KPMG

# NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

# Independent Auditors' Report

The Board of Directors
New Jersey Performing Arts Center Corporation:

We have audited the accompanying consolidated financial statements of New Jersey Performing Arts Center Corporation (NJPAC), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Performing Arts Center Corporation as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matter*

As discussed in note 2(q) to the consolidated financial statements, NJPAC adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, on a retrospective basis and Topic 606, *Revenue from Contracts with Customers*, on a modified retrospective basis during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

KPMG LLP

October 31, 2019

## NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Balance Sheets

June 30, 2019 and 2018

| Assets | | 2019 | 2018 |
|---|---|---|---|
| Cash and cash equivalents | $ | 2,657,609 | 1,865,578 |
| Accounts receivable, net of allowance for doubtful accounts of $105,141 in 2019 and $146,075 in 2018 | | 3,523,827 | 3,496,381 |
| Contributions and grants receivable, net (notes 4 and 6) | | 23,315,414 | 21,789,984 |
| Prepaid expenses and other assets (note 6) | | 3,156,869 | 3,495,365 |
| Investments (note 3) | | 78,186,244 | 78,906,175 |
| Property and equipment, net (note 5) | | 108,575,874 | 109,634,537 |
| Total assets | $ | 219,415,837 | 219,188,020 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 3,706,490 | 3,229,325 |
| Advance ticket sales and other deferred revenue | | 2,767,529 | 4,919,602 |
| Loans payable (note 6) | | 9,912,203 | 9,029,700 |
| Advance on conditional grant (note 10) | | 900,000 | — |
| Other liabilities (notes 2 and 7) | | 1,366,646 | 1,278,530 |
| Total liabilities | | 18,652,868 | 18,457,157 |
| Commitments and contingencies (notes 3 and 7) | | | |
| Net assets: | | | |
| Without donor restrictions: | | | |
| Designated for special purposes, including net investment in property and equipment | | 98,387,369 | 99,052,916 |
| Operations | | — | (310,637) |
| Total net assets without donor restrictions | | 98,387,369 | 98,742,279 |
| With donor restrictions: | | | |
| Time or purpose restricted (note 8) | | 31,730,268 | 31,455,687 |
| Endowment fund corpus (note 8) | | 70,645,332 | 70,532,897 |
| Total net assets with donor restrictions | | 102,375,600 | 101,988,584 |
| Total net assets | | 200,762,969 | 200,730,863 |
| Total liabilities and net assets | $ | 219,415,837 | 219,188,020 |

See accompanying notes to consolidated financial statements.

**NEW JERSEY PERFORMING ARTS CENTER CORPORATION**

Consolidated Statement of Activities

Year ended June 30, 2019

| | Without donor restrictions | | | | |
|---|---|---|---|---|---|
| | Operations | Designated for special purposes | Total | With donor restrictions | Total |
| Operating expenses: | | | | | |
| Performance and performance related | $ 23,989,166 | 2,243,594 | 26,232,760 | — | 26,232,760 |
| Arts education | 3,593,480 | 482,611 | 4,076,091 | — | 4,076,091 |
| Theater operations | 9,779,470 | 1,639,025 | 11,418,495 | — | 11,418,495 |
| Public affairs | 2,398,574 | 169,100 | 2,567,674 | — | 2,567,674 |
| Real estate | — | 1,092,728 | 1,092,728 | — | 1,092,728 |
| General and administrative | 4,318,959 | 268,317 | 4,587,276 | — | 4,587,276 |
| Development | 2,490,641 | 522,846 | 3,013,487 | — | 3,013,487 |
| Total operating expenses | 46,570,290 | 6,418,221 | 52,988,511 | — | 52,988,511 |
| Operating revenue and other support: | | | | | |
| Earned revenue and gains: | | | | | |
| Performance and performance related | 27,267,014 | — | 27,267,014 | — | 27,267,014 |
| Arts education | 564,832 | — | 564,832 | — | 564,832 |
| Investment income (loss), net (note 3) | 3,522,423 | — | 3,522,423 | (691,927) | 2,830,496 |
| Other business income | 5,178,515 | 403,416 | 5,581,931 | — | 5,581,931 |
| Total earned revenue and gains | 36,532,784 | 403,416 | 36,936,200 | (691,927) | 36,244,273 |
| Net contributed revenue: | | | | | |
| Contributions, net (notes 4 and 6) | 4,565,012 | 2,699,977 | 7,264,989 | 7,457,322 | 14,722,311 |
| Special events, net of expenses of $855,037 | 1,643,724 | — | 1,643,724 | — | 1,643,724 |
| Government grants (note 4) | 1,000,000 | — | 1,000,000 | — | 1,000,000 |
| Net assets released from donor restrictions | 5,408,500 | 969,879 | 6,378,379 | (6,378,379) | — |
| Total net contributed revenue | 12,617,236 | 3,669,856 | 16,287,092 | 1,078,943 | 17,366,035 |
| Total operating revenue and other support | 49,150,020 | 4,073,272 | 53,223,292 | 387,016 | 53,610,308 |
| Nonoperating activities: | | | | | |
| Transfers to cover certain property and equipment activity | (1,693,488) | 1,693,488 | — | — | — |
| Transfer from nonoperating funds | 14,086 | (14,086) | — | — | — |
| Change in fair value of interest rate swap (note 6) | (127,091) | — | (127,091) | — | (127,091) |
| Total nonoperating activities | (1,806,493) | 1,679,402 | (127,091) | — | (127,091) |
| Increase (decrease) in net assets | 773,237 | (665,547) | 107,690 | 387,016 | 494,706 |
| Net (deficit) assets at beginning of year, as reported | (310,637) | 99,052,916 | 98,742,279 | 101,988,584 | 200,730,863 |
| Impact of change of accounting policies (note 2(q)) | (462,600) | — | (462,600) | — | (462,600) |
| Balance as of beginning of year | (773,237) | 99,052,916 | 98,279,679 | 101,988,584 | 200,268,263 |
| Net assets at end of year | $ — | 98,387,369 | 98,387,369 | 102,375,600 | 200,762,969 |

See accompanying notes to consolidated financial statements.

**NEW JERSEY PERFORMING ARTS CENTER CORPORATION**

Consolidated Statement of Activities

Year ended June 30, 2018

| | Without donor restrictions | | | | |
|---|---|---|---|---|---|
| | Operations | Designated for special purposes | Total | With donor restrictions | Total |
| Operating expenses: | | | | | |
| Performance and performance related | $ 21,650,532 | 1,897,250 | 23,547,782 | — | 23,547,782 |
| Arts education | 3,711,622 | 608,016 | 4,319,638 | — | 4,319,638 |
| Theater operations | 9,582,990 | 1,739,874 | 11,322,864 | — | 11,322,864 |
| Public affairs | 2,345,585 | 171,386 | 2,516,971 | — | 2,516,971 |
| Real estate | — | 541,397 | 541,397 | — | 541,397 |
| General and administrative | 4,455,196 | 887,867 | 5,343,063 | — | 5,343,063 |
| Development | 2,726,550 | 509,460 | 3,236,010 | — | 3,236,010 |
| Total operating expenses | 44,472,475 | 6,355,250 | 50,827,725 | — | 50,827,725 |
| Operating revenue and other support: | | | | | |
| Earned revenue and gains: | | | | | |
| Performance and performance related | 25,083,422 | — | 25,083,422 | — | 25,083,422 |
| Arts education | 449,665 | — | 449,665 | — | 449,665 |
| Investment income, net (note 3) | 3,386,454 | — | 3,386,454 | 4,025,387 | 7,411,841 |
| Other business income | 5,645,502 | 658,324 | 6,303,826 | — | 6,303,826 |
| Total earned revenue and gains | 34,565,043 | 658,324 | 35,223,367 | 4,025,387 | 39,248,754 |
| Net contributed revenue: | | | | | |
| Contributions, net (notes 4 and 6) | 4,494,455 | 2,639,379 | 7,133,834 | 17,307,734 | 24,441,568 |
| Special events, net of expenses of $897,341 | 1,735,862 | — | 1,735,862 | — | 1,735,862 |
| Government grants (note 4) | 1,000,000 | — | 1,000,000 | — | 1,000,000 |
| Net assets released from donor restrictions | 4,006,500 | — | 4,006,500 | (4,006,500) | — |
| Total net contributed revenue | 11,236,817 | 2,639,379 | 13,876,196 | 13,301,234 | 27,177,430 |
| Total operating revenue and other support | 45,801,860 | 3,297,703 | 49,099,563 | 17,326,621 | 66,426,184 |
| Nonoperating activities: | | | | | |
| Transfers to cover certain property and equipment activity | (1,335,949) | 1,335,949 | — | — | — |
| Transfer from nonoperating funds | 250,000 | (250,000) | — | — | — |
| Change in fair value of interest rate swap (note 6) | 80,325 | — | 80,325 | — | 80,325 |
| Total nonoperating activities | (1,005,624) | 1,085,949 | 80,325 | — | 80,325 |
| Increase (decrease) in net assets | 323,761 | (1,971,598) | (1,647,837) | 17,326,621 | 15,678,784 |
| Net (deficit) assets at beginning of year | (634,398) | 101,024,514 | 100,390,116 | 84,661,963 | 185,052,079 |
| Net (deficit) assets at end of year | $ (310,637) | 99,052,916 | 98,742,279 | 101,988,584 | 200,730,863 |

See accompanying notes to consolidated financial statements.

**NEW JERSEY PERFORMING ARTS CENTER CORPORATION**

Consolidated Statement of Functional Expenses

Year ended June 30, 2019
(with comparative totals for 2018)

| | Performance and performance related | Arts education | Theater operations | Public affairs | Real estate | General and administrative | Development | Total expenses 2019 | Total expenses 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Salaries | $ 3,090,738 | 2,229,527 | 2,975,422 | 1,619,752 | 402,024 | 2,838,654 | 1,661,021 | 14,817,138 | 14,099,297 |
| Benefits | 829,255 | 391,038 | 1,161,610 | 314,073 | 80,078 | 265,425 | 311,048 | 3,352,527 | 3,279,772 |
| Fees | 10,591,359 | 420,795 | 39,811 | 214,601 | 338,593 | 508,021 | 171,861 | 12,285,041 | 12,559,556 |
| Promotion expenses | 2,912,920 | 157,330 | 19,211 | 104,049 | — | 35,952 | 194,228 | 3,423,690 | 3,246,365 |
| Utilities and maintenance | 1,415,926 | 58,633 | 1,780,301 | 7,625 | 138 | 13,642 | 5,634 | 3,281,899 | 3,117,333 |
| Travel, conferences, and publications | 806,106 | 173,593 | 82,611 | 63,494 | 27,658 | 98,704 | 111,614 | 1,363,780 | 1,217,084 |
| Printing and reproduction | 3,205 | 6,805 | 4,600 | 17,835 | 55 | 21,389 | 173,570 | 227,459 | 247,829 |
| Office and building supplies | 19,214 | 42,765 | 243,040 | 20,799 | 25,543 | 22,051 | 3,139 | 376,551 | 317,252 |
| Telecommunications | 505 | 439 | 2,055 | 441 | — | 151,953 | — | 155,393 | 166,757 |
| Insurance | 66,475 | 351 | 419,461 | 68 | 20,810 | 161 | — | 507,326 | 523,154 |
| Production expense | 2,726,499 | 16,860 | 193,715 | 18,233 | 100,330 | 15,548 | 4,221 | 3,075,406 | 1,141,650 |
| Credit card and ticket processing | 15,705 | 1,212 | 806,779 | 35 | — | 39 | 30,078 | 853,848 | 1,040,685 |
| Interest expense | 179,539 | 21,096 | 47,776 | 5,899 | 59,278 | 5,643 | 4,617 | 323,848 | 298,216 |
| Parking and lease-related expenses | 962,417 | — | 1,920,696 | — | — | — | — | 2,883,113 | 2,813,342 |
| Provision for doubtful accounts | — | 14,043 | — | — | — | — | 74,694 | 88,737 | 162,726 |
| Miscellaneous | 369,303 | 58,993 | 82,382 | 11,670 | 38,221 | 472,185 | 154,928 | 1,187,682 | 1,920,842 |
| | 23,989,166 | 3,593,480 | 9,779,470 | 2,398,574 | 1,092,728 | 4,449,367 | 2,900,653 | 48,203,438 | 46,151,860 |
| Special purpose activities: | | | | | | | | | |
| Depreciation | 2,238,724 | 482,039 | 1,637,729 | 168,940 | — | 137,756 | 112,709 | 4,777,897 | 4,662,308 |
| Interest expense | 4,870 | 572 | 1,296 | 160 | — | 153 | 125 | 7,176 | 13,557 |
| | $ 26,232,760 | 4,076,091 | 11,418,495 | 2,567,674 | 1,092,728 | 4,587,276 | 3,013,487 | 52,988,511 | 50,827,725 |
| Special events expenses | | | | | | | | 855,037 | 897,341 |
| Total expenses | | | | | | | | $ 53,843,548 | 51,725,066 |

See accompanying notes to consolidated financial statements.

**NEW JERSEY PERFORMING ARTS CENTER CORPORATION**

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

| | | 2019 | 2018 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Increase in net assets | $ | 494,706 | 15,678,784 |
| Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities: | | | |
| Depreciation | | 4,777,897 | 4,662,308 |
| Provision for doubtful accounts | | 88,737 | 162,726 |
| Change in asset retirement obligation | | 109,739 | 747,613 |
| Amortization of fixed rent | | (317,784) | (582,604) |
| Net realized and unrealized investment gains | | (1,603,014) | (6,580,430) |
| Change in fair value of interest rate swap | | 127,091 | (80,325) |
| Contributions and investment income for endowment | | (112,435) | (7,063,842) |
| Contributions for capital | | (2,171,259) | (1,886,500) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | | 201,601 | (711,635) |
| Contributions and grants receivable | | (2,662,995) | (5,440,852) |
| Prepaid expenses and other assets | | 102,405 | (121,539) |
| Accounts payable and accrued expenses | | 477,165 | 698,047 |
| Advance ticket sales and other deferred revenue | | (2,505,673) | 1,422,296 |
| Advance on conditional grant | | 900,000 | — |
| Other liabilities | | 84,724 | (61,241) |
| Net cash (used in) provided by operating activities | | (2,009,095) | 842,806 |
| Cash flows from investing activities: | | | |
| Investment in property and equipment | | (3,719,234) | (1,869,751) |
| Proceeds from sales of investments | | 54,507,349 | 29,997,488 |
| Purchases of investments | | (52,184,404) | (27,724,100) |
| Net cash (used in) provided by investing activities | | (1,396,289) | 403,637 |
| Cash flows from financing activities: | | | |
| Repayment of loans | | (4,117,497) | (10,247,746) |
| Proceeds from loans | | 5,000,000 | 7,041,380 |
| Repayment of capital lease | | (106,347) | 454,064 |
| Cash received for endowment | | 1,250,000 | 100,000 |
| Cash received for capital | | 2,171,259 | 1,886,500 |
| Net cash provided by (used in) financing activities | | 4,197,415 | (765,802) |
| Net increase in cash and cash equivalents | | 792,031 | 480,641 |
| Cash and cash equivalents at beginning of year | | 1,865,578 | 1,384,937 |
| Cash and cash equivalents at end of year | $ | 2,657,609 | 1,865,578 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for interest | $ | 325,555 | 264,252 |

See accompanying notes to consolidated financial statements.

## (1) Organization

New Jersey Performing Arts Center Corporation (NJPAC) is a not-for-profit corporation organized under the laws of the State of New Jersey and is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. NJPAC's mission is the following: The New Jersey Performing Arts Center, by celebrating diversity, shall be America's foremost presenter of arts and entertainment, a creative and effective leader in arts education for children, a convener of useful and enlightening civic engagement events, and catalyst in the economic development of its home city of Newark.

To achieve its mission, NJPAC performs the following activities:

*Performances* – NJPAC produces and presents a wide array of artistic programs at NJPAC's facilities and at other facilities in the community, which include orchestra, recital, dance, jazz, spoken word, and a variety of performances by local, national, and international artists targeted at a diverse audience base.

*Arts education* – NJPAC conducts in-school, on-site, and community-based programs and performances dedicated to children, parents, and educators. Such programs include in-school residency training in dance, theater, and music; arts training; performances for schools and families; and professional development workshops.

*Theater operations* – NJPAC provides services for the management, operation, and maintenance of NJPAC, parking facilities, and Theater Square.

*Public affairs* – NJPAC keeps the public and the media fully informed about NJPAC's programs, events, and educational activities.

*Real estate activities* – NJPAC works with local and state entities, as well as with the real estate development community, to develop and implement plans to enliven and enhance downtown Newark.

Included in the accompanying consolidated financial statements of NJPAC are the financial statements of a separate but affiliated corporation, The Arts Education Endowment Fund in Honor of Raymond G. Chambers (the Fund). The Fund is also a not-for-profit and a Section 501(c)(3) tax-exempt corporation. The Fund's Board of Directors is identical to that of NJPAC. In accordance with the terms of the Fund, interest and investment income earned on the Fund's assets are to be transferred to NJPAC to partially support NJPAC's arts education programs.

Also included in the accompanying consolidated financial statements of NJPAC are the financial statements of two limited liability companies named the Theater Square Development Company, LLC (TSDC) and Hip Hop Nutcracker Tour, LLC (HHNT). NJPAC is the sole member of these companies. NJPAC is also a partner in a two-member limited liability company (LLC) named Carefree, LLC (Carefree), which is accounted for under the equity method. The single-member LLCs are treated as disregarded entities for federal tax purposes, whereas the two-member LLC is treated as a partnership. The purpose of TSDC is to provide services and support relating to the development and operation of real estate owned or leased by NJPAC in furtherance of NJPAC's charitable purposes. The purposes of HHNT and Carefree are to produce and present touring performances of The Hip Hop Nutcracker and Carefree: Dancin' with Fred & Ginger, respectively. HHNT was formed in June 2015 and started operations in July 2015. Carefree, which was formed and started operations in June 2016, was dormant in 2019 and 2018.



(Continued)

NJPAC formed three additional single-member LLCs named NJ Media Production Stages, NJ Media Production Studios, and NJ Media Production Holdings in June 2019. A fourth LLC named NJ Media Production Management was formed in September 2019. These four interrelated LLCs were created for the purpose of leasing television production studio space and providing related services to television production companies. NJ Media Production Studios incurred expenses totaling $93,080 during 2019. There has been no activity in the other three LLCs to date.

## (2) Summary of Significant Accounting Policies

### *(a) Financial Statement Presentation*

These consolidated financial statements are presented on the accrual basis of accounting. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of NJPAC and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations

*Net assets with donor restrictions* – Net assets that are subject to donor-imposed stipulations, which include net assets that require the passage of time, the occurrence of a specified event, or are maintained permanently (endowment fund corpus net assets). Endowment fund corpus net assets permit NJPAC to use or expend part or all of the income derived from the donated assets for general or specific purposes in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Accordingly, NJPAC records gifts of cash and other assets as contributions with donor restrictions if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from donor restrictions. Expenses are recorded as decreases in net assets without donor restrictions. Donor restricted contributions that are received and released from restriction in the same fiscal year are recorded as revenue without donor restrictions.

The consolidated statements of activities distinguish between operating and special purpose activities. Special purpose activities are the building-related activities that include depreciation, interest, other expenses, support related to capital projects, the Innovation Fund (see note 4), the Strategic Reserve Fund (see note 4), the President's Fund for Community Engagement (see note 4), and Theater Square Development Company, LLC.

### *(b) Cash and Cash Equivalents*

NJPAC considers all highly liquid investments purchased with original maturities of three months or less that are to be used for operating purposes to be cash equivalents. Cash equivalents may consist of certificates of deposits, money market funds, and investments in obligations of the U.S. Government and its agencies.

### *(c) Investments*

NJPAC's investments in fixed-income securities, equity funds, and equity securities are reported at fair value based on quoted market prices. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Alternative investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. NJPAC's investments in alternative investments are stated, as a practical expedient, at the net asset value (NAV), as provided by the investment manager and evaluated for reasonableness by NJPAC's management.

### *(d) Capital Acquisitions and Depreciation*

Expenditures for property and equipment are capitalized at cost, when purchased or constructed, and are capitalized at fair value when contributed. Depreciation is computed using the straight-line method over the shorter of estimated useful lives or the term of the lease of the related assets.

| | |
|---|---|
| Land under capital lease | 98 years |
| Theater building | 50 years |
| Parking garage | 50 years |
| Other building | 30 years |
| Furniture, fixtures, and improvements | 5 to 10 years |

### *(e) Conditional Asset Retirement Obligations*

Conditional asset retirement obligations are to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation can be made. Remediation took place during the years ended June 30, 2019 and 2018 in the amount of $20,669 and $82,973, respectively. The conditional asset retirement obligation included in other liabilities is $902,588 and $792,849 at June 30, 2019 and 2018, respectively, which has been adjusted for the accretion of the discount.

### *(f) Ticket Sales*

Ticket sales are recognized as performance and performance related revenue on a specific performance basis. Advance ticket sales for the receipt of payment for future performances are reported in advance ticket sales and other deferred revenue in the consolidated balance sheets. Such amounts were approximately $2.4 million and $4.0 million in 2019 and 2018, respectively, and will be recognized as revenue in the subsequent period.

### *(g) Derivative Instruments*

Derivative financial instruments are employed to manage risks. NJPAC has entered into interest rate swap agreements to manage its exposure to interest rate changes. NJPAC recognizes all derivative instruments in the consolidated balance sheets at fair value. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. These inputs fall within Level 2 of the fair value hierarchy. Changes in the fair value of derivatives are recognized within changes in net assets without donor restrictions in the consolidated statements of activities.



(Continued)

### *(h) Contributions*

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contributions revenue. The discount rate used for contributions received during the years ended June 30, 2019 and 2018 was 2.52% and 2.07%, respectively. Amortization of the discount is included in contributions revenue.

### *(i) Contributed Goods and Services*

Volunteers and other companies and organizations have donated significant amounts of their time and services in support of NJPAC's operations. Only those amounts for which an objective basis is available to measure the value of such services and which meet certain criteria are reflected in the accompanying consolidated financial statements. Contributed goods and services, which include advertising, piano rental, airfare and legal services in the amount of $425,471 and $355,324 for the years ended June 30, 2019 and 2018, respectively, are recorded as contributions revenue and asset or expense in the accompanying consolidated financial statements.

### *(j) Other Business Income*

Other business income consists of food services commission, merchandise sales commission, reimbursement of special event costs, nonperformance parking and facilities rentals for which revenue is recognized when the space is utilized, other nonrecurring miscellaneous revenues, and ground lease rental income, which is recorded on a straight-line basis.

### *(k) Fair Value Hierarchy*

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices or published net asset values in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.



(Continued)

Fair value estimates are made at a specific point in time based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

### *(l) Advertising Expenses*

Pursuant to the adoption of Topic 606, *Revenue from Contracts with Customers*, as discussed in note 2(q) to the consolidated financial statements, advertising expenses related to future performances are expensed as incurred. In prior years, costs were expensed in the year in which the performance took place. Advertising expenses on future performances totaling $109,000 were reported in 2018 within prepaid expenses and other assets on the consolidated balance sheets. As a result of the adoption, advertising expenses on future performances totaling $79,000 were reported in 2019 within operating expenses in the consolidated statement of activities.

Advertising expenses amounts to approximately $2,249,000 and $2,289,000 in 2019 and 2018, respectively.

### *(m) Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates. Significant estimates include the valuation of alternative investments, the reserves for uncollectible contributions, grants and accounts receivable, the present value of multi-year contributions receivables, liabilities for conditional asset retirement obligations, and the allocation of functional expenses. Management reviews the assumptions each year to determine the reasonableness of these estimates.

### *(n) Tax Status*

NJPAC is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. NJPAC has been classified as a public charity under Section 509(a) of the Internal Revenue Code.

There are certain transactions that could be deemed unrelated business income and would result in a tax liability. Management reviews such transactions to estimate potential tax liabilities using a threshold of more likely than not. It is management’s estimation that there are no material tax liabilities that need to be recorded at June 30, 2019 or 2018.

### *(o) Functional Classification of Expenses*

NJPAC allocates expenses to its functional areas based on time, effort, and usage.

### *(p) Reclassifications*

Certain reclassifications of 2018 amounts have been made to conform to the 2019 presentation.

### *(q) Recently Adopted Accounting Pronouncements*

NJPAC adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958)*, in 2019 and applied the changes retrospectively. The standard reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions, requires NJPAC to present expenses by their functional and their natural classifications in one location in the financial statements, and requires NJPAC to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date.

NPAC elected to early adopt *Revenue from Contracts with Customers* (Topic 606) in 2019. Topic 606 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, the ASU requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides guidance on when costs to obtain a contract can be capitalized.

NJPAC adopted the Topic 606 modified retrospective method by recognizing the cumulative effect of initially applying Topic 606 to the opening net assets balance at July 1, 2018. The cumulative effect of the adoption results in a reduction of $462,600 to the beginning net assets balance. Therefore, financial results for 2019 are presented in accordance with Topic 606, while 2018 is reported in accordance with NJPAC's pre-adoption accounting policies and, therefore, have not been adjusted to conform to Topic 606. Details of the significant changes and the quantitative impact are disclosed below.

The cumulative effect of the changes made to NJPAC's consolidated balance sheets as of July 1, 2018 for the adoption of Topic 606 were as follows:

| | | Balance at June 30, 2018 | Adjustments due to Topic 606 | Balance at July 1, 2018 |
|---|---|---|---|---|
| Assets: | | | | |
| Prepaid expenses and other assets | $ | 3,495,365 | (109,000) | 3,386,365 |
| Liabilities and net assets: | | | | |
| Liabilities: | | | | |
| Advance ticket sales and other deferred revenue | | 18,457,157 | 353,600 | 18,810,757 |
| Net assets: | | | | |
| Net assets without donor restrictions – operations | | 200,730,863 | (462,600) | 200,268,263 |

***(r) Recent Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842), which supersedes FASB Accounting Standards Codification (ASC), Leases (Topic 840), and requires lessees to recognize most leases on the balance sheet with a right-of-use asset and a lease liability and additional qualitative and quantitative disclosures. Leases will be classified as either finance or operating leases, which will impact the expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. NJPAC expects to adopt this ASU in fiscal year 2021.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluation whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 957, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. NJPAC expects to adopt this ASU in fiscal year 2020.

## (3) Investments

*Overall Investment Objective*

The overall investment objective of NJPAC is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. NJPAC diversifies its investments among various asset classes incorporating multiple strategies and managers and has limits on the amount of credit exposure to any one entity. Investment decisions are authorized by the Board’s Investment Committee, which oversees NJPAC’s investment program in accordance with established guidelines.

The following tables summarize NJPAC's investments by major category in the fair value hierarchy as of June 30, 2019 and 2018:

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Investments: | | | | |
| Cash and cash equivalents | $ 9,420,456 | 9,420,456 | — | — |
| U.S. corporate debt | 5,596,232 | 5,596,232 | — | — |
| Mutual funds and stocks: | | | | |
| Preferred stocks | 941,186 | 941,186 | — | — |
| Traditional domestic equity funds | 18,006,926 | 18,006,926 | — | — |
| Traditional international equity funds | 14,657,106 | 14,657,106 | — | — |
| Large cap growth funds | 10,203,177 | 10,203,177 | — | — |
| Small-mid cap funds | 5,653,639 | 5,653,639 | — | — |
| Total | 64,478,722 | $ 64,478,722 | — | — |
| Alternative investment funds reported at net asset value: | | | | |
| Hedged strategies (a) | 8,232,190 | | | |
| Private equity (b) | 5,475,332 | | | |
| Total | 13,707,522 | | | |
| Total investments | $ 78,186,244 | | | |

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Investments: | | | | |
| Cash and cash equivalents | $ 13,378,393 | 13,378,393 | — | — |
| U.S. corporate debt | 3,884,964 | 3,884,964 | — | — |
| Mutual funds and stocks: | | | | |
| Preferred stocks | 1,434,303 | 1,434,303 | — | — |
| Traditional domestic equity funds | 18,253,589 | 18,253,589 | — | — |
| Traditional international equity funds | 8,159,010 | 8,159,010 | — | — |
| Large cap growth funds | 12,343,476 | 12,343,476 | — | — |
| Small-mid cap funds | 8,609,372 | 8,609,372 | — | — |
| Total | 66,063,107 | $ 66,063,107 | — | — |
| Alternative investment funds reported at net asset value: | | | | |
| Hedged strategies (a) | 8,747,198 | | | |
| Private equity (b) | 4,095,870 | | | |
| Total | 12,843,068 | | | |
| Total investments | $ 78,906,175 | | | |

(a) NJPAC's alternative investments in five hedged strategy funds amounted to $8,232,190 at June 30, 2019 and $8,747,198 at June 30, 2018. These include $169,151 in 2019 and $207,598 in 2018 which were invested in special situation accounts. Special situation accounts generally are not available for redemption until the respective investments are liquidated. The other hedged strategy funds of $8,063,039 in 2019 have no redemption restrictions and may be redeemed quarterly with 30 day notice. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments, and are valued accordingly. NJPAC has a future capital call commitment of $635,889 to one hedged strategy fund as of June 30, 2019.

(b) NJPAC's alternative investment funds in private equity of $5,475,332 and $4,095,870 at June 30, 2019 and 2018, respectively, were made through four limited partnerships in 2019 and 2018. Three partnerships have limited existence and provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions or other factors, managers may extend the terms of the partnerships beyond their originally anticipated existence or may wind it down prematurely. NJPAC cannot anticipate such changes because they generally arise from unforeseeable events, but should they occur, they could reduce liquidity or originally anticipated investment returns. The timing and amount of future capital or income distributions of funds are up to the discretion of the fund manager. For the fourth partnership, NJPAC may request redemptions of all or a portion of its shares on a monthly basis with seven days written notice. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Other strategies may require the estimation of fair values by the fund managers in the absence of readily determinable market values. As of June 30, 2019 NJPAC has a future capital call commitment of $768,593 to one private equity fund,

The following summarizes investment income (loss) components for the years ended June 30, 2019 and 2018:

| | | 2019 | 2018 |
|---|---|---|---|
| Investment income, net: | | | |
| Interest and dividends | $ | 1,227,482 | 831,411 |
| Net realized gains | | 3,094,039 | 4,060,507 |
| Net unrealized (losses) gains in fair value of investments | | (1,491,025) | 2,519,923 |
| Investment income | $ | 2,830,496 | 7,411,841 |

## (4) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2019 and 2018 are scheduled to be collected as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Amounts due in: | | | |
| One year | $ | 11,619,568 | 8,163,943 |
| Two to five years | | 12,482,332 | 14,516,657 |
| More than five years | | 437,500 | 119,000 |
| Total contributions and grants receivable | | 24,539,400 | 22,799,600 |
| Less: | | | |
| Allowance for uncollectible contributions and grants receivable | | — | 50,000 |
| Adjustment to reflect contributions and grants receivable at discounted value 0.88% to 4.83%) | | 1,223,986 | 959,616 |
| Contributions and grants receivable, net | $ | 23,315,414 | 21,789,984 |

The New Jersey State Council on the Arts awarded NJPAC grants of $1,000,000 for fiscal years 2019 and 2018, respectively, for general operating support. Grant receivables of $250,000 for these awards are included in contributions and grants receivable in the accompanying consolidated balance sheets at June 30, 2019 and 2018.

The New Jersey Cultural Trust (The Trust) was created in July 2000 to provide funding to qualified organizations for certain purposes. In January 2002, NJPAC was designated a qualified organization by The Trust, making NJPAC eligible for The Trust's 20% match of certain endowment gifts. The Trust awarded a total matching gift of $3,915,000 to NJPAC. At June 30, 2019 and 2018, contributions receivable from The Trust was $1,268,840 and $1,468,840, respectively. Management anticipates that the contributions receivable will be paid in the future, and therefore, it is reflected in the consolidated financial statements at discounted present value. The matching gifts from The Trust were based on certified private donations to NJPAC's endowment. These certified donations totaling $19,575,000, as well as The Trust's matching amounts of $2,646,160, are held and managed by NJPAC and recorded as net assets with donor restrictions.

NJPAC maintains a Strategic Reserve Fund to account for contributions without donor restrictions that may only be used for extraordinary operational needs as recommended by management and approved by the executive committee of the Board of Directors. As of June 30, 2019 and 2018, the Strategic Reserve Fund balance was $1,508,171 and $1,491,077, respectively. NJPAC established the President's Fund for Community Engagement in honor of Lawrence P. Goldman with the specified objectives to support activation and expansion of Arts Education programs in Newark, to sustain community access to NJPAC performances through the ticket subsidy fund, and to ensure the continuation of free community events. As of June 30, 2019 and 2018, the President's Fund balance was $0 and $128,950, respectively. Contributions to the Strategic Reserve Fund and President's Fund are reported as net assets without donor restrictions in the consolidated statements of activities.

In fiscal year 2016, NJPAC established the Innovation Fund to account for contributions with the purpose of providing seed funding for new innovative initiatives with the potential of creating ongoing revenue. The Innovation Fund balance as of June 30, 2019 was $1,933,055, of which $1,195,697 is reported as net assets without donor restrictions and $737,358 as net assets with donor restrictions in the 2019 consolidated statement of activities. The Innovation Fund balance as of June 30, 2018 was $2,376,887, of which $1,639,529 is reported as net assets without donor restrictions and $737,358 as net assets with donor restrictions in the 2018 consolidated statement of activities.

Contributions from members of the Board of Directors amounted to approximately $1,245,000 and $1,432,000 for the years ended June 30, 2019 and 2018, respectively.

No more than 24% of contributions and grants receivable at June 30, 2019 and 37% at June 30, 2018 were due from any one donor. Additionally, no more than 10% and 47% of contributions revenue for the years ended June 30, 2019 and 2018, respectively, is from any one donor. In fiscal year 2018, NJPAC received a large corporate campaign gift that increased the concentration of credit risk.

## (5) Property and Equipment

Property and equipment consist of the following at June 30, 2019 and 2018:

| | | 2019 | 2018 |
|---|---|---|---|
| Land | $ | 22,725,341 | 22,295,341 |
| Theater building | | 137,514,502 | 137,514,502 |
| Parking garage | | 10,421,794 | 10,421,794 |
| Other building | | 4,708,360 | 4,708,360 |
| Furniture, fixtures, and improvements | | 23,245,268 | 19,956,034 |
| | | 198,615,265 | 194,896,031 |
| Less accumulated depreciation | | 90,039,391 | 85,261,494 |
| Property and equipment, net | $ | 108,575,874 | 109,634,537 |

## (6) Loans Payable

Loans payable at June 30, 2019 and 2018 consist of the following:

| | | 2019 | 2018 |
|---|---|---|---|
| TD Bank: | | | |
| Term loan with a due date of March 29, 2020. Loan is payable in specified monthly installments. Interest at June 30, 2019 is 4.43% (LIBOR plus 2%). (a)(c) | $ | 254,728 | 584,739 |
| Term loan with a due date of March 30, 2023. Loan is payable in specified monthly installments of interest and principal. Interest at June 30, 2019 is 3.96%. (a) | | 1,216,823 | 1,511,582 |
| Term loan with a due date of October 2, 2026. Loan is payable in specified monthly installments. Interest at June 30, 2019 is 4.24% (LIBOR plus 1.80%). (a)(d) | | 2,406,981 | 2,695,958 |
| Borrowings under a working capital line of credit of up to $4,000,000 through December 31, 2019. Interest at June 30, 2019 is 4.43% (LIBOR plus 2%). (a) | | 4,000,000 | 2,000,000 |



(Continued)

| | | 2019 | 2018 |
|---|---|---|---|
| Prudential Foundation: | | | |
| Term loan with a due date of August 15, 2024. Loan is payable in equal monthly installments of $13,333 plus interest at 3.5%. (b) | $ | 814,921 | 974,921 |
| Borrowings under an unsecured line of credit of up to $1,000,000 through March 29, 2022. Interest at June 30, 2019 is 5.29% (Treasury Rate plus 3%). (e) | | 1,000,000 | 1,000,000 |
| The City of Newark Office of the Urban Enterprise Zone: | | | |
| Borrowings under a loan agreement to finance certain real estate predevelopment costs with a due date of January 31, 2020. Loan is payable in specified quarterly installments plus interest at 5%. | | 218,750 | 262,500 |
| Total | $ | 9,912,203 | 9,029,700 |

(a) Collateral for these loans and line of credit consist of certain revenues and unrestricted contributions and grants receivable. The loan agreement contains various covenants, including, among other things, limitations and restrictions on additional indebtedness and the achievement of certain financial results.

(b) Collateral for this loan consists of the Broadcast Center equipment and any amounts payable to NJPAC in connection with Broadcast Center services. The loan agreement contains various covenants, including, among other things, limitations and restrictions on additional indebtedness and the achievement of certain financial results.

(c) Effective March 29, 2013, NJPAC entered into an interest rate swap agreement with TD Bank with the intention of fixing its effective interest rates on the variable rate term loan of $904,068. Under the terms of the agreement, NJPAC pays interest at a fixed rate of 3.25% and receives a variable rate of LIBOR plus 2% (2.40% at June 30, 2019). The term of this interest swap is seven years.

(d) Effective October 14, 2016, NJPAC entered into an interest rate swap agreement with TD Bank with the intention of fixing its effective interest rates on the variable rate term loan of $2,968,000. Under the terms of the agreement, NJPAC pays interest at a fixed rate of 3.27% and receives a variable rate of LIBOR plus 1.80%, (2.40% at June 30, 2019). The term of this interest swap is ten years.

(e) The Treasury Rate is defined as the yield on the Treasury Constant Maturity Series with maturity equal to the remaining stated term of the borrowings noted above.

NJPAC has recorded the change in the fair value of interest rate swaps of $127,091 and $80,325 in the consolidated statements of activities for the years ended June 30, 2019 and 2018, respectively, as a change in unrestricted net assets in the nonoperating section. The fair value of the interest rate swaps of $19,798 and $146,889 has been recorded in prepaid expenses and other assets in the consolidated balance sheets as of June 30, 2019 and 2018.

Interest expense for the years ended June 30, 2019 and 2018 was $331,024 and $311,773, respectively.



(Continued)

Required principal payments for the aforementioned loans at June 30, 2019 are as follows:

| | | Amount |
|---|---|---|
| Year ending June 30: | | |
| 2020 | $ | 6,263,362 |
| 2021 | | 801,200 |
| 2022 | | 737,362 |
| 2023 | | 784,665 |
| 2024 | | 500,907 |
| Thereafter | | 824,707 |
| | $ | 9,912,203 |

## (7) Leases

### *(a) Property Lease*

In August 1996, NJPAC entered into a superseding 99-year sublease, as amended, with the State of New Jersey for properties on NJPAC's site. In September 2016, title to one of the leased tracts of land, designated as Two Center Street, was transferred to Theater Square Development Company, LLC. Consequently, this tract was leased and excluded from the sublease.

Under the terms of the above, rent is payable to the State of New Jersey by NJPAC annually in the amount of any operating surplus, as defined, remaining after $500,000 is transferred annually to a board-designated endowment. The maximum cumulative rent payment due is $44,000,000, with a maximum annual rent of $1,700,000. Once such board-designated endowment reaches a balance of $10,000,000, the Board of Directors shall in good faith allocate any operating surplus between the annual rent and the endowment. As of June 30, 2019 and June 30, 2018, no rent was required to be paid by NJPAC to the State of New Jersey. In December 2012, the State of New Jersey conveyed a portion of the original land leased to NJPAC, for the construction of a multi-story residential tower – One Theater Square, at no cost. In November 2018, the State of New Jersey conveyed another portion to NJPAC at a cost of $430,000. The sites will be used for future commercial and mission related development.

### *(b) Parking Garage Lease*

In 1997, NJPAC entered into a 50-year sublease, as amended, for the Military Park Garage in Newark from the Parking Authority of the City of Newark (the Authority). In accordance with the sublease, NJPAC was to remit operating proceeds to the Authority in the amount of $283,073 to offset the debt service on a $5 million bond issued by the City of Newark to fund one half of the cost of renovating the facility. In 2017, NJPAC obtained a ten-year term loan, the proceeds of which were used to retire the outstanding balance of the City of Newark bonds. As a result, in 2019, NJPAC deducted $353,023 from the operating proceeds for the debt service on the loan. Of the remaining proceeds, NJPAC paid 45% to the Authority, which amounted to $596,137 and $554,434 in 2019 and 2018, respectively. The lease is a net sublease, and all expenses of operation and repair are paid by NJPAC.

### *(c) Capital Leases*

In 2018, NJPAC paid off an existing capital lease agreement for certain office equipment and entered into new office equipment and production equipment lease agreements. The value of the office equipment and production equipment lease of $558,254 is included in property and equipment. The present value of the net minimum lease payments is included in other liabilities in the amounts of $386,601 at June 30, 2019 and $492,948 at June 30, 2018.

### *(d) Operating Leases*

NJPAC leases telephone and stage equipment under various operating leases. A minimum noncancelable rental payment of $1,983 is due in 2020.

Rent and telecommunications expenses for the operating leases amounted to $12,704 and $97,860 for the years ended June 30, 2019 and 2018, respectively.

### *(e) Ground Lease*

In September 2016, NJPAC, through its wholly owned subsidiary, Theater Square Development Company LLC, entered into an amended and restated ground lease with Two Center Street Urban Renewal, LLC for the development, use, and occupancy of the land and building designated as Two Center Street Tract on NJPAC premises. The term of the lease is 97 years, commencing on September 8, 2016, with no renewal option. Rent is payable to NJPAC in the forms of a fixed, percentage and supplemental rents. Fixed rent is payable at varying annual amounts starting from $100,000 to $350,000, starting on the agreed upon rent commencement date of eighteen months after issuance of certificate of occupancy and satisfaction of certain other requirements. Percentage rent is payable at 2% of gross apartment rental receipts starting on the agreed upon commencement date of sixty months after issuance of certificate of occupancy. Supplemental rent is a fixed amount of $1,000,000 payable upon the occurrence of a certain specified event. NJPAC accrues the fixed rent due from Two Center Street Urban Renewal LLC under the straight line method at $317,784 annually.

The following is a schedule of minimum future fixed rental receipts under the ground lease:

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2020 | $ | 50,000 |
| 2021 | | 100,000 |
| 2022 | | 100,000 |
| 2023 | | 100,000 |
| 2024 | | 100,000 |
| Later years | | 30,375,000 |

## (8) Net Assets with Donor Restrictions

Net assets with donor restrictions is composed of time or purpose restricted and endowment fund corpus net assets. The net asset balances at June 30, 2019 and 2018 are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Time or purpose restricted: | | | |
| Future operations | $ | 22,678,845 | 22,752,213 |
| Programming | | 3,175,584 | 3,185,858 |
| Arts education | | 1,152,601 | 779,097 |
| Other programs | | 4,723,238 | 4,738,519 |
| Total time or purpose restricted net assets | | 31,730,268 | 31,455,687 |
| Endowment fund corpus: | | | |
| Income to be used for: | | | |
| Unrestricted | | 40,393,983 | 40,337,124 |
| Programming | | 9,739,703 | 9,782,282 |
| Arts education | | 11,478,635 | 11,380,480 |
| Other programs | | 9,033,011 | 9,033,011 |
| Total endowment fund corpus net assets | | 70,645,332 | 70,532,897 |
| Total net assets with donor restrictions | $ | 102,375,600 | 101,988,584 |

NJPAC's endowment consists of seventy-six funds that have been established to support general operations and certain programs. These funds are invested by NJPAC. As required by GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

### *(a) Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires NJPAC to retain as a fund of perpetual duration. There were no deficiencies as of June 30, 2019 or 2018.

### *(b) Interpretation of Relevant Law*

The Board of Directors of NJPAC has interpreted the State of New Jersey Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a prudent spending policy (referenced below) that contributes to the preservation of capital in donor-restricted endowment funds. Absent specific donor stipulations to the contrary, the act allows for spending below the fair value of the original gift, consistent with a prudent spending policy. NJPAC classifies as endowment fund corpus net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income earned on the accumulations to the endowment fund corpus is classified as time or purpose restricted net assets until the donor-imposed restrictions have been met.

### *(c) Spending Policy*

NJPAC's endowment spending policy is based on 5% of the trailing 20 quarterly average fair value as of March 31 of the preceding fiscal year. In fiscal year 2019, the spending policy was amended to allow the spending rate for new gifts at 5% of the average quarterly fair value for the trailing quarters beginning on the date payment was received up to the fifth year of the gift. Certain endowment gifts require earnings in excess of the spending rate to be held for long-term investment.

The appropriation for endowment spending for fiscal year 2020 is $3,640,000, of which $1,000,000 was advanced as of June 30, 2019.

### *(d) Return Objectives and Risk Parameters*

NJPAC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that NJPAC must hold in perpetuity. Under this policy, as approved by NJPAC's Board of Directors, the endowment assets are invested in a manner that is intended to produce moderate to high rates of return while assuming a moderate to low level of investment risk.

NJPAC has no board-designated endowment funds. The following represents NJPAC's donor-restricted endowment funds at June 30, 2019 and 2018:

| | June 30, 2019 | | |
|---|---|---|---|
| | With donor restrictions | | |
| | Accumulated gains | Original gift | Total |
| Donor-restricted endowment funds | $ 15,326,949 | 70,645,332 | 85,972,281 |

| | June 30, 2018 | | |
|---|---|---|---|
| | With donor restrictions | | |
| | Accumulated gains | Original gift | Total |
| Donor-restricted endowment funds | $ 15,978,470 | 70,532,897 | 86,511,367 |



(Continued)

The following table presents changes in endowments for the years ended June 30, 2019 and 2018:

| | | With donor restrictions | | |
|---|---|---|---|---|
| | | Accumulated gains | Original gift | Total |
| Endowment net assets at June 30, 2017 | $ | 12,223,554 | 63,469,055 | 75,692,609 |
| Investment income | | 826,204 | — | 826,204 |
| Net realized and unrealized gains | | 6,303,712 | 178,120 | 6,481,832 |
| Contributions, net | | — | 6,885,722 | 6,885,722 |
| Appropriation for expenditure | | (3,375,000) | — | (3,375,000) |
| Endowment net assets at June 30, 2018 | | 15,978,470 | 70,532,897 | 86,511,367 |
| Investment income (loss) | | 1,238,824 | (18,453) | 1,220,371 |
| Net realized and unrealized gains (loss) | | 1,619,655 | (24,126) | 1,595,529 |
| Contributions, net | | — | 155,014 | 155,014 |
| Appropriation for expenditure | | (3,510,000) | — | (3,510,000) |
| Endowment net assets at June 30, 2019 | $ | 15,326,949 | 70,645,332 | 85,972,281 |

## (9) Retirement Savings Plan

NJPAC has a 401(k) retirement savings plan that covers substantially all regular salaried employees who have attained 21 years of age and completed three months of service. The plan provides for NJPAC matching contributions based on the amount of employees' contributions. Expenses related to this plan, including the match, amounted to approximately $203,500 and $162,700 for the years ended June 30, 2019 and 2018, respectively.

NJPAC has instituted a Supplemental 457(b) Retirement Plan that is available to key employees of the organization. This plan is funded by voluntary employee salary deferrals in accordance with regulations established under Section 457(b) of the Internal Revenue Code.

## (10) Advance on Conditional Grant

In 2019, a donor made a $20 million pledge to NJPAC to fund the design and construction of a multi-purpose education and community center (the Center) and the creation of an endowment to support the operating costs of the Center. Of the $20 million pledge, $19.5 million is subject to certain construction-related conditions. The remaining $0.5 million was unconditional and recorded as contributions revenue in the consolidated statements of activities in 2019. Through June 30, 2019, $1 million was received on this pledge. Of the $1 million, $0.9 million remains conditional at June 30, 2019 and was therefore recorded as an advance on conditional grant in the consolidated balance sheets.



(Continued)

## (11) Liquidity and Availability

NJPAC manages its liquidity by developing annual operating and capital budgets that provide sufficient funds for general expenditures. As of June 30, 2019, financial asset and liquidity resources available within one year for general expenditures, such as operating expenses and capital are as follows:

| | | 2019 |
|---|---|---|
| Cash and cash equivalents | $ | 2,657,609 |
| Contributions and grants receivable, due within one year | | 11,619,568 |
| Accounts receivable, net | | 3,523,827 |
| Balance of Board approved endowment spending not yet funded as of June 30, 2019 | | 2,640,000 |
| Total financial assets available for general expenditures within one year | | 20,441,004 |
| Liquidity resources available: | | |
| Special use reserve funds, available for operations upon approval | | 1,598,689 |
| Total financial assets and liquidity resources available within one year | $ | 22,039,693 |

Although NJPAC does not intend to spend from its endowment investment gains, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from NJPAC's unappropriated endowment investment gains balance of $12,686,949 as of June 30, 2019 could be made available, if necessary, and if in accordance with UPMIFA.

## (12) Subsequent Events

NJPAC evaluated events subsequent to June 30, 2019 and through October 31, 2019, the date on which the consolidated financial statements were available to be issued, and noted no events requiring disclosure.