

MCCARTER THEATRE COMPANY

FINANCIAL STATEMENTS

June 30, 2019 and 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, 2019 and 2018, and the related statements of activities 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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, 2019 and 2018, 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 November 13, 2019 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.

Mercedien, P.C.

Certified Public Accountants

November 13, 2019

MCCARTER THEATRE COMPANY

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Current assets						
Cash and cash equivalents	\$ 558,412	\$ -	\$ 558,412	\$ 381,523	\$ -	\$ 381,523
Receivables, net	752,879	-	752,879	751,540	-	751,540
Endowment receivables, net	-	249,057	249,057	-	339,780	339,780
Government grants receivable	158,299	-	158,299	156,705	-	156,705
Prepaid expenses	284,554	-	284,554	218,586	-	218,586
Total current assets	<u>1,754,144</u>	<u>249,057</u>	<u>2,003,201</u>	<u>1,508,354</u>	<u>339,780</u>	<u>1,848,134</u>
Non-current assets						
Property and equipment, net	2,180,045	-	2,180,045	2,693,693	-	2,693,693
Investments	5,494,102	19,519,405	25,013,507	6,377,872	19,271,607	25,649,479
Receivables, net	300,114	-	300,114	342,306	-	342,306
Endowment receivables, net	-	228,973	228,973	-	233,179	233,179
Charitable remainder trusts	-	336,200	336,200	-	350,125	350,125
Restricted investments - letter of credit	153,291	-	153,291	152,476	-	152,476
Other assets	9,627	-	9,627	22,116	-	22,116
Total non-current assets	<u>8,137,179</u>	<u>20,084,578</u>	<u>28,221,757</u>	<u>9,588,463</u>	<u>19,854,911</u>	<u>29,443,374</u>
Total Assets	<u>\$ 9,891,323</u>	<u>\$ 20,333,635</u>	<u>\$ 30,224,958</u>	<u>\$ 11,096,817</u>	<u>\$ 20,194,691</u>	<u>\$ 31,291,508</u>
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and accrued expenses	\$ 185,103	\$ -	\$ 185,103	\$ 110,592	\$ -	\$ 110,592
Deferred revenue	1,591,883	-	1,591,883	1,829,644	-	1,829,644
Line of credit - operating	874,000	-	874,000	650,000	-	650,000
Capital loan, current portion	83,461	-	83,461	80,996	-	80,996
Total current liabilities	<u>2,734,447</u>	<u>-</u>	<u>2,734,447</u>	<u>2,671,232</u>	<u>-</u>	<u>2,671,232</u>
Non-current liabilities						
Capital loan, non-current portion	640,379	-	640,379	721,252	-	721,252
Total Liabilities	<u>3,374,826</u>	<u>-</u>	<u>3,374,826</u>	<u>3,392,484</u>	<u>-</u>	<u>3,392,484</u>
Net Assets						
Net assets	4,490,021	20,333,635	24,823,656	5,235,121	20,194,691	25,429,812
Board designated net assets	2,026,476	-	2,026,476	2,469,212	-	2,469,212
Total Net Assets	<u>6,516,497</u>	<u>20,333,635</u>	<u>26,850,132</u>	<u>7,704,333</u>	<u>20,194,691</u>	<u>27,899,024</u>
Total Liabilities and Net Assets	<u>\$ 9,891,323</u>	<u>\$ 20,333,635</u>	<u>\$ 30,224,958</u>	<u>\$ 11,096,817</u>	<u>\$ 20,194,691</u>	<u>\$ 31,291,508</u>

See notes to financial statements.

MCCARTER THEATRE COMPANY

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2019 and 2018

	2019			2018*		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues						
Performance income	\$ 5,407,425	\$ -	\$ 5,407,425	\$ 5,394,012	\$ -	\$ 5,394,012
Other program income	664,713	-	664,713	608,413	-	608,413
Concessions	279,153	-	279,153	248,831	-	248,831
Building rental fees	315,841	-	315,841	291,248	-	291,248
Ticket surcharge income	327,321	-	327,321	297,533	-	297,533
Miscellaneous	21,692	-	21,692	86,777	-	86,777
Total support and revenues	<u>7,016,145</u>	<u>-</u>	<u>7,016,145</u>	<u>6,926,814</u>	<u>-</u>	<u>6,926,814</u>
Operating expenses						
Administrative						
General administration	2,144,906	-	2,144,906	1,886,188	-	1,886,188
Marketing	1,305,554	-	1,305,554	1,389,203	-	1,389,203
Production	2,510,977	-	2,510,977	2,302,639	-	2,302,639
Fundraising	630,432	-	630,432	588,433	-	588,433
Theater	4,959,383	-	4,959,383	4,956,765	-	4,956,765
Music	187,233	-	187,233	263,192	-	263,192
Dance	151,899	-	151,899	152,815	-	152,815
Signature series	1,446,432	-	1,446,432	1,302,730	-	1,302,730
Building rentals	111,464	-	111,464	92,116	-	92,116
Concessions	123,783	-	123,783	126,461	-	126,461
Depreciation	560,720	-	560,720	536,823	-	536,823
Total operating expenses	<u>14,132,783</u>	<u>-</u>	<u>14,132,783</u>	<u>13,597,365</u>	<u>-</u>	<u>13,597,365</u>
Operating revenues under operating expenses	<u>(7,116,638)</u>	<u>-</u>	<u>(7,116,638)</u>	<u>(6,670,551)</u>	<u>-</u>	<u>(6,670,551)</u>

*Reclassified

MCCARTER THEATRE COMPANY

STATEMENTS OF ACTIVITIES (CONTINUED)

Years Ended June 30, 2019 and 2018

	2019			2018*		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Balance brought forward	(7,116,638)	-	(7,116,638)	(6,670,551)	-	(6,670,551)
Non-operating revenue (expenses)						
Benefits revenue	677,529	-	677,529	670,969	-	670,969
Benefits expense	(307,481)	-	(307,481)	(388,592)	-	(388,592)
Investment interest and distributions	1,058,669	201,344	1,260,013	995,057	187,059	1,182,116
Realized and unrealized (loss)/gain, net of fees	(91,831)	(16,618)	(108,449)	1,405,942	254,580	1,660,522
Charitable remainder trusts change	-	(13,925)	(13,925)	-	106	106
Individual contributions	1,413,860	274,108	1,687,968	1,299,215	83,107	1,382,322
Corporate contributions	201,500	25,000	226,500	238,000	25,000	263,000
Foundation contributions	400,000	100,000	500,000	514,000	244,000	758,000
Government grants	672,760	-	672,760	626,820	-	626,820
Princeton University contributions	502,477	-	502,477	443,656	-	443,656
Princeton University in-kind contributions	839,368	-	839,368	805,556	-	805,556
Endowment contributions	-	130,986	130,986	-	2,094,786	2,094,786
Net assets released from restrictions	561,951	(561,951)	-	619,893	(619,893)	-
Total non-operating revenues	<u>5,928,802</u>	<u>138,944</u>	<u>6,067,746</u>	<u>7,230,516</u>	<u>2,268,745</u>	<u>9,499,261</u>
Change in net assets	(1,187,836)	138,944	(1,048,892)	559,965	2,268,745	2,828,710
Net assets, beginning of year	<u>7,704,333</u>	<u>20,194,691</u>	<u>27,899,024</u>	<u>7,144,368</u>	<u>17,925,946</u>	<u>25,070,314</u>
Net assets, end of year	<u>\$ 6,516,497</u>	<u>\$ 20,333,635</u>	<u>\$ 26,850,132</u>	<u>\$ 7,704,333</u>	<u>\$ 20,194,691</u>	<u>\$ 27,899,024</u>

*Reclassified

See notes to financial statements.

MCCARTER THEATRE COMPANY

STATEMENTS OF CASH FLOWS Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (1,048,892)	\$ 2,828,710
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	560,720	536,823
Unrealized and realized gain on investments, net	103,996	(1,664,833)
Permanently restricted gifts and grants	(130,986)	(2,094,786)
Change in allowance for doubtful accounts on receivables	2,361	58,684
Change in discount on receivables	(50,883)	(12,820)
Donated securities	(186,617)	(125,880)
Change in assets and liabilities:		
Receivables	63,220	(90,782)
Endowment receivables	121,085	(10,093)
Government grants receivable	(1,594)	2,000
Inventory	-	4,948
Prepaid expenses	(65,968)	(144,313)
Charitable remainder trusts	13,925	(106)
Other assets	12,489	(6,707)
Accounts payable and accrued expenses	74,511	(116,814)
Deferred revenue	(237,760)	214,486
Net cash from operating activities	<u>(770,393)</u>	<u>(621,483)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(47,072)	(315,648)
Purchase of investments	(90,048)	(2,012,189)
Proceeds from sales of investments	807,824	141,225
Net cash from investing activities	<u>670,704</u>	<u>(2,186,612)</u>
Cash Flows from Financing Activities		
Advance from operating line of credit	1,145,000	650,000
Repayment of operating line of credit	(921,000)	-
Repayment of capital loan	(78,408)	(78,534)
Investment in permanent endowment	130,986	2,094,786
Net cash from financing activities	<u>276,578</u>	<u>2,666,252</u>
Net change in cash and cash equivalents	176,889	(141,843)
Cash and cash equivalents, beginning of year	381,523	523,366
Cash and cash equivalents, end of year	<u>\$ 558,412</u>	<u>\$ 381,523</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	<u>\$ 68,217</u>	<u>\$ 48,140</u>
Noncash Investing and Financing Activities:		
In-kind rent and building maintenance	<u>\$ 839,368</u>	<u>\$ 805,556</u>
Donated securities	<u>\$ 186,617</u>	<u>\$ 125,880</u>

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

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 two classes of net assets:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and therefore are expendable for operating purposes. Net assets without donor restrictions include both designated and undesignated funds.
- Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that will be met by actions of the Theatre and/or the passage of time. Net assets with donor restrictions include donor restricted endowment funds requiring investment of a gift in perpetuity or for a specified term as well as the investment return thereon until the returns are appropriated for expenditure.

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 for the years ended June 30, 2019 and 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.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

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, 2019 and 2018, 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:

<u>Description</u>	<u>Estimated Life</u>
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 net assets without donor restrictions, unless their use is time, purpose or restricted in perpetuity by explicit donor stipulations or by law in the reporting period in which the income and gains are recognized.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

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 2020 as of June 30, 2019.

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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Endowment contributions and investments represent net assets restricted in perpetuity by donors. Investment earnings available for distribution are reclassified to net assets without donor restrictions as net assets released from restrictions.

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.

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, 2019 and 2018, the Theatre received \$839,368 and \$805,556, respectively, of in-kind contributions, which consisted of in-kind rent and building maintenance for theater space.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The cost of providing various programs and support services of the Theatre have been summarized on a functional basis in Note N. Accordingly, certain operating costs have been allocated among the functional categories according to the reasonable benefit that the programs derived from these expenses. Expenses directly attributable to a specific functional area of the Theatre are reported as expenses of those functional areas, while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on evaluation of the related benefits of the costs incurred.

Marketing and Advertising Costs

Marketing and advertising costs are 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 are deferred and matched with the associated revenues derived from those costs. Marketing and advertising expense amounted to \$905,711 and \$981,731 for the years ended June 30, 2019 and 2018, respectively.

Recently Adopted Accounting Pronouncement

The Theatre has adopted the Financial Accounting Standards Board ("FASB") ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. The Theatre has communicated qualitative and quantitative information on how it manages 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. The Theatre opted to not disclose liquidity and availability information for 2018 as permitted under the ASU in the year of adoption. As a result, operating expenses are presented in their natural and functional classifications, and the investment expenses are netted against realized loss/gain in the statements of activities. In addition, the Theatre changed its presentation of net assets classes and expanded footnote disclosures as required by the ASU.

Recent Accounting Pronouncements

In June 2018, the FASB issued 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.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

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

Management has evaluated events for potential recognition and disclosure through November 13, 2019, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications have no effect on the change in net assets.

C. AVAILABILITY AND LIQUIDITY

The following represents the Theatre's financial assets available to meet general expenditures over the next twelve months at June 30, 2019:

Financial assets at year end:	
Cash	\$ 558,412
Grants receivable	158,299
Pledges receivable, current	<u>752,879</u>
Total	<u>\$ 1,469,590</u>

The Theatre's goal is generally to maintain minimal financial assets to meet operating expenses as they come due. As part of its liquidity plan, the Theatre has a \$1,000,000 line of credit available to meet cash flow needs, of which \$126,000 was available for use at June 30, 2019. Excess cash is invested in interest-bearing savings accounts and investments as described in Note G. The Theatre has the ability to access McCarter's Board Designated Reserve, which is a portion of the PRINCO primary investment pool, to fund operating expenses. The fair value of these investments at June 30, 2019 was \$2,026,476.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

D. RECEIVABLES

Receivables are recorded at present value using discount rates ranging between 2% and 3% on all receivables expected to be collected beyond one year from the financial statement date for June 30, 2019 and 2018.

Receivables are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Current		
Receivable in less than one year	\$ 778,525	\$ 778,704
Less: allowance for doubtful accounts	<u>(25,646)</u>	<u>(27,164)</u>
Net current receivables	<u>752,879</u>	<u>751,540</u>
Non-current		
Receivable in 2 - 5 years	294,959	308,000
Receivable in more than 5 years	50,000	100,000
Less: discount to present value	(10,349)	(45,294)
Less: allowance for doubtful accounts	<u>(34,496)</u>	<u>(20,400)</u>
Net non-current receivables	<u>300,114</u>	<u>342,306</u>
Net receivables	<u>\$ 1,052,993</u>	<u>\$ 1,093,846</u>

E. ENDOWMENT RECEIVABLES

Endowment receivables are recorded at present value using discount rates ranging between 2% and 3% on all receivables expected to be collected beyond one year from the financial statement date for June 30, 2019 and 2018.

Endowment receivables are expected to be collected as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Current		
Receivable in less than one year	\$ 251,766	\$ 357,663
Less: allowance for doubtful accounts	<u>(2,709)</u>	<u>(17,883)</u>
Net current endowment receivables	<u>249,057</u>	<u>339,780</u>
Non-current		
Receivable in 2 - 5 years	254,813	270,000
Less: discount to present value	(7,383)	(23,321)
Less: allowance for doubtful accounts	<u>(18,457)</u>	<u>(13,500)</u>
Net non-current receivables	<u>228,973</u>	<u>233,179</u>
Net endowment receivables	<u>\$ 478,030</u>	<u>\$ 572,959</u>

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

F. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	<u>2019</u>	<u>2018</u>
Equipment	\$ 2,898,945	\$ 2,873,140
Automotive equipment	137,603	137,603
Leasehold improvements	16,661,867	16,661,867
Scenery shops	1,588,207	1,588,207
Production	100,945	79,678
Reusable scenery and costumes	<u>938,545</u>	<u>938,545</u>
Total property and equipment	22,326,112	22,279,040
Less: accumulated depreciation	<u>(20,146,067)</u>	<u>(19,585,347)</u>
Property and equipment, net	<u>\$ 2,180,045</u>	<u>\$ 2,693,693</u>

Depreciation expense amounted to \$560,720 and \$536,823 for the years ended June 30, 2019 and 2018, respectively.

G. INVESTMENTS

The Theatre's investments are held primarily in the University's investment pools, including its donor restricted endowment funds and certain donor 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, 2019		
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
PRINCO primary investment pool	\$ 5,494,102	\$ 19,100,080	\$ 24,594,182
Mutual funds	-	419,325	419,325
Total investments	<u>\$ 5,494,102</u>	<u>\$ 19,519,405</u>	<u>\$ 25,013,507</u>
Restricted investments, letter of credit - certificates of deposit	<u>\$ 153,291</u>	<u>\$ -</u>	<u>\$ 153,291</u>
	June 30, 2018		
	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
PRINCO primary investment pool	\$ 6,377,872	\$ 18,824,770	\$ 25,202,642
Mutual funds	-	446,837	446,837
Total investments	<u>\$ 6,377,872</u>	<u>\$ 19,271,607</u>	<u>\$ 25,649,479</u>
Restricted investments, letter of credit - certificates of deposit	<u>\$ 152,476</u>	<u>\$ -</u>	<u>\$ 152,476</u>

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

G. INVESTMENTS (CONTINUED)

A summary of investment return in the statements of activities is as follows:

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	Interest and distributions	\$ 1,058,669	\$ 201,344
Realized and unrealized losses, net of fees	(91,831)	(16,618)	(108,449)
Total investment return	<u>\$ 966,838</u>	<u>\$ 184,726</u>	<u>\$ 1,151,564</u>

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
	Interest and distributions	\$ 995,057	\$ 187,059
Realized and unrealized gains, net of fees	1,405,942	254,580	1,660,522
Total investment return	<u>\$ 2,400,999</u>	<u>\$ 441,639</u>	<u>\$ 2,842,638</u>

H. 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 – Quoted market prices for identical assets and liabilities traded in active exchange markets.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

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."

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

H. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 153,291	\$ -	\$ -	\$ 153,291
Mutual funds	419,325	-	-	419,325
Charitable remainder trusts	-	-	336,200	336,200
Total	<u>\$ 572,616</u>	<u>\$ -</u>	<u>\$ 336,200</u>	<u>\$ 908,816</u>

	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	<u>\$ 599,313</u>	<u>\$ -</u>	<u>\$ 350,125</u>	<u>\$ 949,438</u>

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, 2019	Fair Value at May 31, 2018	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
PRINCO primary pool (see Note R)	<u>\$ 24,594,182</u>	<u>\$ 25,202,642</u>	<u>\$ 0</u>	Daily	1 day

I. 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, 2019 and 2018, respectively, and are reflected in net assets with donor restrictions.

J. 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. The principal amount was raised to a maximum of \$1,000,000 in 2017 and the line of credit agreement is currently extended through January 1, 2020. 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, 2019 and 2018, the amount outstanding on the line of credit was \$874,000 and \$650,000, respectively. The interest rate on the line of credit is the London Inter-Bank Offered Rate ("LIBOR") plus 2.75%. At June 30, 2019, the LIBOR was 2.40%.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

K. CAPITAL LOAN

The Theatre entered into an agreement with a financial institution in 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 in 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, 2019, the LIBOR was 2.40%. 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, 2019 and 2018, the outstanding balance of the capital loan is \$723,840 and \$802,248, respectively. Total principal payments due for the years ending June 30, are as follows:

2020	\$ 83,461
2021	86,045
2022	<u>554,334</u>
Total	<u>\$ 723,840</u>

L. NET ASSETS

Without Donor Restrictions

Net assets without donor restrictions are available for the following purposes as designated by the Theatre's Board of Trustees:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Long-term investment and board designated reserve	\$ 2,026,476	\$ 2,469,212
Undesignated	<u>4,490,021</u>	<u>5,235,121</u>
Total net assets without donor restrictions	<u>\$ 6,516,497</u>	<u>\$ 7,704,333</u>

With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Fiscal year 2019 productions and operations	\$ -	\$ 336,468
Fiscal year 2020 productions and operations	292,510	171,000
Fiscal year 2021 productions and operations	74,500	261,000
Fiscal year 2022 productions and operations	206,000	-
Creative catalyst	233,961	-
Theater series	1,175,710	1,187,920
Presented series	122,466	126,263
Audience access	48,187	49,011
Education and engagement	262,031	265,574
Emerging leaders	<u>50,593</u>	<u>46,839</u>
Subtotal	2,465,958	2,444,075

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

L. NET ASSETS (CONTINUED)

Endowments given in perpetuity		
General operations	15,055,440	14,964,356
Theatre/theatre development	1,019,760	1,019,760
Presented events	767,477	741,500
Audience access	250,000	250,000
Education and engagement	375,000	375,000
Emerging leaders	400,000	400,000
Subtotal	<u>17,867,677</u>	<u>17,750,616</u>
Total net assets with donor restrictions	<u>\$20,333,635</u>	<u>\$20,194,691</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows:

	Year Ended June 30,	
	2019	2018
Expense incurred to satisfy donor restrictions	\$ 159,107	\$ 187,059
Time restrictions expired	<u>402,844</u>	<u>432,834</u>
Net assets released from restrictions	<u>\$ 561,951</u>	<u>\$ 619,893</u>

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

M. 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 donor endowment fund restricted in perpetuity, a board-designated fund, and other investments without restrictions. 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 endowment assets restricted in perpetuity 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.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

M. ENDOWMENT (CONTINUED)

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 net assets with donor restrictions (a) the original value of gifts donated to the endowment restricted in perpetuity and (b) the original value of subsequent gifts to the endowment restricted in perpetuity. 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.

Changes in endowment net assets were as follows:

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Invested endowment assets, beginning of year	\$ 3,722,346	\$ 18,533,739	\$ 22,256,085
Interest and distributions	1,058,669	201,344	1,260,013
Unrealized and realized losses, net	(87,378)	(16,618)	(103,996)
Investment fees	(4,453)	-	(4,453)
Net investment return	966,838	184,726	1,151,564
Contributions	-	130,986	130,986
Endowment receivables collected	-	94,929	94,929
Amounts appropriated for expenditure	(1,058,669)	(201,344)	(1,260,013)
Invested endowment assets, end of year	3,630,515	18,743,036	22,373,551
Charitable remainder trusts	-	336,200	336,200
Uncollected endowment receivables, net	-	478,030	478,030
Total endowment net assets, end of year	<u>\$ 3,630,515</u>	<u>\$ 19,557,266</u>	<u>\$ 23,187,781</u>

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Invested endowment assets, beginning of year	\$ 2,316,404	\$ 16,161,524	\$ 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	18,533,739	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	<u>\$ 3,722,346</u>	<u>\$ 19,456,823</u>	<u>\$ 23,179,169</u>

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

M. ENDOWMENT (CONTINUED)

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 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. The Board of Trustees determined that the withdrawal percentage would be increased to 7% for 2019 to support senior level leadership transition and other operational initiatives. The withdrawal percentage was 5.5% for 2018.

Accordingly, over the long term, the Theatre expects that its spending policy will 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.

N. FUNCTIONAL EXPENSES

As described in Note B, the Theatre's expenses have been allocated on a functional basis for the years ended June 30, 2019 and 2018, as follows:

	2019			
	Theatre	Management and General	Fundraising	Total
Salaries	\$ 6,364,584	\$ 781,875	\$ 397,068	\$ 7,543,527
Payroll taxes	376,466	107,335	43,545	527,346
Employee benefits	661,119	90,784	48,883	800,786
Professional fees	20,000	117,100	-	137,100
Advertising	918,307	-	-	918,307
Office	230,191	132,116	6,729	369,036
Information technology	-	275,618	-	275,618
Royalties	210,633	-	-	210,633
Occupancy	1,253,284	75,216	-	1,328,500
Travel	62,472	35,253	1,009	98,734
Conferences	16,866	9,920	10,879	37,665
Insurance	111,349	11,012	-	122,361
Concessions	105,595	-	-	105,595
Cultivation	-	-	114,513	114,513
Other production	781,555	-	-	781,555
Gala	-	-	284,062	284,062
Interest	-	68,217	-	68,217
Depreciation	510,255	50,465	-	560,720
Miscellaneous	-	155,989	-	155,989
Total expenses	<u>\$ 11,622,676</u>	<u>\$ 1,910,900</u>	<u>\$ 906,688</u>	<u>\$ 14,440,264</u>

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

N. FUNCTIONAL EXPENSES (CONTINUED)

	2018			
	Theatre	Management and General	Fundraising	Total
Salaries	\$ 5,948,523	\$ 742,273	\$ 379,973	\$ 7,070,769
Payroll taxes	458,489	110,836	43,413	612,738
Employee benefits	602,690	94,539	59,087	756,316
Professional fees	-	-	55,081	55,081
Advertising	879,512	-	-	879,512
Office	375,945	56,976	44,288	477,209
Information technology	-	245,338	-	245,338
Royalties	209,762	-	-	209,762
Occupancy	1,137,235	72,500	-	1,209,735
Travel	111,059	17,492	892	129,443
Conferences	23,237	11,737	12,128	47,102
Insurance	121,234	11,990	-	133,224
Concessions	137,583	-	-	137,583
Cultivation	-	-	87,867	87,867
Other production	800,208	-	-	800,208
Gala	-	-	383,656	383,656
Interest	-	48,140	-	48,140
Depreciation	488,509	48,314	-	536,823
Miscellaneous	-	165,451	-	165,451
Total expenses	<u>\$ 11,293,986</u>	<u>\$ 1,625,586</u>	<u>\$ 1,066,385</u>	<u>\$ 13,985,957</u>

O. 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 endowment funds restricted in perpetuity. The Theatre received no matching funds in the years ended June 30, 2019 and 2018. 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 net assets with donor restrictions. 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 endowment restricted in perpetuity previously certified by the Trust, are held and managed by the University and included in endowment funds restricted in perpetuity.

P. 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, 2019 and 2018, totaled \$189,176 and \$158,250, respectively.

Q. 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, 2019 and 2018. This amount is reported as University in-kind contribution revenue and an expense in the statements of activities.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Q. 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 \$339,368 and \$305,556 for the years ended June 30, 2019 and 2018, respectively, is reflected as University in-kind contribution revenue and an expense in the financial statements.
- The University provided the Theatre with cash contributions totaling \$407,267 for the years ended June 30, 2019 and 2018.
- 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 \$95,210 and \$36,389 for the years ended June 30, 2019 and 2018, 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. Minimum future payments under the terms of the lease are \$145,103.
- 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.

R. 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.

PRINCO holds and manages significant amounts of the Theatre's investments. The fair value of the PRINCO investments, and thus the Theatre's endowment, 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.

MCCARTER THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

R. CONCENTRATION OF RISK AND UNCERTAINTIES (CONTINUED)

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, 2019 and 2018.

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.

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, 2019, and the related statements of activities 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 November 13, 2019.

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.

Merodien, P.C.

Certified Public Accountants

November 13, 2019