KPMG

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Financial Statements and Schedule

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report

The Board of Directors
New Jersey Performing Arts Center Corporation:

We have audited the accompanying consolidated balance sheets of New Jersey Performing Arts Center Corporation (NJPAC) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of NJPAC's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NJPAC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedule 1 (the Schedule) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 26, 2012

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Balance Sheets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	162,663	300,101
Accounts receivable, net of allowance for doubtful accounts of $19,200 in 2012 and $16,700 in 2011, respectively		1,152,769	989,089
Contributions and grants receivable, net (note 4)		10,058,105	13,718,680
Prepaid expenses and other assets		1,001,025	701,504
Investments (note 3)		62,062,147	66,032,496
Property and equipment, net (note 5)		127,828,059	131,204,550
Total assets	$	202,264,768	212,946,420
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	3,577,707	3,802,062
Advance ticket sales and other deferred revenue		2,357,531	2,094,151
Loans payable (note 6)		7,372,904	5,779,172
Other liabilities (note 2)		390,412	425,570
Total liabilities		13,698,554	12,100,955
Commitments and contingencies (notes 3 and 7)			
Net assets:			
Unrestricted:			
Designated for special purposes, including net investment in property and equipment		115,705,994	124,338,621
Operations		(773,967)	(773,967)
Total unrestricted		114,932,027	123,564,654
Temporarily restricted (note 8)		10,749,811	14,117,756
Permanently restricted – endowment (note 8)		62,884,376	63,163,055
Total net assets		188,566,214	200,845,465
Total liabilities and net assets	$	202,264,768	212,946,420

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statement of Activities

Year ended June 30, 2012

	Unrestricted					
	Operations	Designated for special purposes	Total	Temporarily restricted	Permanently restricted – endowment	Total
Expenses:						
Performance and performance related	$ 11,194,695	1,309,551	12,504,246	—	—	12,504,246
Arts education	2,880,129	678,745	3,558,874	—	—	3,558,874
Theater operations	5,066,949	1,948,420	7,015,369	—	—	7,015,369
Marketing and public affairs	1,783,331	135,381	1,918,712	—	—	1,918,712
Real estate	—	915,171	915,171	—	—	915,171
General and administrative	3,290,223	125,299	3,415,522	—	—	3,415,522
Development	2,011,042	103,148	2,114,190	—	—	2,114,190
	26,226,369	5,215,715	31,442,084	—	—	31,442,084
Operating revenue and other support:						
Earned revenue and gains:						
Performance and performance related	10,602,693	—	10,602,693	—	—	10,602,693
Arts education	934,742	—	934,742	—	—	934,742
Investment income (note 3)	2,670,875	(2,783,567)	(112,692)	(1,329,240)	(39,574)	(1,481,506)
Other business income, net (note 9)	959,915	—	959,915	—	—	959,915
Total earned revenue and gains	15,168,225	(2,783,567)	12,384,658	(1,329,240)	(39,574)	11,015,844
Net contributed revenue:						
Contributions, net (notes 4, 6, and 8)	3,420,905	360,265	3,781,170	2,157,493	60,895	5,999,558
Special events, net (note 9)	1,081,998	—	1,081,998	—	—	1,081,998
Government grants (note 4)	1,065,433	—	1,065,433	—	—	1,065,433
Net assets released from restrictions	3,935,781	260,417	4,196,198	(4,196,198)	—	—
Total net contributed revenue	9,504,117	620,682	10,124,799	(2,038,705)	60,895	8,146,989
	24,672,342	(2,162,885)	22,509,457	(3,367,945)	21,321	19,162,833
Transfers and reclassifications:						
Transfers to cover certain property and equipment activity	(1,060,628)	1,060,628	—	—	—	—
Transfer from nonoperating funds	2,614,655	(2,614,655)	—	—	—	—
Reclassified contributions (note 8)	—	300,000	300,000	—	(300,000)	—
Total transfers and reclassifications	1,554,027	(1,254,027)	300,000	—	(300,000)	—
Decrease in net assets	—	(8,632,627)	(8,632,627)	(3,367,945)	(278,679)	(12,279,251)
Net (deficit) assets at beginning of year	(773,967)	124,338,621	123,564,654	14,117,756	63,163,055	200,845,465
Net (deficit) assets at end of year	$ (773,967)	115,705,994	114,932,027	10,749,811	62,884,376	188,566,214

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statement of Activities

Year ended June 30, 2011

	Unrestricted					
	Operations	**Designated for special purposes**	**Total**	**Temporarily restricted**	**Permanently restricted – endowment**	**Total**
Expenses:						
Performance and performance related	$ 11,467,054	1,683,466	13,150,520	—	—	13,150,520
Arts education	2,678,664	671,093	3,349,757	—	—	3,349,757
Theater operations	5,192,211	1,543,028	6,735,239	—	—	6,735,239
Marketing and public affairs	1,925,559	130,939	2,056,498	—	—	2,056,498
Real estate	—	679,699	679,699	—	—	679,699
General and administrative	3,607,431	127,010	3,734,441	—	—	3,734,441
Development	1,874,456	110,264	1,984,720	—	—	1,984,720
	26,745,375	4,945,499	31,690,874	—	—	31,690,874
Operating revenue and other support:						
Earned revenue and gains:						
Performance and performance related	9,656,680	—	9,656,680	—	—	9,656,680
Arts education	864,558	—	864,558	—	—	864,558
Investment income (note 3)	2,548,186	5,227,032	7,775,218	2,509,110	39,574	10,323,902
Other business income, net (note 9)	1,158,831	—	1,158,831	—	—	1,158,831
Total earned revenue and gains	14,228,255	5,227,032	19,455,287	2,509,110	39,574	22,003,971
Net contributed revenue:						
Contributions, net (notes 4, 6, and 8)	3,337,115	617,367	3,954,482	2,403,025	1,013,404	7,370,911
Special events, net (note 9)	1,200,095	—	1,200,095	—	—	1,200,095
Government grants (note 4)	1,151,508	—	1,151,508	—	—	1,151,508
Net assets released from restrictions	4,856,296	124,310	4,980,606	(4,980,606)	—	—
Total net contributed revenue	10,545,014	741,677	11,286,691	(2,577,581)	1,013,404	9,722,514
	24,773,269	5,968,709	30,741,978	(68,471)	1,052,978	31,726,485
Transfers and reclassifications:						
Transfers to cover certain property and equipment activity	(945,848)	945,848	—	—	—	—
Transfer from nonoperating funds	2,917,954	(2,917,954)	—	—	—	—
Reclassified contributions (note 8)	—	225,000	225,000	—	(225,000)	—
Total transfers and reclassifications	1,972,106	(1,747,106)	225,000	—	(225,000)	—
(Decrease) increase in net assets	—	(723,896)	(723,896)	(68,471)	827,978	35,611
Net (deficit) assets at beginning of year	(773,967)	125,062,517	124,288,550	14,186,227	62,335,077	200,809,854
Net (deficit) assets at end of year	$ (773,967)	124,338,621	123,564,654	14,117,756	63,163,055	200,845,465

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(12,279,251)	35,611
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:			
Depreciation		4,239,378	4,197,293
Provision for doubtful accounts		19,210	67,896
Net realized and unrealized investment losses (gains)		3,144,781	(8,530,490)
Contributions and investment income for endowment		(21,321)	(1,052,978)
Contributions for capital		(7,500)	(30,000)
Changes in assets and liabilities:			
Accounts receivable		(163,680)	(143,280)
Contributions and grants receivable		3,326,186	2,208,560
Prepaid expenses and other assets		(299,521)	214,009
Accounts payable and accrued expenses		(224,355)	(109,434)
Advance ticket sales and other deferred revenue		263,380	(196,678)
Other liabilities		(35,158)	30,247
Net cash used in operating activities		(2,037,851)	(3,309,244)
Cash flows from investing activities:			
Investment in property and equipment		(862,887)	(537,032)
Proceeds from sales of investments		29,523,871	25,046,164
Purchases of investments		(28,698,303)	(26,796,933)
Net cash used in investing activities		(37,319)	(2,287,801)
Cash flows from financing activities:			
Repayment of loans payable		(1,010,784)	(1,654,305)
Proceeds from loans payable		2,604,516	500,000
Cash received for endowment		301,500	2,234,971
Cash received for capital		42,500	367,500
Net cash provided by financing activities		1,937,732	1,448,166
Net decrease in cash and cash equivalents		(137,438)	(4,148,879)
Cash and cash equivalents at beginning of year		300,101	4,448,980
Cash and cash equivalents at end of year	$	162,663	300,101
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	153,376	156,443

See accompanying notes to consolidated financial statements.

(1) Organization

The 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, which started operations as a performing arts center in October 1997, is driven by a five-point mission:

- To present the world's greatest artists in the state's most spectacular setting.
- To convene ongoing civic, social, cultural and intellectual exchanges.
- To engage New Jersey's diverse population.
- To enhance and transform the lives of children and families through arts education.
- To help drive Newark's revitalization.

To achieve its mission, NJPAC performs the following programs:

Performances – NJPAC produces and presents a wide array of artistic programs, which include orchestra, recital, musical theater, dance, jazz, spoken word and pop performances by local, national, and international artists.

Arts education – NJPAC conducts in-school 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; SchoolTime and FamilyTime performances and youth performances; and professional development workshops.

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

Marketing and 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"), which was established on August 7, 1992. 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.

(Continued)

On May 19, 2011, NJPAC formed the Theater Square Development Company, LLC (the "Company"). The Company is a one member limited liability company with NJPAC as the sole member. The Company is a disregarded entity for federal tax purposes. The purpose of the Company 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 Company started operations in July 2011.

(2) Summary of Significant Accounting Policies

Financial Statement Presentation

These consolidated financial statements are presented on the accrual basis of accounting. Net assets and revenues, expenses, 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:

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event. Restricted contributions that are received and released from restriction in the same fiscal year are recorded as unrestricted revenue.

Permanently restricted – endowment net assets – net assets that are subject to donor-imposed stipulations that they be maintained permanently while permitting NJPAC to use or expend part or all of the income derived from the donated assets for general or specific purposes.

Accordingly, NJPAC records gifts of cash and other assets as temporarily restricted contributions 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from 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, and support related to capital projects, deficiencies of certain underwater endowment funds as described in note 8, the Strategic Reserve Fund (see note 4), the President's Fund for Community Engagement and Theater Square Development Company, LLC.

Cash and Cash Equivalents

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

Investments

NJPAC's investments are reported at fair value. 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.

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	98 years
Theater building	50 years
Parking garage	50 years
Other building	30 years
Furniture, fixtures, and improvements	5 to 10 years

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. The conditional asset retirement obligation included in other liabilities is $342,692 and $332,711 at June 30, 2012 and 2011, respectively, which has been adjusted for the accretion of the discount.

Advance Ticket Sales and Other Deferred Revenue

Amounts received for advance ticket sales, space rentals, and fees for future programs are recognized as revenue when the related performances are presented and rental events are held.

Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discount rate used for contributions received during the years ended June 30, 2012 and 2011 was 0.85% and 1.25%, respectively. Amortization of the discount is included in contributions revenue.

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, legal services and office rental in the amount of $307,126 and $346,863 for the years ended June 30, 2012 and 2011, respectively, are recorded as contributions revenue and expense in the accompanying consolidated financial statements.

Other Business Income

Other business income consists of advertising, merchandise sales commission, food services commission and non-performance parking and facilities rentals.

Fair Value of Financial Instruments and Fair Value Hierarchy

Investments are carried at fair value. Contributions and grants receivable are presented in the accompanying consolidated balance sheets at their discounted net realizable value, which approximates fair value. The carrying value of NJPAC's other financial instruments approximates fair value.

Fair value is defined as the exchange price that would be received for 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 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.

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.

Because of the inherent uncertainties of valuation, which may be based on historical cost, appraisals or other estimates that require varying degrees of judgment, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of NJPAC's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

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.

Tax Status

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

There are certain transactions that could be deemed unrelated business income and would result in a tax liability. Management reviews 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.

Reclassifications

Certain reclassifications of 2011 amounts have been made to conform to the 2012 presentation.

(3) Investment

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. Investment decisions are authorized by the Board's Investment Committee, which oversees NJPAC's investment program in accordance with established guidelines.

NJPAC invests in a diversified portfolio with limits on the amount of credit exposure to any one entity.

(Continued)

The following tables summarize NJPAC's investments and other assets by major category in the fair value hierarchy as of June 30, 2012 and 2011:

	June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment strategies:				
Fixed income:				
U.S. corporate debt	$ 14,368,903	—	—	14,368,903
Total	14,368,903	—	—	14,368,903
Mutual funds and stocks:				
Preferred stocks	3,359,836	—	—	3,359,836
Traditional domestic equity funds	4,481,439	—	—	4,481,439
Traditional international equity funds	5,918,396	—	—	5,918,396
Large cap growth funds	12,832,422	—	—	12,832,422
Small-mid cap funds	5,407,649	—	—	5,407,649
Total	31,999,742	—	—	31,999,742
Alternative investment funds:				
Hedged strategies (a)	—	—	12,041,430	12,041,430
Private equity (b)	—	—	2,725,933	2,725,933
Total	—	—	14,767,363	14,767,363
Cash and cash equivalents	926,139	—	—	926,139
Total investments	$ 47,294,784	—	14,767,363	62,062,147

	June 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment strategies:				
Fixed income:				
U.S. corporate debt	$ 18,093,416	—	—	18,093,416
Total	18,093,416	—	—	18,093,416
Mutual funds and stocks:				
Preferred stocks	3,696,591	—	—	3,696,591
Traditional domestic equity funds	8,962,108	—	—	8,962,108
Traditional international equity funds	8,036,061	—	—	8,036,061
Large cap growth funds	5,566,695	—	—	5,566,695
Small-mid cap funds	5,576,908	—	—	5,576,908
Total	31,838,363	—	—	31,838,363
Alternative investment funds:				
Hedged strategies (a)	—	—	13,355,686	13,355,686
Private equity (b)	—	—	1,660,082	1,660,082
Total	—	—	15,015,768	15,015,768
Cash and cash equivalents	1,084,949	—	—	1,084,949
Total investments	$ 51,016,728	—	15,015,768	66,032,496

(a) At June 30, 2012 and 2011, NJPAC's alternative investment fund investments in hedged strategies included $8,154,878 and $9,219,172, respectively, which were not restricted from redemption. The terms and conditions upon which NJPAC may redeem such alternative investment fund investments are 45 or 60 days written notice prior to the redemption date of December 31. Also included are $3,886,552 and $4,136,514, respectively, which are subject to a 3 year lock-up period. At the end of the lock-up period on October 1, 2012, this investment may be redeemed quarterly with 60 days notice on the first day of the calendar year or last day of the quarter. 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.

(b) NJPAC's alternative fund investment in private equity of $2,725,933 and $1,660,082 at June 30, 2012 and 2011, respectively, was made through a limited partnership. The partnership has a limited existence and provides for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions or other factors, a manager may extend the terms of the partnership beyond its 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. Accordingly, the timing and amount of future capital or income distributions in any particular future year are uncertain. Private equity funds employ buyout and venture capital strategies and focus on investments in turn-around situations. Other hedged strategies may require the estimation of fair values by the fund managers in the absence of readily determinable market values.

Basis of Reporting

Registered mutual funds and U.S. Corporate debt are classified in Level 1 of the fair value hierarchy as defined in note 2 because their fair values are based on quoted prices for identical securities in an active market. Investments classified in Level 3 consist of shares or units in non-registered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of NJPAC's interest therein, the level in which a fund's fair value measurement is classified is based on NJPAC's ability to redeem its interest at or near the date of the consolidated balance sheets. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

The following tables present NJPAC's activities for the years ended June 30, 2012 and 2011 for investments classified in Level 3. There were no transfers of investments classified as either Level 1 or Level 2 for the years ended June 30, 2012 or 2011:

		Alternative investment funds	
Level 3 roll forward		**Hedged strategies**	**Private equity**
Fair value at June 30, 2010	$	10,907,996	—
Acquisitions		1,000,000	1,648,287
Net realized and unrealized gains		1,447,690	11,795
Fair value at June 30, 2011		13,355,686	1,660,082
Acquisitions		—	614,083
Net realized and unrealized gains (losses)		(1,314,256)	451,768
Fair value at June 30, 2012	$	12,041,430	2,725,933

The following summarizes investment income components for the years ended June 30, 2012 and 2011:

		2012	**2011**
Investment (loss) income:			
Interest and dividends	$	1,663,275	1,793,412
Net realized (losses) gains		(892,432)	3,288,544
Net unrealized (losses) gains in fair value of investments		(2,252,349)	5,241,946
Investment (loss) income	$	(1,481,506)	10,323,902

NJPAC had a future capital call commitment of $763,716 to its private equity fund as of June 30, 2012. This was subsequently paid in July and August 2012.

(4) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2012 and 2011 are scheduled to be collected as follows:

		2012	**2011**
Amounts due in:			
One year	$	5,320,743	7,846,635
More than one to five years		3,216,036	4,115,932
More than five years		2,389,727	2,850,546
Total contributions and grants receivable		10,926,506	14,813,113
Less allowance for uncollectible contributions and grants receivable		180,000	190,397
Less adjustment to reflect contributions and grants receivable at discounted value		688,401	904,036
Contributions and grants receivable, net	$	10,058,105	13,718,680

The New Jersey State Council on the Arts awarded NJPAC a grant of $1,065,433 and $1,121,508, for fiscal years 2012 and 2011, respectively, for general operating support. A grant receivable of $159,814 and $168,226 for these awards is included in contributions and grants receivable in the accompanying consolidated balance sheets at June 30, 2012 and 2011, respectively. In addition, NJPAC received a grant of $30,000 in 2011 from the National Endowment for the Arts.

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, 2012 and 2011, contributions receivable from The Trust was $1,733,087 and $1,753,087, 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 $2,181,913 are held and managed by NJPAC and recorded as permanently restricted net assets.

NJPAC maintains a Strategic Reserve Fund to account for unrestricted contributions that may only be used for extraordinary operational needs as recommended by management and approved by the executive committee of the Board of Directors. In fiscal year 2012, NJPAC established the President's Fund for Community Engagement in honor of Lawrence P. Goldman. The specified objectives of this fund are 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. Contributions to the Strategic Reserve Fund and President's Fund are reported as special purpose activity in the consolidated statements of activities.

Concentrations of credit risk with respect to the contributions and grants receivable are limited due to the nature of the donors. No more than 19% and 16% of contributions and grants receivable at June 30, 2012 and 2011, respectively, is due from any one donor.

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2012 and 2011:

	2012	2011
Land	$ 22,092,866	22,092,866
Theater building	137,394,113	137,333,560
Parking garage	9,873,823	9,873,823
Other building	4,708,360	4,708,361
Furniture, fixtures, and improvements	12,143,796	11,317,535
Other in-process asset	—	23,926
	186,212,958	185,350,071
Less accumulated depreciation	58,384,899	54,145,521
Property and equipment, net	$ 127,828,059	131,204,550

(6) Loans Payable

Loans payable at June 30, 2012 and 2011 consist of the following:

		2012	2011
JPMorgan Chase, Bank of America, and Wells Fargo (a consortium):			
Term loan with a due date of April 30, 2013. Interest at June 30, 2012 is 3.74% (LIBOR plus 3.50%) (a)	$	2,525,000	2,950,000
Borrowings under a working capital line of credit. Line of credit is available up to $3,000,000 through April 26, 2013. Interest at June 30, 2012 is 2.74% (LIBOR plus 2.50%)		2,500,000	1,500,000
Prudential Foundation:			
Borrowings under an unsecured line of credit of up to $2,000,000 through April 15, 2013. Interest at June 30, 2012 is 3.24% (LIBOR plus 3.0%)		1,500,000	500,000
The City of Newark Office of the Urban Enterprise Zone:			
Borrowings under a loan agreement for up to $700,000 to finance certain real estate predevelopment costs. The loan is payable on June 30, 2015 or on date of closing of project financing, whichever comes first and the interest is payable annually at a rate of 1.0%		700,000	700,000
Other loans		147,904	129,172
Total	$	7,372,904	5,779,172

(a) Collateral for the loans consists 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.

Line of credit borrowings from JPMorgan Chase of $2,500,000 and Prudential Foundation of $1,500,000 were subsequently paid in July through September 2012.

Interest expense for the years ended June 30, 2012 and 2011 was $167,537 and $154,234, respectively.

Required principal payments for the aforementioned loans at June 30, 2012 are as follows:

		Amount
Year ending June 30:		
2013	$	6,628,987
2014		43,917
2015		700,000
	$	7,372,904

(7) Commitments and Contingencies

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. The New Jersey Economic Development Authority (NJEDA) issued $44,000,000 in bonds in July 1996 to assist in the completion of the portion of the Center designated as the Bond Project: the theater building, public plaza, and surface parking areas. The terms of the sublease, as amended, mandate compliance with certain bond covenants and certain operating objectives, which are consistent with NJPAC's mission.

Prior to 1996, the NJEDA acquired titles to the properties and then leased them to the State of New Jersey for a period of 20 years. In the year 2016, title to the property reverts to the State of New Jersey.

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.

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, as amended, NJPAC remitted operating proceeds in the amounts of $410,039 in 2012 and $400,491 in 2011 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. Of the remaining proceeds, NJPAC paid 45% to the Authority, which amounted to $183,802 and $247,274 in 2012 and 2011, respectively. The lease is a net sublease, and all expenses of operation and repair are paid by NJPAC.

(8) Temporarily Restricted and Permanently Restricted – Endowment Net Assets

Temporarily restricted and permanently restricted – endowment net assets at June 30, 2012 and 2011 consist of the following:

		2012	2011
Temporarily restricted:			
Future operations	$	7,031,334	9,697,007
Programming		1,749,926	1,913,326
Arts education		1,946,551	2,499,923
Other programs		22,000	7,500
Total temporarily restricted net assets	$	10,749,811	14,117,756
Permanently restricted – endowment:			
Income to be used for:			
Unrestricted	$	32,986,096	33,235,631
Programming		8,990,000	9,026,276
Arts education		11,880,480	11,880,480
Other programs		9,027,800	9,020,668
Total permanently restricted – endowment net assets	$	62,884,376	63,163,055

Endowment contributions amounted to $60,895 and $1,013,404 for the years ended June 30, 2012 and 2011, respectively. Prior year endowment contributions in the amounts of $300,000 in 2012 and $225,000 in 2011 were redesignated by donors to be used for the Strategic Reserve and Operating Funds.

NJPAC's endowment consists of seventy-three 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.

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. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year end. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The deficiency as of June 30, 2012 and 2011 amounted to approximately $3,476,000 and $692,000, respectively.

(Continued)

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 permanently restricted 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 permanently restricted endowment funds is classified as temporarily restricted net assets until the donor-imposed restrictions have been met.

Spending Policy

Effective July 1, 2011, NJPAC's endowment spending policy was changed from 5% of the trailing 36-month average fair value to 5% of the trailing 12 quarterly average fair value as of March 31 of the preceding fiscal year. Certain permanently restricted gifts require earnings in excess of the spending rate to be held for long-term investment.

The appropriation for endowment spending for fiscal 2013 is $2,860,000.

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 the net asset classes of NJPAC's donor-restricted endowment funds at June 30, 2012 and 2011:

	June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (3,475,651)	2,976,966	62,884,376	62,385,691

	June 30, 2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (692,084)	4,306,274	63,163,055	66,777,245

The following table presents changes in endowments for the years ended June 30, 2012 and 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2010	$	(5,919,116)	1,797,278	62,335,077	58,213,239
Investment income		1,326,287	429,262	6,771	1,762,320
Net realized and unrealized gains		6,425,745	2,079,734	32,803	8,538,282
Contributions, net		—	—	1,013,404	1,013,404
Reclassified contributions		—	—	(225,000)	(225,000)
Appropriation for expenditure		(2,525,000)	—	—	(2,525,000)
Endowment net assets at June 30, 2011		(692,084)	4,306,274	63,163,055	66,777,245
Investment income		130,608	1,476,766	43,964	1,651,338
Net realized and unrealized losses		(248,175)	(2,806,074)	(83,538)	(3,137,787)
Contributions, net		—	—	60,895	60,895
Reclassified contributions		—	—	(300,000)	(300,000)
Appropriation for expenditure		(2,666,000)	—	—	(2,666,000)
Endowment net assets at June 30, 2012	$	(3,475,651)	2,976,966	62,884,376	62,385,691

(9) Expenses

NJPAC reports other business income and special events revenue, net of related expenses in the accompanying consolidated statements of activities. The following presents the gross revenue and expense amounts:

		2012	2011
Other business income	$	3,378,115	4,249,032
Less expenses		2,418,200	3,090,201
Other business income, net	$	959,915	1,158,831
Special events revenue	$	2,173,021	2,139,725
Less expenses		1,091,023	939,630
Special events revenue, net	$	1,081,998	1,200,095

Advertising expenses amounted to approximately $882,000 and $997,000 in 2012 and 2011, respectively.

(10) Retirement Savings Plan

NJPAC has a 401(k) retirement savings plan effective January 1, 2001 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. Expense related to this plan amounted to approximately $118,000 and $147,000 for the years ended June 30, 2012 and 2011, respectively.

(11) Subsequent Events

NJPAC evaluated events subsequent to June 30, 2012 and through October 26, 2012, the date on which the consolidated financial statements were available to be issued. No additional events were identified that are required to be disclosed.

Schedule 1

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Schedule of Functional Expenses

Year ended June 30, 2012
(with comparative totals for 2011)

	Performance and performance related	Arts education	Theater operations	Marketing and public affairs	Real estate	General and administrative	Development	Total expenses 2012	Total expenses 2011
Salaries	$ 1,978,581	1,012,382	2,191,867	1,152,652	490,796	2,038,730	1,168,163	10,033,171	9,363,164
Benefits	562,013	219,986	693,818	220,685	95,829	292,971	234,364	2,319,666	2,220,121
Fees	4,519,600	1,089,458	29,148	131,352	262,834	365,752	142,498	6,540,642	6,634,120
Promotion expenses	2,115,940	177,439	39,555	110,421	322	20,339	169,301	2,633,317	3,077,430
Utilities and maintenance	399,458	91,636	1,319,581	73,345	16,180	18,418	5,006	1,923,624	2,181,218
Travel, conferences, and publications	186,966	83,161	12,835	19,423	5,695	92,405	55,419	455,904	493,909
Printing and reproduction	22,494	7,744	23,725	12,387	2,870	29,370	79,388	177,978	195,234
Office and building supplies	16,086	11,810	265,949	4,749	28,182	30,529	2,981	360,286	386,161
Telecommunications	13,517	—	9,393	1,580	4,699	151,061	1,471	181,721	170,603
Insurance	26,982	7,960	403,913	—	—	—	—	438,855	448,065
Production expense	419,168	34,029	57,119	1,206	—	29,009	—	540,531	441,764
Interest expense	—	—	—	—	—	109,352	—	109,352	88,419
Parking and lease-related expenses	601,770	—	—	—	—	—	—	601,770	614,171
Provision for doubtful accounts	—	—	—	—	—	—	19,210	19,210	67,896
Miscellaneous	332,120	144,524	20,046	55,531	764	112,287	133,241	798,513	1,035,799
	11,194,695	2,880,129	5,066,949	1,783,331	908,171	3,290,223	2,011,042	27,134,540	27,418,074
Special purpose activities:									
Depreciation	1,289,841	673,094	1,925,242	134,352	—	114,485	102,364	4,239,378	4,197,293
Interest expense	19,710	5,651	23,178	1,029	7,000	833	784	58,185	65,816
Miscellaneous costs	—	—	—	—	—	9,981	—	9,981	9,691
	$ 12,504,246	3,558,874	7,015,369	1,918,712	915,171	3,415,522	2,114,190	31,442,084	31,690,874
Other business income expenses								2,418,200	3,090,201
Special events expenses								1,091,023	1,119,630
Total expenses								34,951,307	35,900,705