 7 years
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**Long-Lived Assets**

Long-lived tangible assets subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceed their fair value as determined by an estimate of undiscounted future cash flow.

Losses on assets held for disposal are recognized when management has approved and committed to a plan to dispose of the assets, and the assets are available for disposal.

**Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Government Grants**

Government grants, which are awarded by agencies of municipal governments for specified program activities, generally provide for reimbursement to the Organization for both direct and indirect expenses. Such reimbursements are subject to subsequent reviews and renegotiations by the respective government agencies, and any changes in the amount of the reimbursements are recorded in the period when finally determined.

# SOUTH ORANGE PERFORMING ARTS CENTER, INC.

## Notes to Financial Statements June 30, 2014 and 2013

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### Note 1 - Nature of the Organization and Summary of Significant Accounting Policies (Continued)

#### Advertising

The Organization's policy is to expense advertising costs as incurred, which totaled \$188,799 and \$195,921 for the years ended June 30, 2014 and June 30, 2013, respectively.

#### Reclassification

Certain amounts previously reported have been reclassified to conform to current year presentation.

### Note 2 – Accounts Receivable

Accounts receivable consists of the following:

	<u>2014</u>	<u>June 30,</u> <u>2013</u>
Accounts receivable	\$ 71,426	\$ 63,950
Less: Allowance for doubtful accounts	<u>(1,220)</u>	<u>(16,285)</u>
Net	<u>\$ 70,206</u>	<u>\$ 47,665</u>

### Note 3 - Pledges Receivable

The following summarizes pledges receivable:

	<u>2014</u>	<u>June 30,</u> <u>2013</u>
Amounts due:		
Up to one year	\$ 63,660	\$ 152,200
One year to five years	<u>-</u>	<u>-</u>
Totals	63,660	152,200
Less: Allowance for uncollectible pledges	<u>-</u>	<u>(11,750)</u>
Net	<u>\$ 63,660</u>	<u>\$ 140,450</u>

## SOUTH ORANGE PERFORMING ARTS CENTER, INC.

### Notes to Financial Statements June 30, 2014 and 2013

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#### Note 4 - Property and Equipment

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 249,630	\$ 558,697
Less: accumulated depreciation	<u>(246,520)</u>	<u>(548,133)</u>
Totals	<u>\$ 3,110</u>	<u>\$ 10,564</u>

Depreciation expense for the years ended June 30, 2014 and 2013 totaled \$10,103 and \$418,438, respectively.

#### Note 5 - Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision or liability for income taxes has been recorded in the financial statements.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2014. The Organization's exempt from federal income tax return are no longer subject to examination by federal taxing authorities for years before 2011.

#### Note 6 - Tax Deferred Benefit 403[B] Plan

Beginning April 1, 2013, the Organization is offering all employees working 1,000 or more hours per year participation in a 403[B] plan. Discretionary matching contributions are allowed up to 1% of employee's elective deferrals and vest immediately. Contributions have been made to the plan for the years ended June 30, 2014 and June 30, 2013 totaling \$732 and \$86, respectively.

#### Note 7 - Revenue Concentration

The following represents significant revenue concentrations:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Village subsidy	11%	13%
In-Kind rental contribution	11%	-
Bow-Tie facility fees	10%	12%
One individual donor	4%	14%

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

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**Note 8 - Operating Lease Agreement**

On July 21, 2005, the Organization entered into a five year operating lease with the CCG Holdings, Inc. d.b.a Bow Tie Cinema for the rental of a portion of the theater facility.

In the first year of the agreement, payments under the lease consisted of fixed annual rents of \$176,068 plus common area maintenance payments of \$18,000 per annum. These amounts were to be adjusted annually based upon the Consumer Price Index. Two (2) five year options to extend the lease were available to the lessee. The lease was subsequently transferred to Bow Tie Cinemas, LLC.

For the years ended June 30, 2014 and June 30, 2013, the Organization collected \$224,214 and \$266,251, respectively, in rents and common area maintenance charges

For the years ended June 30, 2014 and June 30, 2013, the Organization also collected \$68,546 and \$72,937, respectively, from Bow Tie for shared utilities.

**Note 9 - Extraordinary Item**

On June 17, 2013, the Township of South Orange Village ("Township") adopted Ordinance #2012-11 approving a lease between the Township and the Organization and certain other related matters.

The Organization conveyed to the Township all improvements to the South Orange Performing Arts Center facility. The total book value of these assets, net of depreciation was \$ 12,356,757.

In exchange for these assets, the township cancelled all debts owed to them by the Organization. These debts included the following:

Mortgage note payable to the Township of South Orange Village, due on June 1, 2045	\$	9,347,304
Mortgage note payable to the Township of South Orange Village, due on July 23, 2010 bearing interest based upon rates of the underlying bond anticipation notes; payable in a balloon payment at maturity		3,624,984
Mortgage note payable to the Township of South Orange Village, due July 23, 2010 bearing interest based upon rates of the underlying bond anticipation notes, payable in a balloon payment		275,000
Deferred mortgage interest capitalized into the mortgage note payable on July 1, 2013		2,057,059
Pass through amounts owed to the Township of South Orange Village under the Bow Tie sublease agreement		204,530
Total debt cancelled by Township	\$	<u><u>15,508,877</u></u>

**SOUTH ORANGE PERFORMING ARTS CENTER, INC.**

**Notes to Financial Statements  
June 30, 2014 and 2013**

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**Note 9 - Extraordinary Item (Continued)**

The original ground lease between the Township and the Organization was cancelled and replaced with an Improvements Lease with nominal consideration to be paid by the Organization.

The Township negotiated a new triple net lease with the Organization, the term of which is fifty years, and expires June 30, 2063. The base rent is \$1.00 per year. Commencing July 1, 2018, the Organization shall pay to the Township additional rents equal to the rents collected by the Organization from the Bow Tie Lease.

**Note 10 - Subsequent Events**

The Organization has evaluated subsequent events through November 10, 2014, the date these financial statements were available to be issued.