MCCARTER THEATRE COMPANY

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

June 30, 2018

MCCARTER THEATRE COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
McCarter Theatre Company

Report on the Financial Statements

We have audited the accompanying financial statements of McCarter Theatre Company (the "Theatre") which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theatre as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, for the year ended June 30, 2018, on our consideration of the Theatre's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Theatre's internal control over financial reporting and compliance.

Mercadien, P.C.
Certified Public Accountants
October 31, 2018

MCCARTER THEATRE COMPANY

STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Current assets								
Cash and cash equivalents	$ 381,523	$ -	$ -	$ 381,523	$ 523,366	$ -	$ -	$ 523,366
Receivables, net	751,540	-	-	751,540	546,445	-	-	546,445
Endowment receivables, net	-	-	339,780	339,780	-	-	348,011	348,011
Government grants receivable	156,705	-	-	156,705	158,705	-	-	158,705
Inventory	-	-	-	-	4,948	-	-	4,948
Prepaid expenses	218,586	-	-	218,586	74,273	-	-	74,273
Total current assets	1,508,354	-	339,780	1,848,134	1,307,737	-	348,011	1,655,748
Non-current assets								
Property and equipment, net	2,693,693	-	-	2,693,693	2,914,868	-	-	2,914,868
Investments	6,377,872	2,444,075	16,827,532	25,649,479	5,008,139	2,270,222	14,709,897	21,988,258
Receivables, net	342,306	-	-	342,306	469,541	-	-	469,541
Endowment receivables, net	-	-	233,179	233,179	-	-	247,797	247,797
Charitable remainder trusts	-	-	350,125	350,125	-	-	350,019	350,019
Restricted investments - letter of credit	152,476	-	-	152,476	152,019	-	-	152,019
Other assets	22,116	-	-	22,116	15,409	-	-	15,409
Total non-current assets	9,588,463	2,444,075	17,410,836	29,443,374	8,559,976	2,270,222	15,307,713	26,137,911
Total Assets	$ 11,096,817	$ 2,444,075	$ 17,750,616	$ 31,291,508	$ 9,867,713	$ 2,270,222	$ 15,655,724	$ 27,793,659
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable and accrued expenses	$ 110,592	$ -	$ -	$ 110,592	$ 227,406	$ -	$ -	$ 227,406
Deferred revenue	1,829,644	-	-	1,829,644	1,615,157	-	-	1,615,157
Line of credit - operating	650,000	-	-	650,000	-	-	-	-
Capital loan, current portion	80,996	-	-	80,996	78,645	-	-	78,645
Total current liabilities	2,671,232	-	-	2,671,232	1,921,208	-	-	1,921,208
Non-current liabilities								
Capital loan, non-current portion	721,252	-	-	721,252	802,137	-	-	802,137
Total Liabilities	3,392,484	-	-	3,392,484	2,723,345	-	-	2,723,345
Net Assets								
Net assets	5,235,121	2,444,075	17,750,616	25,429,812	4,847,179	2,270,222	15,655,724	22,773,125
Board designated net assets	2,469,212	-	-	2,469,212	2,297,189	-	-	2,297,189
Total Net Assets	7,704,333	2,444,075	17,750,616	27,899,024	7,144,368	2,270,222	15,655,724	25,070,314
Total Liabilities and Net Assets	$ 11,096,817	$ 2,444,075	$ 17,750,616	$ 31,291,508	$ 9,867,713	$ 2,270,222	$ 15,655,724	$ 27,793,659

See notes to financial statements.

MCCARTER THEATRE COMPANY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues								
Performance income	$ 5,394,012	$ -	$ -	$ 5,394,012	$ 5,255,218	$ -	$ -	$ 5,255,218
Other program income	608,413	-	-	608,413	379,260	-	-	379,260
Concessions	248,831	-	-	248,831	214,140	-	-	214,140
Building rental fees	291,248	-	-	291,248	379,832	-	-	379,832
Ticket surcharge income	297,533	-	-	297,533	251,429	-	-	251,429
Miscellaneous	86,777	-	-	86,777	65,583	-	-	65,583
Total support and revenues	6,926,814	-	-	6,926,814	6,545,462	-	-	6,545,462
Operating expenses								
Administrative								
General administration	1,698,994	-	-	1,698,994	1,548,616	-	-	1,548,616
Marketing	1,389,203	-	-	1,389,203	1,259,912	-	-	1,259,912
Production	2,483,019	-	-	2,483,019	2,492,418	-	-	2,492,418
Fundraising	593,170	-	-	593,170	482,267	-	-	482,267
Theater	4,960,109	-	-	4,960,109	4,783,918	-	-	4,783,918
Music	267,247	-	-	267,247	250,536	-	-	250,536
Dance	152,815	-	-	152,815	154,884	-	-	154,884
Signature series	1,295,531	-	-	1,295,531	1,122,864	-	-	1,122,864
Building rentals	92,116	-	-	92,116	134,181	-	-	134,181
Concessions	137,585	-	-	137,585	101,542	-	-	101,542
Depreciation	536,823	-	-	536,823	460,533	-	-	460,533
Total operating expenses	13,606,612	-	-	13,606,612	12,791,671	-	-	12,791,671
Operating revenues under operating expenses	(6,679,798)	-	-	(6,679,798)	(6,246,209)	-	-	(6,246,209)

See notes to financial statements.

MCCARTER THEATRE COMPANY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance brought forward	(6,679,798)	-	-	(6,679,798)	(6,246,209)	-	-	(6,246,209)
Non-operating revenue (expenses)								
Benefits revenue	670,969	-	-	670,969	657,530	-	-	657,530
Benefits expense	(383,656)	-	-	(383,656)	(368,808)	-	-	(368,808)
Investment interest and distributions	995,057	187,059	-	1,182,116	760,225	196,079	-	956,304
Realized and unrealized gain, net	1,410,253	254,580	-	1,664,833	888,255	210,943	-	1,099,198
Charitable remainder trusts change	-	-	106	106	-	-	(785)	(785)
Individual contributions	1,299,215	83,107	-	1,382,322	1,315,279	85,715	-	1,400,994
Corporate contributions	238,000	25,000	-	263,000	274,724	6,000	-	280,724
Special projects	-	-	-	-	5,000	-	-	5,000
Foundation contributions	514,000	244,000	-	758,000	442,790	40,328	-	483,118
Government grants	626,820	-	-	626,820	681,820	-	-	681,820
Princeton University contributions	443,656	-	-	443,656	522,029	-	-	522,029
Princeton University in-kind contributions	805,556	-	-	805,556	811,714	-	-	811,714
Endowment contributions	-	-	2,094,786	2,094,786	-	-	2,931,798	2,931,798
Net assets released from restrictions	619,893	(619,893)	-	-	815,662	(815,662)	-	-
Total non-operating revenues	7,239,763	173,853	2,094,892	9,508,508	6,806,220	(276,597)	2,931,013	9,460,636
Change in net assets	559,965	173,853	2,094,892	2,828,710	560,011	(276,597)	2,931,013	3,214,427
Net assets, beginning of year	7,144,368	2,270,222	15,655,724	25,070,314	6,584,357	2,546,819	12,724,711	21,855,887
Net assets, end of year	$ 7,704,333	$ 2,444,075	$ 17,750,616	$ 27,899,024	$ 7,144,368	$ 2,270,222	$ 15,655,724	$ 25,070,314

MCCARTER THEATRE COMPANY

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 2,828,710	$ 3,214,427
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	536,823	460,533
Unrealized and realized gain on investments, net	(1,664,833)	(1,099,198)
Permanently restricted gifts and grants	(2,094,786)	(2,931,798)
Change in allowance for doubtful accounts on receivables	58,684	(20,283)
Change in discount on receivables	(12,820)	(5,998)
Donated securities	(125,880)	(564,447)
Change in assets and liabilities:		
Receivables	(90,782)	553,946
Endowment receivables	(10,093)	189,975
Government grants receivable	2,000	(2,000)
Inventory	4,948	2,543
Prepaid expenses	(144,313)	(50,930)
Charitable remainder trusts	(106)	785
Other assets	(6,707)	1,780
Accounts payable and accrued expenses	(116,814)	88,365
Deferred revenue	214,486	(20,357)
Net cash from operating activities	(621,483)	(182,657)
Cash Flows from Investing Activities		
Purchase of property and equipment	(315,648)	(787,474)
Purchase of investments	(2,012,189)	(3,206,614)
Proceeds from sales of investments	141,225	656,739
Net cash from investing activities	(2,186,612)	(3,337,349)
Cash Flows from Financing Activities		
Advance from operating line of credit	650,000	-
Advance from capital loan	-	768,000
Repayment of capital loan	(78,534)	(19,218)
Investment in permanent endowment	2,094,786	2,931,798
Net cash from financing activities	2,666,252	3,680,580
Net change in cash and cash equivalents	(141,843)	160,574
Cash and cash equivalents, beginning of year	523,366	362,792
Cash and cash equivalents, end of year	$ 381,523	$ 523,366
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 48,140	$ 17,152
Noncash Investing and Financing Activities:		
In-kind rent and building maintenance	$ 805,556	$ 811,714
Donated securities	$ 125,880	$ 564,447

A. NATURE OF ORGANIZATION

McCarter Theatre Company (the “Theatre”), established in 1973, is a public charity, nonprofit corporation located in Princeton, New Jersey. As both a professional producing theater and major presenter of the performing arts, the Theatre has an unwavering commitment to educate, engage and entertain the community. The Theatre extends its artistry into schools and communities to deepen the impact of the work on their stages through their education and engagement programs.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include both designated and undesignated funds.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by the passage of time or which will be fulfilled by actions of the Theatre.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Theatre. Generally, the donors of these assets permit the Theatre to use all or part of the income earned on related investments for general or donor-specified purposes.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the statement of financial position date. Accordingly, actual results could differ from those estimates.

Income Taxes

The Theatre is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that are considered unrelated to the Theatre's mission are subject to tax, which, if incurred, would be recognized as a current expense. No such tax liability has been recognized as of June 30, 2018.

U.S. GAAP requires management to evaluate tax positions taken by the Theatre and recognize a tax liability if the Theatre has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Theatre's tax positions and concluded that the Theatre had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Theatre did not record any interest or penalties on uncertain tax positions in the accompanying statements of financial position as of June 30, 2018 and 2017, or in the accompanying statements of activities for the years then ended. If the Theatre were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, on deposit and in money market funds. The Theatre considers all unrestricted short-term investments with an original maturity of ninety days or less to be cash equivalents unless they are held in the pooled investment portfolio as endowments or agency endowments.

Accounts and Endowments Receivable

Receivables include amounts due from program services and donor support with varying collection terms. Amounts expected to be collected beyond one year are discounted at a risk-adjusted interest rate at the time the promise to give is made. The change in net assets is charged with an allowance for estimated uncollectible amounts based on past experience and an analysis of current accounts receivable collectability. Amounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

Grants Receivable

The Theatre considers all grants receivable to be fully collectible; accordingly, no allowances for doubtful amounts are required. If amounts become uncollectible, they will be charged to the change in net assets when that determination is made.

Property and Equipment

Property and equipment and leasehold improvements purchased, costing in excess of $1,000, and with useful lives greater than one year, are capitalized as assets and recorded at cost, except for donated items, which are recorded at fair value on the date of donation. Depreciation is provided using the straight line method over the estimated lives of the assets according to the following asset classes:

Description	Estimated Life
Equipment	3-5 years
Automotive equipment	5 years
Leasehold improvements	15-25 years
Scenery shops	20 years
Reusable scenery and costumes	3-10 years

Maintenance and repairs which do not extend the useful lives of the related assets are charged to expense as incurred.

Investments

Investments are stated at fair value in the statement of financial position. Due to the timing of the release of the June 30 investment fair values by Princeton University (the "University"), it is the policy of the Theatre that funds held by the University are recorded in the statement of financial position at fair value per unit as of May 31. All interest, dividends, distributions and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investments – Letter of Credit

The Theatre maintains certificates of deposit to meet the letter of credit requirements imposed on the Theatre by various Actors' Unions to ensure payment to union members in the event the Theatre is unable to meet its obligations. Interest rates on the certificates of deposit range from 0.25% to 0.40% and the dates of maturity are through January 2019, as of June 30, 2018.

Deferred Revenue

Ticket sales collected in advance of the pending season and funds received under exchange contracts in advance of their usage are reported as deferred revenue.

Revenue Recognition

Operating revenues are recognized as they are earned.

Contributions including private foundation grants are recognized when the donor makes a promise to give to the Theatre that is, in substance, unconditional. Unconditional promises to give that are due in the next year are reflected as current promises to give and are recorded at their net realizable values. Unconditional promises to give that are due in subsequent years are reflected as non-current promises to give and are recorded at the present value of their net realizable values, using risk adjusted interest rates applicable to the years in which the promises are received to discount the amounts.

Contributions that are based on conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

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

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are reclassified to unrestricted net assets as net assets released from restrictions.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

The Theatre recognizes government contract and government grant revenues as exchange transactions in the statements of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All money not expended in accordance with the grant or contract is recorded as a liability to the grantor as the Theatre does not maintain any equity in the grant or contract.

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

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions

The Theatre records the value of in-kind goods and services as revenue and expense when the in-kind contribution is both budget-relieving and relates to events and programs under the Theatre's control. During the years ended June 30, 2018 and 2017, the Theatre received $805,556 and $811,714, respectively, of in-kind contributions, which consisted of in-kind rent and building maintenance for theater space.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the functional allocation of expenses footnote. Costs are allocated to program, general and administrative, and fundraising based on evaluation of the related benefits of the costs incurred.

Marketing and Advertising Costs

During 2017 the costs of marketing and advertising were expensed as incurred. During 2018 the costs of marketing and advertising were expensed as incurred, with the exception of a portion of costs incurred that pertain to productions that take place in subsequent years, in which case those costs were deferred and matched with the revenues. Marketing and advertising expense amounted to $981,731 and $889,809 for the years ended June 30, 2018 and 2017, respectively.

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments assist entities in 1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and 2) determining whether a contribution is conditional. ASU 2018-08 requires that the Theatre apply this amendment for contributions received in which the Theatre serves as the resource recipient for the year ending June 30, 2020, and for contributions made in which the Theatre serves as the resource provider for the year ending June 30, 2021. The Theatre is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which now requires net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 continues to allow the Theatre to choose between the direct and indirect methods for presenting operating cash flows, eliminating the required presentation or disclosure of the indirect method reconciliation, if using the direct method. Additional enhanced disclosures will be required to present the amounts and purposes of board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. ASU 2016-14 requires the Theatre to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date, including disclosure of the availability of financial assets at the statement of financial position date, affected by 1) its nature, 2) external limits imposed by donors, grantors, laws and contracts with others, and 3) internal limits imposed by governing board decisions. ASU

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

2016-14 requires reporting of expenses by both their natural and functional classification. ASU 2016-14 also requires reporting of investment returns net of external and direct internal investment expenses and removes the requirement to disclose the netting of such investment expenses. ASU 2016-14 requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments. ASU 2016-14 will be effective for the Theatre for the period ending June 30, 2019, with early adoption permitted. The Theatre is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

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

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

Subsequent Events

The Theatre has evaluated events for potential recognition and disclosure that occurred through October 31, 2018, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

C. RECEIVABLES

Receivables are recorded at present value using discount rates ranging between 2% and 4.75% on all receivables expected to be collected beyond one year from the financial statement date for June 30, 2018 and 2017.

C. RECEIVABLES (CONTINUED)

Receivables are expected to be collected as follows:

	June 30, 2018	June 30, 2017
Current		
Receivable in less than one year	$ 778,704	$ 551,922
Less: allowance for doubtful accounts	(27,164)	(5,477)
Net current receivables	751,540	546,445
Non-current		
Receivable in 2 - 5 years	308,000	394,000
Receivable in more than 5 years	100,000	150,000
Less: discount to present value	(45,294)	(67,889)
Less: allowance for doubtful accounts	(20,400)	(6,570)
Net non-current receivables	342,306	469,541
Net receivables	$ 1,093,846	$ 1,015,986

D. ENDOWMENT RECEIVABLES

Endowment receivables are recorded at present value using discount rates ranging between 2% and 4.75% on all receivables expected to be collected beyond one year from the financial statement date for June 30, 2018 and 2017.

Endowment receivables are expected to be collected as follows:

	June 30, 2018	June 30, 2017
Current		
Receivable in less than one year	$ 357,663	$ 353,167
Less: allowance for doubtful accounts	(17,883)	(5,156)
Net current endowment receivables	339,780	348,011
Non-current		
Receivable in 2 - 5 years	270,000	264,403
Less: discount to present value	(23,321)	(13,546)
Less: allowance for doubtful accounts	(13,500)	(3,060)
Net non-current receivables	233,179	247,797
Net endowment receivables	$ 572,959	$ 595,808

E. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2018	June 30, 2017
Equipment	$ 2,873,140	$ 2,417,611
Automotive equipment	137,603	137,603
Leasehold improvements	16,661,867	16,661,867
Scenery shops	1,588,207	1,588,207
Production	79,678	79,678
Reusable scenery and costumes	938,545	1,078,426
Total property and equipment	22,279,040	21,963,392
Less: accumulated depreciation	(19,585,347)	(19,048,524)
Property and equipment, net	$ 2,693,693	$ 2,914,868

Depreciation expense amounted to $536,823 and $460,533 for the years ended June 30, 2018 and 2017, respectively.

F. INVESTMENTS

The Theatre's investments are held primarily in the University's investment pools, including its permanently restricted endowment funds and certain temporarily restricted funds which are managed by the University. These funds are in a combination of debt and equity securities. The Theatre also has endowment funds invested in a mutual fund account with Morgan Stanley. The restricted investments - letter of credit is held in certificates of deposit at PNC Bank.

A summary of investments at fair value is as follows:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PRINCO primary investment pool	$ 6,377,872	$ 2,444,075	$ 16,380,695	$25,202,642
Mutual funds	-	-	446,837	446,837
Total investments	$ 6,377,872	$ 2,444,075	$ 16,827,532	$25,649,479
Restricted investments, letter of credit - certificates of deposit	$ 152,476	$ -	$ -	$ 152,476

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PRINCO primary investment pool	$ 5,008,139	$ 2,270,222	$ 14,295,180	$21,573,541
Mutual funds	-	-	414,717	414,717
Total investments	$ 5,008,139	$ 2,270,222	$ 14,709,897	$21,988,258
Restricted investments, letter of credit - certificates of deposit	$ 152,019	$ -	$ -	$ 152,019

A summary of investment return in the statements of activities and changes in net assets is as follows:

	Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and distributions	$ 995,057	$ 187,059	$ -	$ 1,182,116
Net realized and unrealized gains, net	1,410,253	254,580	-	1,664,833
Total investment return	$ 2,405,310	$ 441,639	$ -	$ 2,846,949

	Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and distributions	$ 760,225	$ 196,079	$ -	$ 956,304
Net realized and unrealized gains, net	888,255	210,943	-	1,099,198
Total investment return	$ 1,648,480	$ 407,022	$ -	$ 2,055,502

G. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Theatre uses various methods including market, income and cost approaches. Based on these approaches, the Theatre often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Theatre utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Theatre is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories::

Level 1 – Determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 – Determined using quoted market prices in active markets for similar assets and liabilities, quoted prices or identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

Level 3 – Determined using inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using Level 3 measurements is typically inactive.

The fair value of the Theatre's investments, including the endowment in the University's "Primary Pool," is determined monthly by the University's Treasurer's Office and made available to all participants in the "Primary Pool."

The following table represents the Theatre's fair value hierarchy for its financial assets measured at fair value on a recurring basis:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 152,476	$ -	$ -	$ 152,476
Mutual funds	446,837	-	-	446,837
Charitable remainder trusts	-	-	350,125	350,125
Total	$ 599,313	$ -	$ 350,125	$ 949,438

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 152,019	$ -	$ -	$ 152,019
Mutual funds	414,717	-	-	414,717
Charitable remainder trusts	-	-	350,019	350,019
Total	$ 566,736	$ -	$ 350,019	$ 916,755

G. FAIR VALUE MEASUREMENTS (CONTINUED)

In accordance with ASU 2015-07, investments measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The following table presents quantitative information about the PRINCO primary pool investments:

	Fair Value at May 31, 2018	Fair Value at May 31, 2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
PRINCO primary pool	$ 25,202,642	$ 21,573,541	$ 0	Daily	1 day

H. CHARITABLE REMAINDER TRUSTS

The Theatre is a 60% and 40% beneficiary of two charitable remainder trusts. The trusts are held by a third-party trustee. The Theatre will receive its portion of the trusts upon the termination of each trust. The recorded balance of the charitable remainder trusts represents the Theatre's allocated percentages of the net present value of the remaining trust assets at June 30, 2018 and 2017, respectively, and are reflected in permanently restricted net assets.

I. OPERATING LINE OF CREDIT

The Theatre entered into an agreement with a financial institution on December 23, 2008, for a $500,000 working capital revolving line of credit. During 2017, the principal amount was raised to a maximum of $1,000,000 and the line of credit agreement is currently extended through January 1, 2019. The line is collateralized by all of the Theatre's business assets. Under the terms of the agreement, the Theatre can borrow against all business assets up to the maximum line of credit. As of June 30, 2018, the amount outstanding on the line of credit was $650,000. As of June 30, 2017, there was no amount outstanding on the line of credit. The interest rate on the line of credit is the London InterBank Offered Rate ("LIBOR") plus 2.75%. At June 30, 2018, the LIBOR was 2.76%.

J. CAPITAL LOAN

The Theatre entered into an agreement with a financial institution on December 23, 2015, for a $900,000 capital line of credit. This line of credit was used to support the development of McCarter's *A Christmas Carol* and an updated website and branding effort. The line was later amended on March 23, 2017, to provide for new repayment terms of the outstanding principal balance. The balance was separated into two term loans (collectively, the "capital loan"). The first loan has an original principal balance of $600,000 which will be repaid in monthly installments of $6,303, including principal and interest, at a fixed rate of 4.72%. The second loan has an original principal balance of $300,000 which will be repaid in monthly installments of $2,500 plus interest outstanding at a floating interest rate of LIBOR plus 2.75%. At June 30, 2018, the LIBOR was 2.76%. Both loans will be repaid through March 2022, at which time a final payment of $485,242 will be due. The Theatre will either satisfy the final payment at that time or refinance the outstanding balance over a future term. The capital loan is collateralized by all of the Theatre's business assets. As of June 30, 2018 and 2017, the outstanding balance of the capital loan is $802,248 and $880,782, respectively. Total principal payments due for the years ending June 30, are as follows:

2019	$ 80,996
2020	83,461
2021	86,045
2022	551,746
Total	$ 802,248

K. NET ASSETS

Unrestricted

Unrestricted net assets are available for the following purposes as designated by the Theatre's Board of Trustees:

	June 30, 2018	June 30, 2017
Long-term investment and board designated reserve	$ 2,469,212	$ 2,187,441
Costs of fundraising campaign	-	109,748
Total board designated unrestricted net assets	2,469,212	2,297,189
Undesignated	5,235,121	4,847,179
Total unrestricted net assets	$ 7,704,333	$ 7,144,368

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes or periods:

	June 30, 2018	June 30, 2017
Fiscal year 2018 productions and operations	$ -	$ 305,196
Fiscal year 2019 productions and operations	336,468	187,000
Fiscal year 2020 productions and operations	171,000	357,000
Fiscal year 2021 productions and operations	261,000	-
Theater series	1,187,920	1,039,647
Presented series	126,263	79,747
Audience access	49,011	39,003
Education and engagement	265,574	222,552
Emerging leaders	46,839	40,077
Total temporarily restricted net assets	$ 2,444,075	$ 2,270,222

Net assets were released from donor restrictions as follows:

	Year Ended June 30, 2018	Year Ended June 30, 2017
Expense incurred to satisfy donor restrictions	$ 187,059	$ 196,079
Time restrictions expired	432,834	619,583
Net assets released from restrictions	$ 619,893	$ 815,662

Permanently Restricted

Permanently restricted net assets at June 30, 2018 and 2017, are restricted for investment in perpetuity, the income from which is expendable to support the following:

	June 30, 2018	June 30, 2017
General operations	$14,964,356	$13,019,464
Theater/theater development	1,019,760	1,019,760
Presented events	741,500	741,500
Audience access	250,000	100,000
Education and engagement	375,000	375,000
Emerging leaders	400,000	400,000
Total permanently restricted net assets	$17,750,616	$15,655,724

See Note N regarding matching contributions from the New Jersey Cultural Trust included in the permanently restricted net assets amount above. The earnings from these funds are available for general operations of the Theatre.

L. ENDOWMENT

The Theatre’s endowment funds consist of several funds established to continue the purpose of the Theatre. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Theatre follows the accounting pronouncement, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which serves as a model act for states to use in enacting legislation. The State of New Jersey follows UPMIFA. *Endowments of Not-for-Profits* also improves disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds). The enhanced disclosures required as a result of the adoption of this pronouncement have been incorporated within this note.

The Theatre's investment in the "Primary Pool" managed by PRINCO, who also manages the University's endowment, consists of a permanently restricted endowment fund, a board-designated fund, and other unrestricted investments. The "Primary Pool" is an equity-based investment portfolio which partners with other investment management firms to invest across diverse asset categories with a long-term investment horizon. Under the terms of the various endowment instruments the Theatre is restricted from utilizing the corpus of the permanently restricted endowment assets for operations. The board-designated funds are available for operations under certain circumstances. The income earned from these assets is available for operations or as stipulated by the donors. The Board of Trustees of the Theatre has interpreted state law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Theatre classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The Theatre considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Theatre and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Theatre.
- The investment policies of the Theatre.

L. ENDOWMENT (CONTINUED)

Changes in endowment net assets were as follows:

	June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Invested endowment assets, beginning of year	$ 2,316,404	$ 1,451,627	$ 14,709,897	$ 18,477,928
Interest and distributions	995,057	187,059	-	1,182,116
Unrealized and realized gains, net	1,410,253	254,580	-	1,664,833
Investment fees	(4,311)	-	-	(4,311)
Net investment return	2,400,999	441,639	-	2,842,638
Contributions	-	-	2,094,786	2,094,786
Endowment receivables collected	-	-	22,849	22,849
Amounts appropriated for expenditure	(995,057)	(187,059)	-	(1,182,116)
Invested endowment assets, end of year	3,722,346	1,706,207	16,827,532	22,256,085
Charitable remainder trusts	-	-	350,125	350,125
Uncollected endowment receivables, net	-	-	572,959	572,959
Total endowment net assets, end of year	$ 3,722,346	$ 1,706,207	$ 17,750,616	$ 23,179,169

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Invested endowment assets, beginning of year	$ 1,432,274	$ 1,240,684	$ 11,596,255	$ 14,269,213
Interest and distributions	760,225	196,079	-	956,304
Unrealized and realized gains, net	888,255	210,943	-	1,099,198
Investment fees	(4,125)	-	-	(4,125)
Net investment return	1,644,355	407,022	-	2,051,377
Contributions	-	-	2,931,798	2,931,798
Endowment receivables collected	-	-	181,844	181,844
Amounts appropriated for expenditure	(760,225)	(196,079)	-	(956,304)
Invested endowment assets, end of year	2,316,404	1,451,627	14,709,897	18,477,928
Charitable remainder trusts	-	-	350,019	350,019
Uncollected endowment receivables, net	-	-	595,808	595,808
Total endowment net assets, end of year	$ 2,316,404	$ 1,451,627	$ 15,655,724	$ 19,423,755

The Theatre has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Theatre must hold in perpetuity or for a donor-specified period. The investment goal for the Theatre's endowment is to preserve and maintain the purchasing power, adjusted for inflation, of the endowment after taking into effect the Endowment Draw Policy, as described below. The Theatre expects its endowment funds, over time, to provide an average annual rate of return to be greater than the return of the S&P 500 index plus inflation. Actual returns in any given year may vary from this amount.

The Theatre updated its Endowment Draw Policy during 2018. The Theatre has a policy of appropriating for distribution an annual endowment draw, which is the result of multiplying a calculated average endowment value by a withdrawal percentage as established by the board of trustees. The board of trustees has determined as part of the most recent strategic plan that the withdrawal percentage would be 5.5% for 2018 (with 6% drawn under the prior method in 2017). The average endowment value is the average of calculations made at the end of each fiscal quarter, each of which averages the then current quarterly balance with the balances of the prior eight fiscal quarters. Each June 30 value will be the value per the audited financial statements. Interim (unaudited) quarter values will be determined using the best historical consistent practice, adjusting for deposits, withdrawals, and market values as provided by the investment advisors.

L. ENDOWMENT (CONTINUED)

Accordingly, over the long term, the Theatre expects the current spending policy to allow its endowment to grow at an annual rate that exceeds inflation. This is consistent with the Theatre's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

M. FUNCTIONAL ALLOCATION OF OPERATING EXPENSES

Operating expenses are allocated according to their functional classifications as follows:

	Year Ended June 30,	
	2018	2017
Program services	$11,314,448	$10,760,788
Management and general	1,698,994	1,548,616
Fundraising	593,170	482,267
Total operating expenses	$13,606,612	$12,791,671

N. NEW JERSEY CULTURAL TRUST

In years prior to the year ended June 30, 2015, the Theatre participated in a New Jersey Cultural Trust (the “Trust”) program of matching grants made to the Theatre’s permanently restricted endowment funds. The Theatre received no matching funds in the years ended June 30, 2018 and 2017. Through the year ended June 30, 2014, the Theatre was provided a matching grant from the Trust. This grant was included as a decrease/increase to permanently restricted net assets. The total contribution made to the Theatre from the Trust was $253,465. This grant was a matching payment based on certified private donations to the Theatre's endowment. This grant, as well as the donations to the permanent endowment previously certified by the Trust, are held and managed by the University and included in permanently restricted endowment funds.

O. DEFINED CONTRIBUTION RETIREMENT PLAN

The Theatre has a defined contribution retirement plan under Section 403(b) (the “Plan”) available to substantially all eligible full-time employees. Under the terms of the Plan, the Theatre will contribute 3% of eligible payroll for employees of the Theatre who are employed for at least two years. The Plan allows for participant contributions and the Theatre, at its discretion, may match those contributions up to an additional 2% of the participants' eligible salary. The Plan expense for the year ended June 30, 2018 and 2017, totaled $158,250 and $180,362, respectively.

P. RELATIONSHIP WITH THE UNIVERSITY

The Theatre has a close relationship with the University. In addition to managing certain Theatre investments, the following relationships exist:

- The property and building used by the Theatre are owned by the University and leased without charge to the Theatre under a lease agreement expiring June 30, 2020. The fair value of the rent for the premises was estimated to be $500,000 for each of the fiscal years ended June 30, 2018 and 2017. This amount is reported as University in-kind contribution revenue and an expense in the statements of activities.

P. RELATIONSHIP WITH THE UNIVERSITY (CONTINUED)

- The University provides repair and maintenance services for the property and building to the Theatre. The cost of the services, which amounted to $305,556 and $311,714 for the years ended June 30, 2018 and 2017, respectively, is reflected as both an expense University in-kind contribution revenue in the financial statements.

- The University provided the Theatre with cash contributions totaling $407,267 for the years ended June 30, 2018 and 2017.

- The University also provided cash contributions to the Theatre to partially support theatrical activities, including artist commissions and readings. For those purposes the University provided the Theatre with cash contributions of $36,389 and $114,762 for the years ended June 30, 2018 and 2017, respectively.

- The University and University Triangle Club use the Theatre's facilities for various projects throughout the year, at no charge.

- The Theatre has entered into a rental agreement with the University for a property located in West Windsor, New Jersey, which serves as the primary location for the Theatre's scenery shop. The rental agreement calls for an annual rent with an increase of one percent per year thereafter, for the term of the lease, which expires June 30, 2020.

  Future minimum payments under the terms of this lease are as follows:

Fiscal year ending June 30,	
2019	$ 143,666
2020	145,103
Total	$ 288,769

- By its organizational by-laws, the Board of Trustees has between 20 and 50 members. Of that number, between five and eight board members are appointed by the President of the University from among the University's staff and faculty, in consultation with the Theatre's board development committee.

Q. CONCENTRATION OF RISK AND UNCERTAINTIES

Custodial Credit Risk

Financial instruments that potentially subject the Theatre to significant concentrations of credit risk consist principally of cash deposits. The Theatre places its interest bearing cash balances in a limited number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per bank. At times, the deposits in the financial institutions may exceed the amount of insurance provided on such deposits. The Theatre monitors the financial health of these financial institutions. Historically, the Theatre has not experienced any credit related losses on deposits.

Investment Risk

Investments are primarily financial instruments which are monetary in nature. Accordingly, interest rates have a more significant impact on performance than do the effects of general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. The investments are subject to risk conditions of the investments' objectives, stock market performance, interest rates, economic conditions and world affairs.

Q. CONCENTRATION OF RISK AND UNCERTAINTIES (CONTINUED)

PRINCO holds and manages significant amounts of the Theatre's investments. The fair value of the PRINCO investments is calculated as of May 31 on an annual basis as discussed in Note B. As such, it is possible that a significant change in the fair value of the PRINCO investments could occur between the May 31 calculation date and the statement of financial position date as a result of market fluctuation.

Concentration of Revenue

The Theatre derives its revenue principally from performance activities, individual, corporate and foundation contributions, and state grants. The Theatre received grants of $626,820 from the New Jersey State Council on the Arts for each of the years ended June 30, 2018 and 2017.

Operating Leases

In addition to the leases with the University described above, the Theatre leases facilities in the Princeton area to provide housing for certain performers and employees. These leases have a term of no more than one year and are renewed annually at the discretion of the Theatre and the lessor.

Collective Bargaining Agreements

The Theatre operates under collective bargaining agreements with various actors, artists and performers' unions which establish the minimum terms and conditions of employment. These agreements are periodically renegotiated in accordance with industry standards and trends.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
McCarter Theatre Company

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of McCarter Theatre Company (the "Theatre") which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Theatre's basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Theatre's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Theatre's internal control. Accordingly, we do not express an opinion on the effectiveness of the Theatre's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Theatre's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Theatre's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Theatre's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadien, P.C.
Certified Public Accountants

October 31, 2018