



**FINANCIAL STATEMENTS**

JUNE 30, 2016

(With Independent Auditors' Report)

The State Theatre Regional Arts Center at New Brunswick

**THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.**

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June 30, 2016

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
The State Theatre Regional Arts Center at New Brunswick, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The State Theatre Regional Arts Center at New Brunswick, Inc. (the "Theatre") which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years 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 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 of 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.

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Auditors' Responsibility (Continued)

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 Theatre as of June 30, 2016 and 2015, and the changes in its net assets, results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Mercadieu, P.C.*

*Certified Public Accountants*

November 15, 2016

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 96,658	\$ 116,800
Investments	3,467,334	3,430,702
Receivables		
Accounts receivable, net	130,360	107,125
Pledges receivable, net	252,342	122,958
Grants receivable	354,336	73,711
Prepaid lease expense	1,110,000	-
Prepaid expenses and other current assets	<u>31,227</u>	<u>22,344</u>
Total current assets	5,442,257	3,873,640
Investments - restricted	1,549,049	1,547,934
Property and Equipment, net	<u>1,094,371</u>	<u>835,668</u>
Total Assets	<u>\$ 8,085,677</u>	<u>\$ 6,257,242</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 506,494	\$ 393,052
Advance ticket sales and deposits received	1,069,909	1,012,271
Line of credit	<u>2,073,226</u>	<u>598,189</u>
Total current liabilities	<u>3,649,629</u>	<u>2,003,512</u>
Net Assets		
Unrestricted	2,886,999	2,705,796
Temporarily restricted	368,446	367,381
Permanently restricted	<u>1,180,603</u>	<u>1,180,553</u>
Total Net Assets	<u>4,436,048</u>	<u>4,253,730</u>
Total Liabilities and Net Assets	<u>\$ 8,085,677</u>	<u>\$ 6,257,242</u>

**THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Years Ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support for Operations								
Earned income								
Presented events	\$ 6,094,997	\$ -	\$ -	\$ 6,094,997	\$ 6,487,140	\$ -	\$ -	\$ 6,487,140
Rental events	326,972	-	-	326,972	313,232	-	-	313,232
Education events and programs	107,777	-	-	107,777	85,108	-	-	85,108
Fees and other earned income	1,281,511	-	-	1,281,511	1,397,183	-	-	1,397,183
Investment dividends and interest	335,883	-	-	335,883	243,556	-	-	243,556
Contributed income								
Contributions	1,846,671	415,946	50	2,262,667	1,908,414	553,381	5,350	2,467,145
In-kind support	419,976	-	-	419,976	-	-	-	-
Government support	454,844	-	-	454,844	294,844	-	-	294,844
Restricted gifts released for operations, renovations, and improvements	414,881	(414,881)	-	-	585,113	(585,113)	-	-
Total operating income	<u>11,283,512</u>	<u>1,065</u>	<u>50</u>	<u>11,284,627</u>	<u>11,314,590</u>	<u>(31,732)</u>	<u>5,350</u>	<u>11,288,208</u>
Cost of Operations								
Programming								
Production	5,288,072	-	-	5,288,072	5,990,936	-	-	5,990,936
Education events and programs	436,253	-	-	436,253	359,736	-	-	359,736
Theatre operations	1,023,156	-	-	1,023,156	929,859	-	-	929,859
Facilities	837,686	-	-	837,686	867,160	-	-	867,160
Marketing	1,628,281	-	-	1,628,281	1,575,466	-	-	1,575,466
Supporting services								
Development	736,397	-	-	736,397	769,552	-	-	769,552
General and administrative	885,543	-	-	885,543	818,085	-	-	818,085
Total operating expenses	<u>10,835,388</u>	<u>-</u>	<u>-</u>	<u>10,835,388</u>	<u>11,310,794</u>	<u>-</u>	<u>-</u>	<u>11,310,794</u>
Excess (deficiency) of operating income over expenses	448,124	1,065	50	449,239	3,796	(31,732)	5,350	(22,586)
Investment losses								
Loss on sales of securities	(28,107)	-	-	(28,107)	(478)	-	-	(478)
Unrealized loss on investments	(238,814)	-	-	(238,814)	(171,903)	-	-	(171,903)
Change in net assets	181,203	1,065	50	182,318	(168,585)	(31,732)	5,350	(194,967)
Net assets, beginning of year	<u>2,705,796</u>	<u>367,381</u>	<u>1,180,553</u>	<u>4,253,730</u>	<u>2,874,381</u>	<u>399,113</u>	<u>1,175,203</u>	<u>4,448,697</u>
Net assets, end of year	<u>\$ 2,886,999</u>	<u>\$ 368,446</u>	<u>\$ 1,180,603</u>	<u>\$ 4,436,048</u>	<u>\$ 2,705,796</u>	<u>\$ 367,381</u>	<u>\$ 1,180,553</u>	<u>\$ 4,253,730</u>

See notes to financial statements.

**THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.**

STATEMENT OF CASH FLOWS  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 182,318	\$ (194,967)
Adjustments to reconcile changes in net assets to net cash from operating activities		
Unrealized loss on investments	238,814	171,903
Realized loss on sale of investments	28,107	478
Depreciation	151,170	125,696
Permanently restricted contributions	(50)	(5,350)
Increase (decrease) in cash from		
Accounts receivable	(23,235)	(15,822)
Pledges receivable	(129,384)	17,639
Grants receivable	(280,625)	-
Prepaid lease expense	(1,110,000)	-
Prepaid expenses and other current assets	(8,883)	36,096
Accounts payable and accrued expenses	113,442	77,017
Advance ticket sales and deposits	<u>57,638</u>	<u>(370,648)</u>
Net cash from operating activities	<u>(780,688)</u>	<u>(157,958)</u>
Cash Flows from Investing Activities		
Property and equipment purchases	(409,872)	(544,161)
Proceeds from sale of investments	31,214	31,742
Purchase of investments	<u>(335,883)</u>	<u>(244,033)</u>
Net cash from investing activities	<u>(714,541)</u>	<u>(756,452)</u>
Cash Flows from Financing Activities		
Cash contributions restricted for endowment	50	5,350
Net borrowing on line of credit	<u>1,475,037</u>	<u>432,344</u>
Net cash from financing activities	<u>1,475,087</u>	<u>437,694</u>
Net change in cash and cash equivalents	(20,142)	(476,716)
Cash and cash equivalents, beginning of year	<u>116,800</u>	<u>593,516</u>
Cash and cash equivalents, end of year	<u>\$ 96,658</u>	<u>\$ 116,800</u>
Supplemental disclosure of cash flow information		
Amounts paid for interest	<u>\$ 15,908</u>	<u>\$ 7,507</u>

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### A. NATURE OF ORGANIZATION

The State Theatre Regional Arts Center at New Brunswick, Inc., (the "Theatre") presents the finest national and international performing artists to residents of central New Jersey and beyond. In addition, the Theatre provides arts education to inform and build future audiences and to encourage members of the community to have a life-long association with the performing arts.

### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The financial statements of the Theatre have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The Theatre is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Theatre and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Theatre. Generally, the donors of these assets permit the Theatre to use all or part of the income earned on related investments for general or donor-specified purposes.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Cash and Cash Equivalents

Cash includes cash on hand and on deposit in checking and money market accounts which matures within 90 days.

#### Investments

Investments are stated at fair value in the statement of financial position. All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

#### Accounts Receivable

Accounts receivable are primarily from theatre rentals, and are stated at the amount management expects to collect from outstanding balances. The allowance for uncollectible accounts is determined based upon historical experience. At June 30, 2016 and 2015, the allowance for uncollectible accounts was \$10,000.

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Pledges Receivable**

Pledges are stated at the amount management expects to collect from outstanding balances. The provision for uncollectible pledges is determined based upon historical experience with donors. At June 30, 2016 and 2015, the allowance for uncollectible pledges was \$25,000.

#### **Grants Receivable**

Grants receivable are reported at net realizable value in the period the grant is awarded if at that time payment is expected to be received in one year or less. Grants receivable represent amounts due based on the allocations from the applicable awarding agencies. There is no provision for uncollectible grants as management expects all amounts to be fully collected based on historical experience.

#### **Property, Equipment and Depreciation**

Property and equipment is recorded at cost, except for donated items, which are recorded at fair market value on the date of donation. Depreciation is provided for using the straight-line method over the estimated useful lives of the related assets. In the year of acquisition and the year of disposal, one-half year's depreciation expense is recorded. Upon retirement or sale, the cost of disposed assets and the resulting gain or loss are included in the statement of activities and changes in net assets. Major renewals, betterments and additions are capitalized.

It is the Theatre's policy to capitalize expenditures for those items costing in excess of \$1,000. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

#### **Advance Ticket Sales and Deposits Received**

Advance ticket sales and deposits received consist of ticket sales and deposits for performances to be held in a subsequent fiscal year, and are recognized as revenue when the performance takes place. Certain costs incurred in connection with the procurement of such advance ticket sales, namely the cost of pre-season brochures and postage relating to their mailing, are similarly deferred and charged to expense in the period the related income is recognized. All other costs incurred in connection with such advance ticket sales, primarily marketing and ticket office operations are recorded as current period expenses.

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

Contributions are recognized when the donor makes a promise to give to the Theatre that is, in substance, unconditional. Unconditional promises to give are reflected as pledges receivable.

Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, 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.

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Support and Revenue Recognition (Continued)

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the periods received.

The Theatre records the value of in-kind goods and services as revenue and expense when the in-kind contribution is both budget-relieving and relates to programs and events under the Theatre's control. During the year ended June 30, 2016, the Theatre received \$419,976 of in-kind contributions, which consisted of in-kind donated services, materials and lodging.

Endowment contributions are permanently restricted by the donor. Investment earnings available for distribution are reclassified to unrestricted or temporarily restricted net assets, and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (which occurs when either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period during which the income and gains are recognized.

The Theatre receives a portion of its revenue through grants from the New Jersey State Council on the Arts ("NJSCA") and records the grant as revenue in the period the grant is expended.

Operating revenues are recognized as they are earned.

#### Income Taxes

The Theatre is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that are considered unrelated to the Theatre's mission are subject to tax, which, if incurred, would be recognized as a current expense. No such tax has been recognized as of June 30, 2016 and 2015.

#### Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. The updated standard will be effective for the Theatre for the year ending June 30, 2020 with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. The Theatre has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recent Accounting Pronouncement (Continued)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for the year ending June 30, 2017. The Theatre elected to adopt the provision of ASU 2014-15 for the year ended June 30, 2015. The adoption of ASU 2014-15 did not have a material effect on the Theatre financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring an entity (lessee) that leases assets for a term exceeding a one year period to recognize a right-of-use asset and corresponding lease liability on the balance sheet. ASU 2016-02 will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. ASU 2016-02 also requires entities to disclose in the footnotes to their financial statements information about the amount, timing, and uncertainty for the payments they make for lease agreements. ASU 2016-02 will be effective for the Theatre for the year ending June 30, 2021 with early adoption permitted. The Theatre is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which now requires 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. ASU 2016-14 continues to allow entities to choose between the direct and indirect methods for presenting operating cash flows, eliminating the required presentation or disclosure of the indirect method reconciliation, if using the direct method. 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. ASU 2016-14 requires the Theatre 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, including disclosure of the availability of financial assets at the statement of financial position date, affected by 1) its nature, 2) external limits imposed by donors, grantors, laws and contracts with others, and 3) internal limits imposed by governing board decisions. ASU 2016-14 requires reporting of expenses by both their natural and functional classification. ASU 2016-14 also requires reporting of investment returns net of external and direct internal investment expenses and removes the requirement to disclose the netting of such investment expenses. ASU 2016-14 requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments. ASU 2016-14 will be effective for the Theatre for the year ending June 30, 2019, with early adoption permitted. The Theatre is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

#### Subsequent Events

Management has evaluated events for potential recognition and disclosure that occurred after June 30, 2016, and through November 15, 2016, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

### C. INVESTMENTS

Investments at June 30, 2016 and 2015, are as follows:

	June 30, 2016		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Investments:			
Money market	\$ 103,691	\$ 103,691	\$ -
Equity	1,257,073	1,224,449	32,624
Fixed income	1,249,622	1,217,921	31,701
Other	2,405,997	2,376,290	29,707
Total investments, at fair value	<u>\$ 5,016,383</u>	<u>\$ 4,922,351</u>	<u>\$ 94,032</u>

  

	June 30, 2015		
	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investments:			
Money market	\$ 3,257	\$ 3,257	\$ -
Equity	1,971,309	1,643,301	328,008
Fixed income	2,651,703	2,795,659	(143,956)
Other	352,367	321,264	31,103
Total investments, at fair value	<u>\$ 4,978,636</u>	<u>\$ 4,763,481</u>	<u>\$ 215,155</u>

The following schedule summarizes the investment return and its classification in the statement of activities and changes in net assets:

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 335,883	\$ 243,556
Net realized and unrealized losses	(266,921)	(172,381)
Total investment return	<u>\$ 68,962</u>	<u>\$ 71,175</u>

All investment return is classified in the statement of activities and changes in net assets as unrestricted.

Investments are pledged as collateral against the line of credit.

### D. FAIR VALUE MEASUREMENT

Fair value is the price 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. In determining fair value, the Theatre uses various methods including market, income and cost approaches. Based on these approaches, the Theatre often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Theatre utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Theatre is required to provide

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### D. FAIR VALUE MEASUREMENT (CONTINUED)

the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

While the Theatre believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2016 and 2015, there were no changes to the Theatre's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

*Mutual Funds* – The fair value of mutual funds is the net asset value (NAV) of shares held by the Theatre at the measurement date.

The Theatre considers all of its investments to be Level 1 investments.

### E. PROPERTY AND EQUIPMENT

Property and equipment, shown net of accumulated depreciation consists of the following:

	June 30,	
	2016	2015
Leashold improvements	\$ 405,612	\$ 223,770
Office furniture and equipment	63,280	60,616
Theatre furniture and equipment	<u>2,399,200</u>	<u>2,173,833</u>
Total property and equipment	2,868,092	2,458,219
Less: Accumulated depreciation	<u>1,773,721</u>	<u>1,622,551</u>
Total	<u>\$ 1,094,371</u>	<u>\$ 835,668</u>

Depreciation expense totaled \$151,170 and \$125,696 for the years ended June 30, 2016 and 2015, respectively.

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### F. LINE OF CREDIT

During the year ended June 30, 2015, the Theatre had a \$2,850,000 variable interest rate revolving line of credit with no expiration date, secured by all investments with interest on the line averaged at 2.9%. In 2016 the Theatre terminated its previous line of credit and executed a new \$2,500,000 variable interest rate revolving line of credit with no expiration date, secured by all investments. For the year ended June 30, 2016, interest on the loan averaged 2.9%. Under the terms of the loan agreement the Theatre must maintain an amount of investments greater than or equal to the amount of the borrowings. The Theatre is in compliance with this covenant. Amounts outstanding under the new and previous lines of credit at June 30, 2016 and 2015, were \$2,073,226 and \$598,189, respectively, with \$1,127,316 of the June 30, 2016 outstanding balance outstanding to cover the property lease financing.

### G. ADVERTISING EXPENSE

Advertising costs are expensed as incurred and were \$575,323 and \$571,578 for the years ended June 30, 2016 and 2015, respectively.

### H. COMMITMENTS

The Theatre paid \$21,010 per month for its facilities under a month to month lease with the New Brunswick Cultural Center (NBCC) that terminated during 2016. See Note I regarding the Theatre's new long-term lease agreements.

The Theatre is operating under a collective bargaining agreement with the International Alliance of Theatrical Stage Employees, Local 21. This agreement establishes the standards of wages, hours and working conditions of these employees. The current agreement is in effect until September 30, 2017, and requires annual wage increases identified in the agreement.

### I. LEASE

#### Operating Lease

The Theatre has an operating lease for its facilities that expires in April 2041. The lease requires four equal yearly installments for \$1,125,000 starting on the commencement date in May 2016 and recurring on each of the first three annual anniversary dates through 2019. The Theatre also has an operating lease for its office space that expires in March 2021 which requires monthly lease payments varying between \$4,500 and \$9,500 over the term of the lease. The Theatre will recognize rental expense under these leases on the straight line basis over the terms of the leases. At June 30, 2016, the Theatre recorded prepaid rent of \$1,110,000.

Future minimum lease payments under the operating leases as of June 30, are as follows:

2017	\$ 1,234,000
2018	1,234,000
2019	1,234,000
2020	109,000
2021	85,500
Total	<u>\$ 3,896,500</u>

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### J. CONCENTRATION OF RISK

The Theatre maintains cash and investment balances which may exceed federal and other insurance limits. It historically has not experienced any credit-related losses. The risk is managed by maintaining all deposits in high-quality financial institutions. The investments are primarily financial instruments which are monetary in nature. Accordingly, interest rates have a more significant impact on performance than do the effects of general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. The investments are subject to risk conditions of the investments' objectives, stock market performance, interest rates, economic conditions and world affairs.

### K. RETIREMENT PLANS AND OTHER RETIREMENT BENEFITS

The Theatre maintains a defined contribution plan (the "Plan") for qualifying employees under Section 403(b) of the Internal Revenue Service Code. Qualified employees may elect to contribute a portion of their annual compensation to the Plan subject to Internal Revenue Code limitations. The Plan provides for the employer to match up to three percent of employees' annual earnings for participating qualifying employees who have at least one year of service. The employer match was \$34,218 and \$33,990 for the fiscal years ended June 30, 2016 and 2015, respectively.

As mandated by a collective bargaining agreement for the period September 1, 2007 through September 30, 2017, the Theatre contributed \$118,273 and \$112,846 toward the pension and annuity funds of the International Alliance of Theatrical Stage Employees Local 21 for the years ended June 30, 2016 and 2015, respectively.

### L. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of individual, corporate and foundation contributions which are required to be used toward a specific purpose or within a stated time frame in order to satisfy the asset restriction.

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Equipment purchases	\$ -	\$ 12,500
VIP seating	1,944	2,381
Subsequent fiscal year operations	90,002	15,000
Education programs	200,500	210,500
Website improvements	76,000	127,000
Total	<u>\$ 368,446</u>	<u>\$ 367,381</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Equipment purchases	\$ 50,000	\$ 296,031
VIP seating	2,381	9,682
Subsequent fiscal year operations	6,000	178,000
Special events	-	8,000
Education programs	210,500	40,400
Website improvements	51,000	53,000
Office renovations	95,000	-
	<u>\$ 414,881</u>	<u>\$ 585,113</u>

# THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.

## NOTES TO FINANCIAL STATEMENTS

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### M. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of endowment funds held in perpetuity, for which the income is expendable to support the following activities and programs at June 30:

	<u>2016</u>	<u>2015</u>
State Theatre operations/programming	\$ 226,695	\$ 226,645
Symphony series	<u>953,908</u>	<u>953,908</u>
Total	<u>\$ 1,180,603</u>	<u>\$ 1,180,553</u>

### N. ENDOWMENT POLICY

#### Endowment Description

The Theatre's endowment consists of donor restricted individual funds established in support of the Theatre's long-term mission. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Trustees of the Theatre has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gift to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Theatre in a manner consistent with the standard of prudence prescribed by UPMIFA.

#### Endowment Spending Policy

The goal of the Theatre is to fund its operations with internally generated cash flows from earned income and contributed income streams. When such cash flows must be supplemented by investment earnings, the Theatre will apply such earnings in an amount authorized by the Board of Trustees which, in its judgment, is necessary for the support of the Theatre's operations and programming. Where applicable, such expenditures shall conform with donor restrictions. For the years ended June 30, 2016 and 2015, the total amount spent on the Theatre programs through the endowment spending policy was \$9,708 and \$8,096, respectively.

#### Endowment Investment Policies

The Theatre follows an investment policy that balances total return with a prudently acceptable level of risk. The policy objectives stress safety and diversification as the foundation for achieving long-term growth of principal as a primary objective, with sensitivity to preservation of capital, current income and risk adjusted returns that will serve to support the Theatre's operations and programming. Actual returns in any given year may vary.

**THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.**

NOTES TO FINANCIAL STATEMENTS

**N. ENDOWMENT POLICY (CONTINUED)**

**Endowment Investment Policies (Continued)**

The Theatre relies on an asset allocation strategy that combines different asset types providing varying levels of performance based on the nature of the investments and the nature of the markets. This approach moderates risk and is intended to ensure a more stable and predictable level of results over the long term.

Under the provisions of the UPMIFA and U.S. GAAP, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. An endowment fund that has become "underwater" will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligation to restore the endowment fund for such losses. Unrestricted net assets that have been reduced because of this requirement will be restored from future gains for that reduction. There were no transfers from temporarily restricted net assets to unrestricted net assets for the years ended June 30, 2016 and 2015.

Changes in endowment net assets for the years ended June 30, 2016 and 2015, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ -	\$ 1,180,553	\$ 1,180,553
Investment return			
Investment income	73,539	-	73,539
Net depreciation (realized and unrealized)	(56,416)	-	(56,416)
Total investment return	17,123	-	17,123
Contributions	-	50	50
Appropriation of endowment assets for expenditures	(9,708)	-	(9,708)
Other changes			
Broker fees	(7,415)	-	(7,415)
Endowment net assets, June 30, 2016	<u>\$ -</u>	<u>\$ 1,180,603</u>	<u>\$ 1,180,603</u>
Endowment net assets, July 1, 2014	\$ -	\$ 1,175,203	\$ 1,175,203
Investment return			
Investment income	57,740	-	57,740
Net appreciation (realized and unrealized)	(40,834)	-	(40,834)
Total investment return	16,906	-	16,906
Contributions	-	5,350	5,350
Appropriation of endowment assets for expenditures	(8,096)	-	(8,096)
Other changes			
Broker fees	(8,810)	-	(8,810)
Endowment net assets, June 30, 2015	<u>\$ -</u>	<u>\$ 1,180,553</u>	<u>\$ 1,180,553</u>

There are no unrestricted net assets attributable to endowment funds as of June 30, 2016 and 2015.

**THE STATE THEATRE REGIONAL ARTS CENTER AT NEW BRUNSWICK, INC.**

NOTES TO FINANCIAL STATEMENTS

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**O. CONTINGENCIES**

From time to time, the Theatre is subject to litigation that arises in the ordinary course of conducting activities. In management's opinion, the resolution of litigation matters, if any, would not have a material effect on the financial position of the Theatre at June 30, 2016.