NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Financial Statements and Schedule

June 30, 2013 and 2012

(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 financial statements of New Jersey Performing Arts Center Corporation (NJPAC), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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, 2013 and 2012, 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.

Other Matter

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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

October 31, 2013

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Balance Sheets

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	1,685,716	162,663
Accounts receivable, net of allowance for doubtful accounts of $33,500 in 2013 and $19,200 in 2012, respectively		1,167,257	1,152,769
Contributions and grants receivable, net (notes 4 and 6)		10,672,311	10,058,105
Prepaid expenses and other assets (note 6)		1,105,274	1,001,025
Investments (note 3)		66,027,585	62,062,147
Property and equipment, net (note 5)		124,661,901	127,828,059
Total assets	$	205,320,044	202,264,768
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	3,782,262	3,577,707
Advance ticket sales and other deferred revenue		2,352,830	2,357,531
Loans payable (note 6)		7,351,292	7,372,904
Other liabilities (notes 2 and 7)		683,309	390,412
Total liabilities		14,169,693	13,698,554
Commitments and contingencies (notes 3 and 7)			
Net assets:			
Unrestricted:			
Designated for special purposes, including net investment in property and equipment		115,647,076	115,705,994
Operations		(773,967)	(773,967)
Total unrestricted		114,873,109	114,932,027
Temporarily restricted (note 8)		13,353,861	10,749,811
Permanently restricted – endowment (note 8)		62,923,381	62,884,376
Total net assets		191,150,351	188,566,214
Total liabilities and net assets	$	205,320,044	202,264,768

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statement of Activities

Year ended June 30, 2013

	Unrestricted: Operations	Unrestricted: Designated for special purposes	Unrestricted: Total	Temporarily restricted	Permanently restricted – endowment	Total
Operating expenses:						
Performance and performance related	$ 14,231,554	1,334,298	15,565,852	—	—	15,565,852
Arts education	2,678,161	573,756	3,251,917	—	—	3,251,917
Theater operations	5,100,694	1,981,793	7,082,487	—	—	7,082,487
Marketing and public affairs	1,955,062	170,460	2,125,522	—	—	2,125,522
Real estate	—	787,107	787,107	—	—	787,107
General and administrative	3,553,666	131,957	3,685,623	—	—	3,685,623
Development	2,017,928	114,288	2,132,216	—	—	2,132,216
	29,537,065	5,093,659	34,630,724	—	—	34,630,724
Operating revenue and other support:						
Earned revenue and gains:						
Performance and performance related	13,520,947	—	13,520,947	—	—	13,520,947
Arts education	1,102,014	—	1,102,014	—	—	1,102,014
Investment income (note 3)	2,864,100	2,841,397	5,705,497	1,686,976	38,021	7,430,494
Other business income, net (note 9)	1,156,296	—	1,156,296	—	—	1,156,296
Total earned revenue and gains	18,643,357	2,841,397	21,484,754	1,686,976	38,021	23,209,751
Net contributed revenue:						
Contributions, net (notes 4, 6 and 8)	6,249,368	1,069,000	7,318,368	4,337,982	984	11,657,334
Special events, net (note 9)	1,235,648	—	1,235,648	—	—	1,235,648
Government grants (note 4)	1,105,433	—	1,105,433	—	—	1,105,433
Net assets released from restrictions	3,019,242	401,666	3,420,908	(3,420,908)	—	—
Total net contributed revenue	11,609,691	1,470,666	13,080,357	917,074	984	13,998,415
	30,253,048	4,312,063	34,565,111	2,604,050	39,005	37,208,166
Nonoperating activities:						
Transfers to cover certain property and equipment activity	(1,340,300)	1,340,300	—	—	—	—
Transfer from nonoperating funds	624,317	(624,317)	—	—	—	—
Change in fair value of interest rate swap (note 6)	—	6,695	6,695	—	—	6,695
Total nonoperating activities	(715,983)	722,678	6,695	—	—	6,695
Increase (decrease) in net assets	—	(58,918)	(58,918)	2,604,050	39,005	2,584,137
Net (deficit) assets at beginning of year	(773,967)	115,705,994	114,932,027	10,749,811	62,884,376	188,566,214
Net (deficit) assets at end of year	$ (773,967)	115,647,076	114,873,109	13,353,861	62,923,381	191,150,351

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 Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 2,584,137	(12,279,251)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,257,398	4,239,378
Provision for doubtful accounts	22,674	19,210
Net realized and unrealized investment (gains) losses	(5,682,071)	3,144,781
Change in fair value of interest rate swap	(6,695)	—
Contributions and investment income for endowment	(36,906)	(21,321)
Contributions for capital	(42,000)	(7,500)
Changes in operating assets and liabilities:		
Accounts receivable	(28,662)	(163,680)
Contributions and grants receivable	(795,028)	3,326,186
Prepaid expenses and other assets	(97,554)	(299,521)
Accounts payable and accrued expenses	204,555	(224,355)
Advance ticket sales and other deferred revenue	(4,701)	263,380
Other liabilities	59,279	(35,158)
Net cash provided by (used in) operating activities	434,426	(2,037,851)
Cash flows from investing activities:		
Investment in property and equipment	(842,940)	(862,887)
Proceeds from sales of investments	20,787,516	29,523,871
Purchases of investments	(19,070,883)	(28,698,303)
Net cash provided by (used in) investing activities	873,693	(37,319)
Cash flows from financing activities:		
Repayment of loans and capital lease payable	(6,686,294)	(1,010,784)
Proceeds from loans	6,650,000	2,604,516
Cash received for endowment	224,228	301,500
Cash received for capital	27,000	42,500
Net cash provided by financing activities	214,934	1,937,732
Net increase (decrease) in cash and cash equivalents	1,523,053	(137,438)
Cash and cash equivalents at beginning of year	162,663	300,101
Cash and cash equivalents at end of year	$ 1,685,716	162,663
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 164,114	153,376
Assets acquired under capital leases	248,300	—

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, 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, 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.

On May 19, 2011, NJPAC formed the Theater Square Development Company, LLC (TSDC) as a one member limited liability company with NJPAC as the sole member. TSDC is a disregarded entity for federal tax purposes. The purpose of TSDC is to provide services and support relating to the development

(Continued)

and operation of real estate owned or leased by NJPAC in furtherance of NJPAC's charitable purposes. TSDC started operations in July 2011.

(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, 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, change in fair value of interest rate swap and support related to capital projects, deficiencies of certain underwater endowment funds (see note 8), the Vision 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 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.

(c) 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.

(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	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. The conditional asset retirement obligation included in other liabilities is $352,973 and $342,692 at June 30, 2013 and 2012, respectively, which has been adjusted for the accretion of the discount.

(f) 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.

(g) Derivative Instruments

Derivative financial instruments are employed to manage risks. NJPAC entered into an interest rate swap agreement 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 unrestricted net assets in the consolidated statements of activities.

(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. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. 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, 2013 and 2012 was 0.63% and 0.85%, 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, legal services and office rental in the amount of $340,998 and $307,126 for the years ended June 30, 2013 and 2012, respectively, are recorded as contributions revenue and expense in the accompanying consolidated financial statements.

(j) Other Business Income

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

(k) 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.

(l) 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.

(m) 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.

(n) Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update explain how to measure fair value. This guidance is effective for the 2013 consolidated financial statements. The adoption of this guidance does not have any impact on NJPAC's consolidated financial statements; it only requires additional disclosures.

(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. 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.

The following tables summarize NJPAC's investments and other assets by major category in the fair value hierarchy as of June 30, 2013 and 2012:

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment strategies:				
Fixed income:				
U.S. corporate debt	$ 11,469,080	—	—	11,469,080
Total	11,469,080	—	—	11,469,080
Mutual funds and stocks:				
Preferred stocks	2,481,969	—	—	2,481,969
Traditional domestic equity funds	4,010,477	—	—	4,010,477
Traditional international equity funds	7,151,561	—	—	7,151,561
Commodities	779,218	—	—	779,218
Large cap growth funds	15,633,941	—	—	15,633,941
Small-mid cap funds	6,434,194	—	—	6,434,194
Total	36,491,360	—	—	36,491,360
Alternative investment funds:				
Hedged strategies (a)	—	—	6,136,977	6,136,977
Private equity (b)	—	—	3,375,071	3,375,071
Total	—	—	9,512,048	9,512,048
Receivable from securities sold	—	3,996,203	—	3,996,203
Cash and cash equivalents	4,558,894	—	—	4,558,894
Total investments	$ 52,519,334	3,996,203	9,512,048	66,027,585

	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

(a) At June 30, 2013 and 2012, NJPAC's alternative investment funds invested in hedged strategies included $6,136,977 and $8,154,878, respectively, which were not restricted from redemption. The terms and conditions upon which NJPAC may redeem such alternative investment funds are 45 or 60 days written notice prior to the redemption date of December 31. One of these investments in the amount of $2,580,743 was redeemed in December 2012. Also included is $3,886,552 at June 30, 2012 which was subject to a three year lock-up period that expired on October 1, 2012. This investment was fully redeemed effective June 30, 2013 and is included as a receivable from securities sold in the amount of $3,996,203, of which $3,596,582, or 90% of the proceeds, was received in July 2013. The balance of $399,621 is expected to be received in fiscal year 2014. 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 investment funds in private equity of $3,375,071, and $2,725,933 at June 30, 2013 and 2012, respectively, were made through two limited partnerships. The 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. 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 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 2 or Level 3 consist of shares or units in nonregistered 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, 2013 and 2012 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, 2013 or 2012:

		Alternative investment funds	
Level 3 roll forward		**Hedged strategies**	**Private equity**
Fair value at June 30, 2011	$	13,355,686	1,660,082
Acquisitions		—	614,083
Net realized and unrealized (losses) gains		(1,314,256)	451,768
Fair value at June 30, 2012		12,041,430	2,725,933
Acquisitions		—	1,432,485
Redemptions		(6,576,946)	(1,325,261)
Net realized and unrealized gains		672,493	541,914
Fair value at June 30, 2013	$	6,136,977	3,375,071

The following summarizes investment income components for the years ended June 30, 2013 and 2012:

		2013	2012
Investment income (loss):			
Interest and dividends	$	1,748,423	1,663,275
Net realized gains (losses)		498,746	(892,432)
Net unrealized gains (losses) in fair value of investments		5,183,325	(2,252,349)
Investment income (loss)	$	7,430,494	(1,481,506)

NJPAC had a future capital call commitment of $1,331,231 to a private equity fund as of June 30, 2013.

(4) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2013 and 2012 are scheduled to be collected as follows:

		2013	2012
Amounts due in:			
One year	$	5,456,953	5,320,743
One to five years		4,167,766	3,216,036
More than five years		1,658,858	2,389,727
Total contributions and grants receivable		11,283,577	10,926,506
Less allowance for uncollectible contributions and grants receivable		33,500	180,000
Less adjustment to reflect contributions and grants receivable at discounted value (0.63% to 4.83%)		577,766	688,401
Contributions and grants receivable, net	$	10,672,311	10,058,105

The New Jersey State Council on the Arts awarded NJPAC grants of $1,065,433 for each of fiscal years 2013 and 2012, respectively, for general operating support. Grant receivables of $159,814 for these awards are included in contributions and grants receivable in the accompanying consolidated balance sheets at June 30, 2013 and 2012. In addition, NJPAC received grants of $20,000 from the National Endowment for the Arts and $20,000 from the County of Essex Board of Chosen Freeholders for fiscal year 2013 only.

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, 2013 and 2012, contributions receivable from The Trust was $1,708,859 and $1,733,087, 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 $2,206,141 are held and managed by NJPAC and recorded as permanently restricted net assets.

NJPAC maintains a Vision 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 Vision 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 16% and 19% of contributions and grants receivable at June 30, 2013 and 2012, respectively, is due from any one donor.

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2013 and 2012:

	2013	2012
Land	$ 22,092,866	22,092,866
Theater building	137,419,251	137,394,113
Parking garage	9,873,823	9,873,823
Other building	4,708,360	4,708,360
Furniture, fixtures, and improvements	13,209,898	12,143,796
	187,304,198	186,212,958
Less accumulated depreciation	62,642,297	58,384,899
Property and equipment, net	$ 124,661,901	127,828,059

(6) Loans Payable

Loans payable at June 30, 2013 and 2012 consist of the following:

		2013	2012
JPMorgan Chase, Bank of America, and Wells Fargo (a consortium):			
Term loan with a due date of April 30, 2013. Loan was paid in full in 2013.	$	—	2,525,000
Borrowings under a working capital line of credit. Line of credit is available up to $3,000,000 through April 26, 2013. Loan was paid in full in 2013.		—	2,500,000
TD Bank:			
Term loan with a due date of March 29, 2020. Loan is payable in specified monthly installments. Interest at June 30, 2013 is 2.20% (LIBOR plus 2.00%). (a)		2,104,001	—
Borrowings under a working capital line of credit. Line of credit is available up to $4,000,000 through March 29, 2014. Interest at June 30, 2013 is 2.20% (LIBOR plus 2.00%).		4,000,000	—
Prudential Foundation:			
Borrowings under an unsecured line of credit of up to $1,000,000 in 2013 and $2,000,000 in 2012, through March 29, 2016. Interest at June 30, 2013 is 3.20% (LIBOR plus 3.00%).		500,000	1,500,000
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. Interest is payable annually at a rate of 1.00%		700,000	700,000
Other loans		47,291	147,904
Total	$	7,351,292	7,372,904

(a) Collateral for the loan 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 TD Bank of $2,500,000 were subsequently paid in July through September 2013.

Interest expense for the years ended June 30, 2013 and 2012 was $160,570 and $167,537, respectively.

(Continued)

Required principal payments for the aforementioned loans at June 30, 2013 are as follows:

		Amount
Year ending June 30:		
2014	$	4,350,047
2015		989,314
2016		798,871
2017		308,992
2018		319,329
later years		584,739
	$	7,351,292

Effective March 29, 2013, NJPAC entered into an interest rate swap agreement (the Agreement) with TD Bank with the intention of fixing its effective interest rate on the variable rate term loan of $2,104,001. 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% (2.20% at June 30, 2013). The term of this interest swap is seven years.

NJPAC has recorded the change in the fair value of interest rate swaps of $6,695 in the consolidated statement of activities for the year ended June 30, 2013 as a change in unrestricted net assets in the nonoperating section. The fair value of the interest rate swap of $6,695 has been recorded in prepaid expenses and other assets in the consolidated balance sheet as of June 30, 2013.

(7) Commitments and Contingencies

(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. 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.

(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, as amended, NJPAC remitted operating proceeds in the amounts of $420,956 in 2013 and $410,039 in 2012 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 $199,035 and $183,802 in 2013 and 2012, respectively. The lease is a net sublease, and all expenses of operation and repair are paid by NJPAC.

(c) Capital Lease

NJPAC leases certain office equipment under a capital lease agreement that expires in fiscal year 2018. The value of the leased equipment of $248,300 is included in property and equipment while the present value of net minimum lease payments is included in other liabilities.

The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

		Amount
Year ending June 30:		
2014	$	82,788
2015		82,788
2016		82,788
2017		82,788
2018		48,293
Total minimum lease payments		379,445
Less amounts representing maintenance fees		(60,500)
Net minimum lease payments		318,945
Less amounts representing interest		(85,327)
Present value of net minimum lease	$	233,618

(d) Operating Leases

NJPAC also leases stage equipment under various operating leases. The following is a schedule by years of future minimum noncancelable rental payments as of June 30, 2013:

		Amount
Year ending June 30:		
2014	$	118,335
2015		94,830
2016		64,289
2017		13,527
Total minimum lease payments	$	290,981

Rent expense for these operating leases amounted to $123,749 and $87,731 for the years ended June 30, 2013 and 2012, respectively.

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

Temporarily restricted and permanently restricted – endowment net assets at June 30, 2013 and 2012 consist of the following:

		2013	**2012**
Temporarily restricted:			
Future operations	$	8,137,510	7,031,334
Programming		2,512,174	1,749,926
Arts education		2,511,370	1,946,551
Other programs		192,807	22,000
Total temporarily restricted net assets	$	13,353,861	10,749,811
Permanently restricted – endowment:			
Income to be used for:			
Unrestricted	$	32,981,869	32,986,096
Programming		9,028,020	8,990,000
Arts education		11,880,480	11,880,480
Other programs		9,033,012	9,027,800
Total permanently restricted – endowment net assets	$	62,923,381	62,884,376

Net endowment contributions amounted to $984 and $60,895 for the years ended June 30, 2013 and 2012, respectively. Prior year endowment contributions in the amounts of $300,000 in 2012 were redesignated by donors to be used for the Vision Fund.

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.

(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. 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, 2013 and 2012 amounted to approximately $634,000 and $3,476,000, respectively.

(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 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.

(c) Spending Policy

Effective for fiscal years 2013 and 2012, NJPAC's endowment spending policy is 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 year 2014 is $3,013,000.

(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.

(Continued)

NJPAC has no board-designated endowment funds. The following represents the net asset classes of NJPAC's donor-restricted endowment funds at June 30, 2013 and 2012:

	June 30, 2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (634,254)	4,663,829	62,923,381	66,952,956

	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

The following table presents changes in endowments for the years ended June 30, 2013 and 2012:

	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
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
Investment income	1,349,794	386,748	8,543	1,745,085
Net realized and unrealized gains	4,351,603	1,300,115	29,478	5,681,196
Contributions, net	—	—	984	984
Appropriation for expenditure	(2,860,000)	—	—	(2,860,000)
Endowment net assets at June 30, 2013	$ (634,254)	4,663,829	62,923,381	66,952,956

(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:

		2013	2012
Other business income	$	3,794,890	3,378,115
Less expenses		2,638,594	2,418,200
Other business income, net	$	1,156,296	959,915
Special events revenue	$	1,898,576	2,173,021
Less expenses		662,928	1,091,023
Special events revenue, net	$	1,235,648	1,081,998

Advertising expenses amounted to approximately $1,501,000 and $1,225,000 in 2013 and 2012, 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. Expenses related to this plan amounted to approximately $118,000 for each of the years ended June 30, 2013 and 2012.

(11) Subsequent Events

NJPAC evaluated events subsequent to June 30, 2013 and through October 31, 2013, 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, 2013
(with comparative totals for 2012)

	Performance and performance related	Arts education	Theater operations	Marketing and public affairs	Real estate	General and administrative	Development	Total expenses 2013	Total expenses 2012
Salaries	$ 2,829,351	913,665	2,039,374	1,302,476	388,569	2,193,793	1,107,840	10,775,068	10,033,171
Benefits	916,583	192,679	654,643	255,540	94,711	312,990	230,710	2,657,856	2,319,666
Fees	5,422,494	983,124	7,190	142,716	265,226	393,451	189,495	7,403,696	6,540,642
Promotion expenses	2,363,399	111,733	32,769	103,324	—	18,310	186,817	2,816,352	2,633,317
Utilities and maintenance	818,962	73,822	1,531,773	78,706	1,242	12,875	3,818	2,521,198	1,923,624
Travel, conferences, and publications	290,965	91,738	16,689	31,138	4,596	101,705	58,160	594,991	455,904
Printing and reproduction	11,860	12,829	15,112	8,648	849	26,015	91,598	166,911	177,978
Office and building supplies	18,993	14,014	253,985	4,291	22,014	39,971	2,181	355,449	360,286
Telecommunications	15,428	—	13,087	1,219	1,217	169,477	906	201,334	181,721
Insurance	41,774	6,497	406,664	—	—	—	—	454,935	438,855
Production expense	463,093	108,194	8,147	230	—	26,025	315	606,004	540,531
Interest expense	—	—	—	—	7,000	114,697	—	121,697	109,352
Parking and lease-related expenses	685,955	—	—	—	—	—	—	685,955	601,770
Provision for doubtful accounts	—	—	—	—	—	—	22,674	22,674	19,210
Miscellaneous	352,697	169,866	121,261	26,774	1,683	144,357	123,414	940,052	798,513
	14,231,554	2,678,161	5,100,694	1,955,062	787,107	3,553,666	2,017,928	30,324,172	27,134,540
Special purpose activities:									
Depreciation	1,319,562	569,931	1,963,597	169,606	—	121,035	113,667	4,257,398	4,239,378
Interest expense	14,736	3,825	18,196	854	—	641	621	38,873	58,185
Miscellaneous costs	—	—	—	—	—	10,281	—	10,281	9,981
	$ 15,565,852	3,251,917	7,082,487	2,125,522	787,107	3,685,623	2,132,216	34,630,724	31,442,084
Other business income expenses								2,638,594	2,418,200
Special events expenses								662,928	1,091,023
Total expenses								$ 37,932,246	34,951,307

See accompanying independent auditors' report.