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NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Financial Statements and Schedule

June 30, 2017 and 2016

(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, 2017 and 2016, 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Performing Arts Center Corporation as of June 30, 2017 and 2016, 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.

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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 24, 2017

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Balance Sheets

June 30, 2017 and 2016

Assets		**2017**	**2016**
Cash and cash equivalents	$	1,384,937	2,129,165
Accounts receivable, net of allowance for doubtful accounts of of $146,500 in 2017 and $85,700 in 2016		2,364,868	1,925,437
Contributions and grants receivable, net (notes 4 and 6)		9,385,290	8,309,490
Prepaid expenses and other assets (note 6)		3,293,501	1,047,919
Investments (note 3)		74,599,133	69,861,266
Property and equipment, net (note 5)		112,427,094	116,354,987
Total assets	$	203,454,823	199,628,264
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	2,531,278	2,444,083
Advance ticket sales and other deferred revenue		3,497,306	3,862,805
Loans payable (note 6)		12,236,305	10,221,315
Other liabilities (notes 2 and 7)		137,855	235,357
Total liabilities		18,402,744	16,763,560
Commitments and contingencies (notes 3 and 7)			
Net assets:			
Unrestricted:			
Designated for special purposes, including net investment in property and equipment		101,024,514	105,604,702
Operations		(634,398)	(700,190)
Total unrestricted		100,390,116	104,904,512
Temporarily restricted (note 8)		21,192,908	14,808,875
Permanently restricted – endowment (note 8)		63,469,055	63,151,317
Total net assets		185,052,079	182,864,704
Total liabilities and net assets	$	203,454,823	199,628,264

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statement of Activities

Year ended June 30, 2017

	Unrestricted					
	Operations	Designated for special purposes	Total	Temporarily restricted	Permanently restricted – endowment	Total
Operating expenses:						
Performance and performance related	$ 20,323,916	1,909,341	22,233,257	—	—	22,233,257
Arts education	3,097,157	592,537	3,689,694	—	—	3,689,694
Theater operations	8,581,590	1,780,095	10,361,685	—	—	10,361,685
Marketing and public affairs	2,081,168	580,994	2,662,162	—	—	2,662,162
Real estate	—	581,686	581,686	—	—	581,686
General and administrative	4,013,032	127,453	4,140,485	—	—	4,140,485
Development	2,591,102	221,085	2,812,187	—	—	2,812,187
	40,687,965	5,793,191	46,481,156	—	—	46,481,156
Operating revenue and other support:						
Earned revenue and gains:						
Performance and performance related	21,645,243	—	21,645,243	—	—	21,645,243
Arts education	642,371	—	642,371	—	—	642,371
Investment income, net (note 3)	3,440,945	209,819	3,650,764	5,739,178	275,559	9,665,501
Other business income	4,358,175	14,150	4,372,325			4,372,325
Total earned revenue and gains	30,086,734	223,969	30,310,703	5,739,178	275,559	36,325,440
Net contributed revenue:						
Contributions, net (notes 4 and 6)	6,546,278	2,988	6,549,266	3,539,463	42,179	10,130,908
Special events, net of expenses of $732,993	1,097,293	—	1,097,293	—	—	1,097,293
Government grants (note 4)	1,032,161	—	1,032,161	—	—	1,032,161
Net assets released from restrictions	2,894,608	—	2,894,608	(2,894,608)	—	—
Total net contributed revenue	11,570,340	2,988	11,573,328	644,855	42,179	12,260,362
	41,657,074	226,957	41,884,031	6,384,033	317,738	48,585,802
Nonoperating activities:						
Transfers to cover certain property and equipment activity	(1,283,622)	1,283,622	—	—	—	—
Transfer from nonoperating funds	316,943	(316,943)	—	—	—	—
Change in fair value of interest rate swap (note 6)	63,362	19,367	82,729	—	—	82,729
Total nonoperating activities	(903,317)	986,046	82,729	—	—	82,729
Increase (decrease) in net assets	65,792	(4,580,188)	(4,514,396)	6,384,033	317,738	2,187,375
Net (deficit) assets at beginning of year	(700,190)	105,604,702	104,904,512	14,808,875	63,151,317	182,864,704
Net (deficit) assets at end of year	$ (634,398)	101,024,514	100,390,116	21,192,908	63,469,055	185,052,079

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statement of Activities

Year ended June 30, 2016

	Unrestricted					
	Operations	**Designated for special purposes**	**Total**	**Temporarily restricted**	**Permanently restricted – endowment**	**Total**
Operating expenses:						
Performance and performance related	$ 19,803,424	2,010,232	21,813,656	—	—	21,813,656
Arts education	3,086,483	493,629	3,580,112	—	—	3,580,112
Theater operations	8,645,897	1,754,086	10,399,983	—	—	10,399,983
Marketing and public affairs	1,978,651	184,912	2,163,563	—	—	2,163,563
Real estate	—	691,043	691,043	—	—	691,043
General and administrative	3,886,873	138,214	4,025,087	—	—	4,025,087
Development	2,530,339	115,410	2,645,749	—	—	2,645,749
	39,931,667	5,387,526	45,319,193	—	—	45,319,193
Operating revenue and other support:						
Earned revenue and gains:						
Performance and performance related	21,394,550	—	21,394,550	—	—	21,394,550
Arts education	544,961	—	544,961	—	—	544,961
Investment income (loss), net (note 3)	3,342,718	(205,039)	3,137,679	(3,701,314)	(189,737)	(753,372)
Other business income	4,438,043	—	4,438,043	—	—	4,438,043
Total earned revenue and gains	29,720,272	(205,039)	29,515,233	(3,701,314)	(189,737)	25,624,182
Net contributed revenue:						
Contributions, net (notes 4 and 6)	7,512,367	—	7,512,367	3,532,328	41,794	11,086,489
Special events, net of expenses of $735,285	1,118,167	—	1,118,167	—	—	1,118,167
Government grants (note 4)	1,065,433	—	1,065,433	—	—	1,065,433
Net assets released from restrictions	2,232,544	45,000	2,277,544	(2,277,544)	—	—
Total net contributed revenue	11,928,511	45,000	11,973,511	1,254,784	41,794	13,270,089
	41,648,783	(160,039)	41,488,744	(2,446,530)	(147,943)	38,894,271
Nonoperating activities:						
Transfers to cover certain property and equipment activity	(1,922,385)	1,922,385	—	—	—	—
Transfer from nonoperating funds	279,046	(279,046)	—	—	—	—
Change in fair value of interest rate swap (note 6)	—	(11,420)	(11,420)	—	—	(11,420)
Total nonoperating activities	(1,643,339)	1,631,919	(11,420)	—	—	(11,420)
Increase (decrease) in net assets	73,777	(3,915,646)	(3,841,869)	(2,446,530)	(147,943)	(6,436,342)
Net (deficit) assets at beginning of year	(773,967)	109,520,348	108,746,381	17,255,405	63,299,260	189,301,046
Net (deficit) assets at end of year	$ (700,190)	105,604,702	104,904,512	14,808,875	63,151,317	182,864,704

See accompanying notes to consolidated financial statements.

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Increase (decrease) in net assets	$	2,187,375	(6,436,342)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation		4,685,890	4,670,241
Provision for doubtful accounts		286,971	30,000
Accretion of asset retirement obligation		—	3,505
Net realized and unrealized investment (gains) loss		(8,875,306)	2,217,554
Change in fair value of interest rate swap		(82,729)	11,420
Contributions and investment income for endowment		(317,738)	(401,281)
Contributions for capital		(15,000)	(837,123)
Changes in operating assets and liabilities:			
Accounts receivable		(614,207)	(514,993)
Contributions and grants receivable		(920,257)	1,459,682
Prepaid expenses and other assets		(2,162,853)	(77,275)
Accounts payable and accrued expenses		87,195	(822,762)
Advance ticket sales and other deferred revenue		(365,499)	738,073
Other liabilities		(38,115)	(206,722)
Net cash used in operating activities		(6,144,273)	(166,023)
Cash flows from investing activities:			
Investment in property and equipment		(757,997)	(910,165)
Proceeds from sales of investments		10,085,110	27,538,340
Purchases of investments		(5,947,671)	(27,474,109)
Net cash provided by (used in) investing activities		3,379,442	(845,934)
Cash flows from financing activities:			
Repayment of loans		(8,233,186)	(7,470,616)
Proceeds from loans		10,248,176	9,000,000
Repayment of capital lease		(59,387)	(51,538)
Cash received for endowment		50,000	279,970
Cash received for capital		15,000	507,500
Net cash provided by financing activities		2,020,603	2,265,316
Net (decrease) increase in cash and cash equivalents		(744,228)	1,253,359
Cash and cash equivalents at beginning of year		2,129,165	875,806
Cash and cash equivalents at end of year	$	1,384,937	2,129,165
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	358,422	244,566
Contributed property and equipment		—	329,623

See accompanying notes to consolidated financial statements.

(1) Organization

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

To achieve its mission, NJPAC performs the following programs:

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

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

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

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). The Fund is also a not-for-profit and a Section 501(c)(3) tax-exempt corporation. The Fund's Board of Directors is identical to that of NJPAC. In accordance with the terms of the Fund, interest and investment income earned on the Fund's assets are to be transferred to NJPAC to partially support NJPAC's arts education programs.

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

(2) Summary of Significant Accounting Policies

(a) Financial Statement Presentation

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

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 in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

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. Expenses are recorded as decreases in unrestricted net assets.

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, the Innovation Fund (see note 4), deficiencies of certain underwater endowment funds (see note 8), the Strategic Reserve Fund (see note 4), the President's Fund for Community Engagement (see note 4) and Theater Square Development Company, LLC.

(b) Cash and Cash Equivalents

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

(c) Investments

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

(d) Capital Acquisitions and Depreciation

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

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

(e) Conditional Asset Retirement Obligations

Conditional asset retirement obligations are to be recognized if a legal obligation exists to perform asset retirement activities and a reasonable estimate of the fair value of the obligation can be made. Remediation took place during the years ended June 30, 2017 and 2016 in the amount of $189,758 and $151,440, respectively. The conditional asset retirement obligation included in other liabilities is $80,591 and $120,349 at June 30, 2017 and 2016, 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 has entered into interest rate swap agreements to manage its exposure to interest rate changes. NJPAC recognizes all derivative instruments in the consolidated balance sheets at fair value. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. These inputs fall within Level 2 of the fair value hierarchy. Changes in the fair value of derivatives are recognized within changes in 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. 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, 2017 and 2016 was 1.34% and 1.07%, respectively. Amortization of the discount is included in contributions revenue.

(i) Contributed Goods and Services

Volunteers and other companies and organizations have donated significant amounts of their time and services in support of NJPAC's operations. Only those amounts for which an objective basis is available to measure the value of such services and which meet certain criteria are reflected in the accompanying consolidated financial statements. Contributed goods and services, which include broadcast equipment, advertising, piano rental, airfare and legal services in the amount of $328,123 and $658,859 for the years ended June 30, 2017 and 2016, respectively, are recorded as contributions revenue and asset or expense in the accompanying consolidated financial statements.

(j) Other Business Income

Other business income consists of merchandise sales commission, food services commission, reimbursement of special event costs and nonperformance parking and facilities rentals.

(k) Fair Value Hierarchy

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

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

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

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

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

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

(Continued)

substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

(l) Advertising Expenses

Advertising expenses amounts to approximately $2,366,000 and $2,598,000 in 2017 and 2016, respectively, and are expensed in the year they are incurred.

(m) Use of Estimates

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

(n) Tax Status

NJPAC is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (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 such transactions to estimate potential tax liabilities using a threshold of more likely than not. It is management's estimation that there are no material tax liabilities that need to be recorded at June 30, 2017 or 2016.

(o) Reclassifications

Certain reclassifications of 2016 amounts have been made to conform to the 2017 presentation.

(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 by major category in the fair value hierarchy as of June 30, 2017 and 2016:

	June 30, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Cash and cash equivalents	$ 12,753,447	12,753,447	—	—
U.S. corproate debt	2,165,537	2,165,537	—	—
Mutual funds and stocks:				
Preferred stocks	1,230,643	1,230,643	—	—
Traditional domestic equity funds	18,237,699	18,237,699	—	—
Traditional international equity funds	11,057,401	11,057,401	—	—
Large cap growth funds	11,175,984	11,175,984	—	—
Small-mid cap funds	7,151,765	7,151,765	—	—
Total	63,772,476	$ 63,772,476	—	—
Alternative investment funds reported at net asset value:				
Hedged strategies (a)	7,363,735			
Private equity (b)	3,462,922			
Total	10,826,657			
Total investments	$ 74,599,133			

	June 30, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Cash and cash equivalents	$ 14,605,003	14,605,003	—	—
U.S. corporate debt	4,538,445	4,538,445	—	—
Mutual funds and stocks:				
Preferred stocks	1,278,913	1,278,913	—	—
Traditional domestic equity funds	16,207,394	16,207,394	—	—

	June 30, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Traditional international equity funds	$ 8,859,448	8,859,448	—	—
Large cap growth funds	8,914,575	8,914,575	—	—
Small-mid cap funds	5,897,454	5,897,454	—	—
Total	60,301,232	$ 60,301,232	—	—
Alternative investment funds reported at net asset value:				
Hedged strategies (a)	5,750,881			
Private equity (b)	3,809,153			
Total	9,560,034			
Total investments	$ 69,861,266			

(a) NJPAC's alternative investments in four hedged strategy funds amounted to $7,363,735 at June 30, 2017 and $5,750,881 in three hedged strategy funds at June 30, 2016. These include $294,948 in 2017 and $380,644 in 2016 which were invested in special situation accounts. Special situation accounts generally are not available for redemption until the respective investments are liquidated. The other hedged strategy funds of $7,068,787 in 2017 have no redemption restrictions and may be redeemed quarterly with 30 day notice. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly.

(b) NJPAC's alternative investment funds in private equity of $3,462,922 and $3,809,153 at June 30, 2017 and 2016, respectively, were made through three limited partnerships in 2017 and two limited partnerships in 2016. 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. The timing and amount of future capital or income distributions of funds are up to the discretion of the fund manager. 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.

NJPAC has future capital call commitments of $2,086,000 to a private equity fund and $1,451,000 to a hedge strategy fund as of June 30, 2017.

The following summarizes investment income (loss) components for the years ended June 30, 2017 and 2016:

		2017	2016
Investment income (loss), net:			
Interest and dividends	$	790,195	1,464,182
Net realized gains		1,008,396	22,770
Net unrealized gains (loss) in fair value of investments		7,866,910	(2,240,324)
Investment income (loss)	$	9,665,501	(753,372)

Investment expenses of approximately $169,700 and $150,300 were netted against investment income for the years ended June 30, 2017 and 2016, respectively.

(4) Contributions and Grants Receivable

Contributions and grants receivable at June 30, 2017 and 2016 are scheduled to be collected as follows:

		2017	2016
Amounts due in:			
One year	$	5,436,393	4,354,020
One to five years		2,912,856	2,887,500
More than five years		1,445,271	1,468,841
Total contributions and grants receivable		9,794,520	8,710,361
Less:			
Allowance for uncollectible contributions and grants receivable		75,000	58,500
Adjustment to reflect contributions and grants receivable at discounted value 0.63% to 3.41%)		334,230	342,371
Contributions and grants receivable, net	$	9,385,290	8,309,490

The New Jersey State Council on the Arts awarded NJPAC grants of $1,012,161 and $1,065,433 for fiscal years 2017 and 2016, respectively, for general operating support. Grant receivables of $253,040 and $266,358 for these awards are included in contributions and grants receivable in the accompanying consolidated balance sheets at June 30, 2017 and 2016.

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, 2017 and 2016, contributions receivable from The Trust was $1,568,840. 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.

(Continued)

These certified donations totaling $19,575,000, as well as The Trust's matching amounts of $2,346,160 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. As of June 30, 2017 and 2016, the Strategic Reserve Fund balance was $1,491,077. NJPAC established the President's Fund for Community Engagement in honor of Lawrence P. Goldman with the specified objectives to support activation and expansion of Arts Education programs in Newark, to sustain community access to NJPAC performances through the ticket subsidy fund and to ensure the continuation of free community events. As of June 30, 2017 and 2016, the President's Fund balance was $378,950 and $628,950, respectively. Contributions to the Strategic Reserve Fund and President's Fund are reported as unrestricted net assets in the consolidated statements of activities.

In fiscal year 2016, NJPAC established the Innovation Fund to account for unrestricted and restricted contributions with the purpose of providing seed funding for new innovative initiatives with the potential of creating ongoing revenue. The Innovation Fund balance as of June 30, 2017 was $746,325, of which $8,967 is reported as unrestricted net assets and $737,358 as temporarily restricted net assets in the 2017 consolidated statement of activities. The Innovation Fund balance as of June 30, 2016 was $952,326, of which $220,954 was reported as unrestricted net assets and $736,285 as temporarily restricted net assets in the 2016 consolidated statement of activities.

Contributions from members of the Board of Directors amounted to approximately $1,526,000 and $895,000 for the years ended June 30, 2017 and 2016, respectively.

Concentrations of credit risk with respect to the contributions and grants receivable and revenue are limited due to the nature of the donors. No more than 14% of contributions and grants receivable at June 30, 2017 and 16% at June 30, 2016 is due from any one donor. Additionally, no more than 8% and 19% of contributions revenue for the years ended June 30, 2017 and 2016, respectively, is from any one donor.

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2017 and 2016:

		2017	2016
Land	$	22,295,341	22,092,866
Theater building		137,469,251	137,469,251
Parking garage		10,421,794	10,380,983
Other building		4,708,360	4,708,360
Furniture, fixtures, and improvements		18,131,534	17,616,823
		193,026,280	192,268,283
Less accumulated depreciation		80,599,186	75,913,296
Property and equipment, net	$	112,427,094	116,354,987

(6) Loans Payable

Loans payable at June 30, 2017 and 2016 consist of the following:

		2017	2016
TD Bank:			
Term loan with a due date of March 29, 2020. Loan is payable in specified monthly installments. Interest at June 30, 2017 is 3.22% (LIBOR plus 2%). (a) (c)	$	904,068	1,213,060
Term loan with a due date of March 30, 2023. Interest is payable at 3.96% monthly from May 1, 2016 to October 1, 2016. Commencing on November 1, 2016, principal and interest are payable in specified monthly installments.(a)		1,817,947	2,000,000
Term loan with a due date of October 2, 2026. Loan is payable in specified monthly installments. Interest at June 30, 2017 is 3.02% (LIBOR plus 1.80%). (a) (d)		2,968,000	—
Borrowings under a working capital line of credit of up to $4,000,000 through December 31, 2017. Interest at June 30, 2017 is 3.22% (LIBOR plus 2%). (a)		4,000,000	4,000,000
Prudential Foundation:			
Term loan with a due date of August 15, 2024. Loan is payable in equal monthly installments of $13,333 plus interest at 3.5%. (b)		1,148,255	1,308,255
Borrowings under an unsecured line of credit of up to $1,000,000 through March 29, 2019. Interest at June 30, 2017 is 4.22% (LIBOR plus 3%).		1,000,000	1,000,000
The City of Newark Office of the Urban Enterprise Zone:			
Borrowings under a loan agreement to finance certain real estate predevelopment costs. $350,000 is payable in quarterly installments of $21,875 beginning on September 8, 2017 plus interest at 5%.		350,000	700,000
Other loan		48,035	—
Total	$	12,236,305	10,221,315

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

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

(c) Effective March 29, 2013, NJPAC entered into an interest rate swap agreement with TD Bank with the intention of fixing its effective interest rates on the variable rate term loan of $904,068. Under the terms of the agreement, NJPAC pays interest at a fixed rate of 3.25% and receives a variable rate of LIBOR plus 2% (3.05% at June 30, 2017). The term of this interest swap is seven years.

(d) Effective October 14, 2016, NJPAC entered into an interest rate swap agreement with TD Bank with the intention of fixing its effective interest rates on the variable rate term loan of $2,968,000. Under the terms of the agreement, NJPAC pays interest at a fixed rate of 3.27% and receives a variable rate of LIBOR plus 1.80%, (2.85% at June 30, 2017). The term of this interest swap is ten years.

NJPAC has recorded the change in the fair value of interest rate swaps of $82,729 and $(11,420) in the consolidated statements of activities for the years ended June 30, 2017 and 2016, respectively, as a change in unrestricted net assets in the nonoperating section. The fair value of the interest rate swaps of $66,564 and ($16,165) has been recorded in prepaid expenses and other assets in the consolidated balance sheets as of June 30, 2017 and 2016.

Interest expense for the years ended June 30, 2017 and 2016 was $323,347 and $276,412, respectively.

Required principal payments for the aforementioned loans at June 30, 2017 are as follows:

	Amount
Year ending June 30:	
2018	$ 6,145,414
2019	1,159,513
2020	1,105,627
2021	899,935
2022	810,495
Thereafter	2,115,321
	$ 12,236,305

(Continued)

(7) Leases

(a) Property Lease

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

Under the terms of the above, rent is payable to the State of New Jersey by NJPAC annually in the amount of any operating surplus, as defined, remaining after $500,000 is transferred annually to a board-designated endowment. The maximum cumulative rent payment due is $44,000,000, with a maximum annual rent of $1,700,000. Once such board-designated endowment reaches a balance of $10,000,000, the Board of Directors shall in good faith allocate any operating surplus between the annual rent and the endowment. As of June 30, 2017, no rent was required to be paid by NJPAC to the State of New Jersey.

(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 (Authority). In accordance with the sublease, as amended, in 2016, NJPAC remitted operating proceeds to the Authority in the amount of $283,073 to offset the debt service on a $5 million bond issued by the City of Newark to fund one half of the cost of renovating the facility. In 2017, NJPAC obtained a ten-year term loan, the proceeds of which were used to retire the outstanding balance of the City of Newark bonds. As a result, in 2017, NJPAC deducted $315,253 from the operating proceeds for the debt service on the loan. Of the remaining proceeds, NJPAC paid 45% to the Authority, which amounted to $549,473 and $382,054 in 2017 and 2016, 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 remaining balance due of $38,884 included in other liabilities will be paid in 2018.

(d) Operating Leases

NJPAC leases stage equipment under various operating leases. The following is a schedule by years of future minimum noncancelable rental payments as of June 30, 2017:

		Amount
Year ending June 30:		
2018	$	97,866
2019		12,701
2020		1,322
Total minimum lease payments	$	111,889

Rent and telecommunications expense for these operating leases amounted to $138,785 and $147,203 for the years ended June 30, 2017 and 2016, respectively.

(e) Ground Lease

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

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

Year ending June 30:		
2018	$	—
2019		—
2020		50,000
2021		100,000
2022		100,000
Later years		30,575,000

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

Temporarily restricted and permanently restricted – endowment net assets at June 30, 2017 and 2016 consist of the following:

		2017	2016
Temporarily restricted:			
Future operations	$	16,005,634	9,278,752
Programming		1,413,995	1,515,185
Arts education		1,685,525	1,949,907
Other programs		2,087,754	2,065,031
Total temporarily restricted net assets	$	21,192,908	14,808,875
Permanently restricted – endowment:			
Income to be used for:			
Unrestricted	$	33,151,400	33,109,223
Programming		9,404,163	9,128,602
Arts education		11,880,480	11,880,480
Other programs		9,033,012	9,033,012
Total permanently restricted – endowment net assets	$	63,469,055	63,151,317

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, 2017 and 2016 amounted to $1,606 and $211,425, 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

NJPAC's endowment spending policy is based on 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.

Effective for the fiscal year 2018, the spending policy was changed to 5% of the trailing 20 quarterly average fair value as of March 31 of the preceding fiscal year. The appropriation for endowment spending for fiscal year 2018 is $3,375,000.

(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.

NJPAC has no board-designated endowment funds. The following represents the net asset classes of NJPAC's donor-restricted endowment funds at June 30, 2017 and 2016:

		June 30, 2017			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$	(1,606)	12,225,160	63,469,055	75,692,609

		June 30, 2016			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$	(211,425)	6,694,037	63,151,317	69,633,929

(Continued)

The following table presents changes in endowments for the years ended June 30, 2017 and 2016:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2015	$	(6,386)	10,406,985	63,299,260	73,699,859
Investment income		388,479	706,610	359,487	1,454,576
Net realized and unrealized gains		(593,518)	(1,079,558)	(549,224)	(2,222,300)
Contributions, net		—	—	41,794	41,794
Appropriation for expenditure		—	(3,340,000)	—	(3,340,000)
Endowment net assets at June 30, 2016		(211,425)	6,694,037	63,151,317	69,633,929
Investment income		17,436	745,485	22,899	785,820
Net realized and unrealized gains		192,383	8,225,638	252,660	8,670,681
Contributions, net		—	—	42,179	42,179
Appropriation for expenditure		—	(3,440,000)	—	(3,440,000)
Endowment net assets at June 30, 2017	$	(1,606)	12,225,160	63,469,055	75,692,609

(9) Retirement Savings Plan

NJPAC has a 401(k) retirement savings plan that covers substantially all regular salaried employees who have attained 21 years of age and completed three months of service. The plan provides for NJPAC matching contributions based on the amount of employees' contributions. Expenses related to this plan, including the match, amounted to approximately $170,000 and $154,000 for the years ended June 30, 2017 and 2016, respectively.

(10) Subsequent Events

NJPAC evaluated events subsequent to June 30, 2017 and through October 24, 2017, the date on which the consolidated financial statements were available to be issued and noted no events requiring disclosure.

Schedule 1

NEW JERSEY PERFORMING ARTS CENTER CORPORATION

Schedule of Functional Expenses

Year ended June 30, 2017
(with comparative totals for 2016)

	Performance and performance related	Arts education	Theater operations	Marketing and public affairs	Real estate	General and administrative	Development	Total expenses 2017	Total expenses 2016
Salaries	$ 2,449,668	1,825,373	2,745,452	1,260,417	117,662	2,389,583	1,408,696	12,196,851	12,267,451
Benefits	674,844	317,100	1,091,721	234,123	35,843	239,396	274,338	2,867,365	2,909,565
Fees	9,971,995	458,089	50,638	654,728	254,311	409,138	394,334	12,193,233	10,932,396
Promotion expenses	2,600,147	124,628	18,182	242,050	5,490	12,988	149,723	3,153,208	3,511,844
Utilities and maintenance	1,245,632	75,269	1,608,998	4,870	4,730	17,237	4,807	2,961,543	2,905,790
Travel, conferences, and publications	525,074	125,824	85,904	58,022	4,472	67,899	71,403	938,598	1,000,887
Printing and reproduction	5,847	6,592	1,512	2,185	249	30,352	75,076	121,813	141,819
Office and building supplies	6,097	34,519	214,116	5,030	23,795	30,422	5,716	319,695	485,883
Telecommunications	1,217	2	9,684	2,939	—	136,455	120	150,417	190,443
Insurance	79,594	4,672	441,111	—	—	—	—	525,377	513,476
Production expense	933,545	22,637	153,966	1,097	87,679	13,528	2,664	1,215,116	1,493,186
Credit card and ticket processing	295,693	1,302	519,884	—	—	—	27,108	843,987	806,135
Interest expense	43,590	—	10,146	—	47,455	204,490	—	305,681	253,676
Parking and lease-related expenses	1,098,109	—	1,619,991	—	—	—	—	2,718,100	2,547,384
Provision for doubtful accounts	100,000	20,000	—	—	—	—	166,971	286,971	30,000
Miscellaneous	292,864	81,150	10,285	23,651	—	461,544	110,151	979,645	632,775
	20,323,916	3,097,157	8,581,590	2,489,112	581,686	4,013,032	2,691,107	41,777,600	40,622,710
Special purpose activities:									
Depreciation	1,902,097	590,694	1,772,522	172,687	—	127,123	120,767	4,685,890	4,670,241
Interest expense	7,244	1,843	7,573	363	—	330	313	17,666	22,737
Miscellaneous costs	—	—	—	—	—	—	—	—	3,505
	$ 22,233,257	3,689,694	10,361,685	2,662,162	581,686	4,140,485	2,812,187	46,481,156	45,319,193
Special events expenses								732,993	735,285
Total expenses								$ 47,214,149	46,054,478

See accompanying independent auditors' report.