PAPER MILL PLAYHOUSE
Financial Statements
June 30, 2019 and 2018
With Independent Auditor's Report

withum

Paper Mill Playhouse
June 30, 2019 and 2018

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ADVISORY TAX AUDIT

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Paper Mill Playhouse:

We have audited the accompanying financial statements of Paper Mill Playhouse (a not-for-profit corporation) (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses 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.

Auditor's 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Organization'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 Organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paper Mill Playhouse 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the Organization adopted Accounting Standards Update *("ASU") 2016-14*, Not-for-Profit Entities (Topic 958) – Presentation of financial statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

WithumSmith+Brown, PC

October 15, 2019

Paper Mill Playhouse
Statements of Financial Position
June 30, 2019 And 2018

	2019			2018		
Assets	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Current Assets						
Cash and cash equivalents	$ 11,085,200	$ 489,548	$ 11,574,748	$ 9,467,384	$ 1,140,148	$ 10,607,532
Investments	1,829,306	181,855	2,011,161	1,687,546	181,855	1,869,401
Inventory	91,711	--	91,711	75,314	--	75,314
Accounts receivable	50,114	--	50,114	192,050	--	192,050
Unconditional promises to give	288,356	220,000	508,356	204,265	245,000	449,265
Prepaid expenses	289,971	--	289,971	221,987	--	221,987
Deferred subscription campaign costs	43,722	--	43,722	45,862	--	45,862
Total Current Assets	13,678,380	891,403	14,569,783	11,894,408	1,567,003	13,461,411
Restricted investments	114,620	--	114,620	--	--	--
Investments - endowment	--	822,835	822,835	--	822,835	822,835
Unconditional promises to give, net of current portion	--	129,678	129,678	--	168,855	168,855
Property and equipment, at cost, net of accumulated depreciation	3,620,254	--	3,620,254	2,057,575	--	2,057,575
Deposits	41,713	--	41,713	26,463	--	26,463
Total Assets	$ 17,454,967	$ 1,843,916	$ 19,298,883	$ 13,978,446	$ 2,558,693	$ 16,537,139
Liabilities and Net Assets						
Liabilities						
Current Liabilities						
Loans payable	$ 20,742	$ --	$ 20,742	$ 19,400	$ --	$ 19,400
Accounts payable and accrued expenses	526,908	--	526,908	903,671	--	903,671
Salary, payroll taxes and union benefits payable	274,026	--	274,026	513,441	--	513,441
Advance box office revenue	5,997,842	--	5,997,842	5,776,984	--	5,776,984
Deferred enhancement revenue	1,251,504	--	1,251,504	--	--	--
Unredeemed gift certificates	132,564	--	132,564	156,225	--	156,225
Deferred tuition	335,765	--	335,765	318,996	--	318,996
Deferred revenue	--	--	--	1,250	--	1,250
Total Current Liabilities	8,539,351	--	8,539,351	7,689,967	--	7,689,967
Loans payable, net of current portion	71,232	--	71,232	91,974	--	91,974
Accrued vacation	58,919	--	58,919	53,128	--	53,128
Deferred compensation payable	114,620	--	114,620	--	--	--
Total Liabilities	8,784,122	--	8,784,122	7,835,069	--	7,835,069
Commitments and contingencies						
Net Assets						
Without Donor Restrictions						
Property and equipment, net	3,620,254	--	3,620,254	2,057,575	--	2,057,575
Board-designated	3,000,000	--	3,000,000	3,000,000	--	3,000,000
Undesignated	2,050,591	--	2,050,591	1,085,802	--	1,085,802
Total Without Donor Restrictions	8,670,845	--	8,670,845	6,143,377	--	6,143,377
With Donor Restrictions	--	1,843,916	1,843,916	--	2,558,693	2,558,693
Total Net Assets	8,670,845	1,843,916	10,514,761	6,143,377	2,558,693	8,702,070
Total Liabilities and Net Assets	$ 17,454,967	$ 1,843,916	$ 19,298,883	$ 13,978,446	$ 2,558,693	$ 16,537,139

The Notes to Financial Statements are an integral part of these statements.

Paper Mill Playhouse
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019			2018		
Operating Activities	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Public Support and Other Revenue						
Public Support						
Government	$ 719,409	$ --	$ 719,409	$ 750,659	$ 40,000	$ 790,659
Foundations	284,653	310,000	594,653	189,000	75,000	264,000
Corporations	321,351	--	321,351	243,867	75,000	318,867
Individuals	759,990	--	759,990	774,195	147,162	921,357
Fundraising benefits	1,129,833	--	1,129,833	1,103,474	--	1,103,474
Less: direct costs of fundraising benefits	(176,469)	--	(176,469)	(159,305)	--	(159,305)
Donated services	30,224	--	30,224	368,398	--	368,398
Net assets released from restrictions						
Foundations	142,650	(142,650)	--	85,000	(85,000)	--
Corporations	75,000	(75,000)	--	75,000	(75,000)	--
Government	40,000	(40,000)	--	--	--	--
Individuals	12,500	(12,500)	--	36,000	(36,000)	--
Total Public Support	3,339,141	39,850	3,378,991	3,466,288	141,162	3,607,450
Other Revenue						
Ticket sales	11,233,865	--	11,233,865	11,913,752	--	11,913,752
Enhancement and co-production income	1,747,032	--	1,747,032	3,587,408	--	3,587,408
Service charge and facility income	917,352	--	917,352	1,027,147	--	1,027,147
Parking lot income	83,906	--	83,906	92,483	--	92,483
Rental income	112,485	--	112,485	91,156	--	91,156
Concession and restaurant income, net of cost of goods sold	790,339	--	790,339	729,651	--	729,651
Tuition income and miscellaneous education income	700,883	--	700,883	668,123	--	668,123
Playbill income	11,051	--	11,051	12,200	--	12,200
Investment income, net	312,321	--	312,321	214,368	--	214,368
Royalty income	211,233	--	211,233	127,617	--	127,617
Miscellaneous income	39,979	--	39,979	17,438	--	17,438
Total Other Revenue	16,160,446	--	16,160,446	18,481,343	--	18,481,343
Total Public Support and Other Revenue	19,499,587	39,850	19,539,437	21,947,631	141,162	22,088,793
Expenses						
Program Services						
Theatrical productions	15,697,331	--	15,697,331	16,577,919	--	16,577,919
Education and outreach	1,568,319	--	1,568,319	1,615,442	--	1,615,442
Total Program Services	17,265,650	--	17,265,650	18,193,361	--	18,193,361
Supporting Services						
Management and General	1,007,655	--	1,007,655	959,197	--	959,197
Fundraising	1,064,159	--	1,064,159	982,178	--	982,178
Total Supporting Services	2,071,814	--	2,071,814	1,941,375	--	1,941,375
Total Expenses	19,337,464	--	19,337,464	20,134,736	--	20,134,736
Increase in net assets before non-operating activities (carried forward)	162,123 *	39,850	201,973	1,812,895 *	141,162	1,954,057

* Includes depreciation and amortization expense of $274,129 (2019) and $143,423 (2018)

	2019	2018
Increase in net assets before non-operating activities and depreciation and amortization expense	$ 436,252	$ 1,956,318

The Notes to Financial Statements are an integral part of these statements.

Paper Mill Playhouse
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
Increase in net assets before non-operating activities (brought forward)	$ 162,123	$ 39,850	$ 201,973	$ 1,812,895	$ 141,162	$ 1,954,057
Non-Operating Activities						
Capital contributions						
Individuals	--	1,570,718	1,570,718	--	150,000	150,000
Foundations	--	40,000	40,000	50,000	17,650	67,650
Government	--	--	--	8,750	--	8,750
Net assets released from restrictions - capital Individuals	2,365,345	(2,365,345)	--	--	--	--
Total Non-Operating Activities	2,365,345	(754,627)	1,610,718	58,750	167,650	226,400
Increase (Decrease) in net assets	2,527,468	(714,777)	1,812,691	1,871,645	308,812	2,180,457
Net assets, beginning of year	6,143,377	2,558,693	8,702,070	4,271,732	2,249,881	6,521,613
Net Assets, End of Year	$ 8,670,845	$ 1,843,916	$ 10,514,761	$ 6,143,377	$ 2,558,693	$ 8,702,070

The Notes to Financial Statements are an integral part of these statements.

Paper Mill Playhouse
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services			Supporting Services			2019
	Theatrical Productions	Education and Outreach	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	$ 6,516,972	$ 701,532	$ 7,218,504	$ 234,152	$ 665,921	$ 900,073	$ 8,118,577
Benefits and payroll taxes	2,118,994	146,360	2,265,354	51,431	149,493	200,924	2,466,278
Artistic fees	1,630,205	4,409	1,634,614	750	--	750	1,635,364
Professional services	116,937	48,479	165,416	141,834	3,698	145,532	310,948
Production costs	2,249,544	12,625	2,262,169	--	--	--	2,262,169
Advertising and marketing	1,470,592	32,829	1,503,421	--	1,471	1,471	1,504,892
Travel and transportation	319,595	37,527	357,122	7,493	2,666	10,159	367,281
Telephone and postage	22,757	12,659	35,416	17,950	12,724	30,674	66,090
Repairs, maintenance and utilities	356,173	148,937	505,110	89,362	29,787	119,149	624,259
Supplies and materials	17,514	11,114	28,628	7,813	4,619	12,432	41,060
Insurance	180,050	90,025	270,075	157,544	22,506	180,050	450,125
Concession and restaurant cost of goods sold	404,198	--	404,198	--	--	--	404,198
Direct costs of fundraising benefits	--	--	--	--	176,469	176,469	176,469
Indirect benefit expenses	--	--	--	--	38,955	38,955	38,955
Office expenses (meetings, hospitality and general)	175,889	143,971	319,860	69,510	58,179	127,689	447,549
Computers and software	46,926	23,465	70,391	41,060	5,965	47,025	117,416
Dues and memberships	16,257	8,011	24,268	14,020	2,402	16,422	40,690
Space rental	323,471	76,619	400,090	77,553	11,374	88,927	489,017
Printing and reproduction	--	1,149	1,149	--	26,522	26,522	27,671
Bank charges and credit card processing fees	25,803	13,673	39,476	1,238	14,171	15,409	54,885
Depreciation and amortization	109,652	54,826	164,478	95,945	13,706	109,651	274,129
Bad debt expense	--	109	109	--	--	--	109
Total expenses	16,101,529	1,568,319	17,669,848	1,007,655	1,240,628	2,248,283	19,918,131
Less expenses included with revenues on the statements of activities							
Concession and restaurant cost of goods sold	(404,198)	--	(404,198)	--	--	--	(404,198)
Direct costs of fundraising benefits	--	--	--	--	(176,469)	(176,469)	(176,469)
Total Expenses, 2019	$ 15,697,331	$ 1,568,319	$ 17,265,650	$ 1,007,655	$ 1,064,159	$ 2,071,814	$ 19,337,464

The Notes to Financial Statements are an integral part of these statements.

Paper Mill Playhouse
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services			Supporting Services			2018
	Theatrical Productions	Education and Outreach	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	$ 6,874,771	$ 779,758	$ 7,654,529	$ 269,794	$ 541,365	$ 811,159	$ 8,465,688
Benefits and payroll taxes	2,191,742	158,497	2,350,239	47,959	118,629	166,588	2,516,827
Artistic fees	1,262,144	5,303	1,267,447	750	--	750	1,268,197
Professional services	159,408	64,506	223,914	119,162	32,618	151,780	375,694
Production costs	2,673,001	5,560	2,678,561	1,194	70	1,264	2,679,825
Advertising and marketing	1,963,395	41,805	2,005,200	--	1,150	1,150	2,006,350
Travel and transportation	336,068	30,810	366,878	1,278	1,023	2,301	369,179
Telephone and postage	22,026	13,540	35,566	17,745	18,925	36,670	72,236
Repairs, maintenance and utilities	339,074	154,124	493,198	92,475	30,825	123,300	616,498
Supplies and materials	20,791	11,622	32,413	7,683	4,748	12,431	44,844
Insurance	167,790	83,895	251,685	146,817	20,974	167,791	419,476
Concession and restaurant cost of goods sold	382,389	--	382,389	--	--	--	382,389
Direct costs of fundraising benefits	--	--	--	--	159,305	159,305	159,305
Indirect benefit expenses	--	--	--	--	38,716	38,716	38,716
Office expenses (meetings, hospitality and general)	189,812	127,986	317,798	74,984	95,611	170,595	488,393
Computers and software	61,629	30,415	92,044	53,226	7,604	60,830	152,874
Dues and memberships	8,520	4,130	12,650	7,227	1,244	8,471	21,121
Space rental	226,604	59,815	286,419	67,926	10,242	78,168	364,587
Printing and reproduction	--	1,976	1,976	--	36,264	36,264	38,240
Bank charges and credit card processing fees	23,774	12,971	36,745	779	14,999	15,778	52,523
Depreciation and amortization	57,370	28,684	86,054	50,198	7,171	57,369	143,423
Bad debt expense	--	45	45	--	--	--	45
Total expenses	16,960,308	1,615,442	18,575,750	959,197	1,141,483	2,100,680	20,676,430
Less expenses included with revenues on the statements of activities							
Concession and restaurant cost of goods sold	(382,389)	--	(382,389)	--	--	--	(382,389)
Direct costs of fundraising benefits	--	--	--	--	(159,305)	(159,305)	(159,305)
Total Expenses, 2018	$ 16,577,919	$ 1,615,442	$ 18,193,361	$ 959,197	$ 982,178	$ 1,941,375	$ 20,134,736

The Notes to Financial Statements are an integral part of these statements.

Paper Mill Playhouse
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating and Non-Operating Activities		
Increase in net assets	$ 1,812,691	$ 2,180,457
Adjustments to reconcile increase in net assets to net cash provided by operating and non-operating activities:		
Depreciation and amortization	274,129	143,423
Donated securities	68,757	(23,612)
Net gain on deferred compensation investment	(2,298)	--
Unrealized gain on investments	(11,146)	(5,766)
Realized gain on sale of investments	(71,904)	(35,228)
Deferred compensation plan roll-over	(107,097)	--
Reinvested interest	(99,854)	(101,454)
Change in discount for present value of unconditional promises	(10,823)	(27,838)
Bad debt expense	109	45
(Increase) Decrease in:		
Inventory	(16,397)	(17,201)
Accounts receivable	141,827	(157,482)
Unconditional promises to give	(9,091)	(101,663)
Prepaid expenses	(67,984)	158,216
Deferred subscription campaign costs	2,140	89,336
Deposits	(15,250)	(2,818)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(376,763)	733,796
Salary, payroll taxes and union benefits payable	(239,415)	(4,731)
Advance box office revenue	220,858	258,495
Deferred enhancement revenue	1,251,504	--
Unredeemed gift certificates	(23,661)	19,746
Deferred tuition	16,769	(7,387)
Deferred revenue	(1,250)	(1,085,112)
Accrued vacation	5,791	5,008
Deferred compensation payable	114,620	--
Net Cash Provided By Operating and Non-Operating Activities	2,856,262	2,018,230
Cash Flows From Investing Activities		
Purchase of property and equipment	(1,836,808)	(1,142,508)
Proceeds from sale of investments	899,804	318,040
Payment for purchase of investments	(927,417)	(292,271)
Payments toward deferred compensation plan payable	(5,225)	--
Net Cash Used By Investing Activities	(1,869,646)	(1,116,739)
Cash Flows From Financing Activities		
Principal payments towards loans	(19,400)	--
Loans received	--	111,374
Net Cash Provided (Used) By Financing Activities	(19,400)	111,374
Net increase in cash and cash equivalents	967,216	1,012,865
Cash and cash equivalents, beginning of year	10,607,532	9,594,667
Cash and Cash Equivalents, End of Year	$ 11,574,748	$ 10,607,532
Supplemental Disclosure		
Interest paid on loans	$ 6,878	$ --

The Notes to Financial Statements are an integral part of these statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
Paper Mill Playhouse (the “Organization”) is a not-for-profit corporation located in Essex County, New Jersey. The Organization was established to promote the appreciation of theatre through theatrical productions, provide and support facilities for education and instruction in the art of theatre and to offer seminars, workshops and other programs relating to the art of theatre.

Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The Organization’s resources are classified and reported as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Without donor restrictions - include expendable resources that are used to carry out the Organization’s operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the Organization or may be limited by contractual agreements without side parties. In addition, net assets without donor restrictions include board designated funds and property and equipment used in operations.

With donor restrictions - net assets subject to donor-imposed restrictions that will be met either by the actions of the Organization or through the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income may be made available for operations, subject to the Organization’s spending policy.

Cash and Cash Equivalents
For the purposes of the statements of cash flows, cash and cash equivalents include time deposits and all highly liquid debt instruments with original maturities of three months or less.

Fair Value Measurements
“Fair Value Measurements and Disclosures” establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. “Fair Value Measurements and Disclosures” defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price” in an orderly transaction between market participants).

In determining fair value, the Organization use various valuation approaches, including market, income and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under “Fair Value Measurements and Disclosures” and the Organization’s related types are described below.

Level 1: Quoted prices of identical instruments in active markets.

Level 2: Quoted prices of similar instruments in active markets; quoted prices of identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

Investments

Investments in marketable securities are reported at market value in the accompanying statements of financial position. All investments are stated at their fair value. Unrealized gains and losses are included in change in net assets in the accompanying statements of activities. Investments received by gift are initially recorded at fair value at the date of receipt. Fair values for stocks, bonds and U.S. government securities are based on quoted market prices. Alternative investments are stated at fair value in the financial statements at the net asset value based on estimates provided by the management of the funds. The alternative investments are nonmarketable and the funds' management values the assets based upon the net asset value multiplied by the number of shares held.

The fair values assigned to these assets do not necessarily represent amounts that might be realized upon their ultimate disposition. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements. Gains and losses on sales of investments are determined using the average cost method.

Inventory

Inventory consists of concessions and merchandise held for sale during performances. Inventory is stated at standard cost, which approximates the lower of historical cost (on a first-in, first-out basis) or net realizable value.

The Organization also maintains scenery and costume inventories of past productions. The Organization is unable to determine future use of the scenery and costumes and therefore they are expensed over the run of the public performances of the original show.

Contributions and Promises to Give

Grants and contributions are recognized when cash is received or when the donor makes a promise to give to the Organization that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment

Property and equipment acquired are recorded at cost. It is the Organization's policy to capitalize expenditures for these items in excess of $1,000. Lesser amounts are expensed. Building, equipment and furniture and fixtures are being depreciated over the useful life of the related asset using the straight-line method, with a half of a year's depreciation recognized in the years of acquisition and disposal. Leasehold improvements are amortized over the shorter of the useful life or periods including options, if any, specified in the related lease agreements.

Revenue Recognition and Deferred Revenue

Ticket sales, service charge and facility income are recognized as income in the period the show has taken place. Fundraising benefit income is recognized when the fundraising event has taken place. Enhancements and co-production income are recognized in the year that the related production occurs. Parking lot income, rental income, concession and restaurant income, tuition and education income, playbill income and royalty income are recognized in the period the performance takes place or the period to which the fees relate.

Deferred revenue consists of advance subscription revenue, single ticket sales, unredeemed gift certificates, deferred tuition, deferred enhancement revenue and other deferred revenue which are all recognized in the period the performance takes place or the period to which the fees relate.

Production Costs

Production costs are capitalized at cost and are amortized over the performances of the theatrical production. The Organization had one production that had performances cross over June 30, 2019. The activity for the cross over days were recorded during the year ending June 30, 2020. For the year ended June 30, 2018, all productions closed by June 30, 2018, therefore, all production costs were expensed within the fiscal year.

Advertising Costs

Advertising costs are charged to operations at the time the advertising occurs, except for direct response marketing and other expenses incurred related to the subsequent season's performances that are deferred and recognized in the season when the related revenue is recognized. Advertising expense for the years ended June 30, 2019 and 2018 was $780,393 and $1,122,569, respectively.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Significant estimates used in the preparation of these financial statements include depreciation and amortization, fair value of investments and present value of unconditional promises to give. Actual results could differ from those estimates.

Tax Status and Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. The Organization is obligated for unrelated business income tax on net income from playbill advertising. The Organization has incurred net losses from this activity; therefore, there is no tax liability on this unrelated business activity. As of June 30, 2019 and 2018, the Organization had approximately $314,000 and $308,000, respectively, in net operating losses carried forward. The carried forward losses have been fully reserved for since management is unable to determine the actual utilization of these losses.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. There are no income tax related penalties and interest included in these financial statements.

New Accounting Pronouncements Adopted in Current Year

During the year ended June 30, 2019, the Organization adopted Accounting Standards Update ("ASU") 2016-14 - *Not-for-profit Entities* (Topic 958) - Presentation of Financial Statements of Not-For-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows.

The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and presentation of expenses by both their nature and functional classification.

A recap of the net asset classifications driven by the adaption of ASU 2016-14 as of June 30, 2018 and 2017 are as follows:

	2018			2017		
Net Asset Classifications	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
As previously presented:						
Unrestricted	$ 6,143,377	$ --	$ 6,143,377	$ 4,271,732	$ --	$ 4,271,732
Temporarily restricted	--	1,735,858	1,735,858	--	1,427,046	1,427,046
Permanently restricted	--	822,835	822,835	--	822,835	822,835
Net assets reclassified	$ 6,143,377	$ 2,558,693	$ 8,702,070	$ 4,271,732	$ 2,249,881	$ 6,521,613

Reclassification
Certain amounts for the year ended June 30, 2018 financial statements have been reclassified for comparative purposes to conform to the presentation of the year ended June 30, 2019 financial statements.

2. RESTRICTION ON NET ASSETS

Net Assets Without Donor Restrictions
Board-Designated Net Assets
The Board created a $3,000,000 cash reserve fund that can be used for a broad array of purposes subject to Board approval.

Net Assets With Donor Restrictions
The following net assets are restricted for the following purposes as of June 30:

	2019	2018
Grants and Contributions (Subject to expenditure for specific purpose)		
Future Periods and Programs		
Capital projects	$ 484,550	$ 1,192,650
Future programs and periods	556,853	574,353
	1,041,403	1,767,003
Less: Discount to present value	(20,322)	(31,145)
	1,021,081	1,735,858
Donor-Designated Endowments (to be held in perpetuity)		
Donor Directed Use of Investment Income for general use		
Robert Wood Johnson Foundation	750,000	750,000
Klaus P. Kuschel	72,835	72,835
	822,835	822,835
	$ 1,843,916	$ 2,558,693

Donor-designated endowments are net assets restricted by the donor in perpetuity, the investment income from which is without donor restriction. The Organization's endowment consists of two donor restricted endowment funds established for specific purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of fair 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, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations and decrements to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following facts in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund;
b. The purposes of the Organization and the donor-restricted endowment fund;
c. General economic conditions;
d. The possible effect of inflation and deflation;
e. The expected total return from income and the appreciation of investments;
f. Other resources of the Organization; and
g. The investment policy of the Organization.

Return Objectives and Risk Parameters
The Organization has adopted an investment policy for endowment assets with the primary goal of maintaining the original value of the endowment principal, while providing funding to programs supported by its endowment. Under this policy, the endowment assets are invested in a manner that is intended to produce income and preserve principal while assuming a very low level of investment risk.

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

Financial assets	
Cash and cash equivalents	$ 8,085,200
Investments	1,829,306
Accounts receivable	50,114
Unconditional promises to give	288,356
Total financial assets and liquidity resources available within one year	$ 10,252,976

The Organization’s cash flows are substantially supported by the productions at the theatre. The Organization produces and performs at the theatre and generates cash flow through ticket sales and concessions. The Organization receives the advance ticket sales for the productions at the theatre.

The Organization generates revenue through education programs for children and other aspiring performers, enhancement agreements with producers and royalties from past productions. In addition, the Organization has fundraising campaigns to fund operations and other projects. The Organization’s endowment funds consist of donor-restricted endowments. Also, the Organization has $3,000,000 of board-designated net assets that could be used for general operating expenses upon approval by the Board of Trustees.

4. CONCENTRATION OF CREDIT RISK AND RESTRICTED CASH

The Organization maintains its cash and cash equivalents balances in two financial institutions. Certain balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution. At June 30, 2019, the Organization's uninsured cash and cash equivalents balances totaled $12,021,044.

Investment accounts are insured by the Securities Investor Protection Corporation ("SIPC") up to $500,000 per customer. The SIPC does not protect investors from market risk. At June 30, 2019, the Organization's investment balances exceed the SIPC limit by $2,119,850.

The Organization has obtained a letter of credit in the amount of $121,012 as a part of an obligation to post a bond under a collective bargaining agreement with Actors’ Equity Association. The bond currently expires in July 2020.

5. CASH, CASH EQUIVALENTS AND INVESTMENTS

Fair Value of Financial Instruments
The fair value and carrying amount of the Organization's cash and short-term investments as of June 30, 2019 and 2018 was $11,574,784 and $10,607,532, respectively. Cash and short-term investments carrying amount approximates fair value because of the short maturities of those investments.

Fair Values Measured on Recurring Basis
Fair value of assets measured on a recurring basis at June 30, 2019 and 2018 consist of fixed and equity mutual funds and alternative investments. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Investments consist of the following as of June 30, 2019:

	Fair Value			Cost
	Level 1	Portfolio Funds	Total	Total
Equity mutual funds	$ --	$ 1,548,543	$ 1,548,543	$ 1,291,347
Fixed mutual funds	--	1,310,401	1,310,401	1,224,752
Alternative investments	--	89,672	89,672	89,982
	$ --	$ 2,948,616	$ 2,948,616	$ 2,606,081

Investments consist of the following as of June 30, 2018:

	Fair Value			Cost
	Level 1	Portfolio Funds	Total	Total
Equity mutual funds	$ --	$ 1,381,008	$ 1,381,008	$ 1,003,825
Fixed mutual funds	--	1,226,506	1,226,506	1,271,738
Alternative investments	--	84,722	84,722	85,284
	$ --	$ 2,692,236	$ 2,692,236	$ 2,360,847

Investment income consists of the following for the years ended June 30:

	2019	2018
Interest and dividend income	$ 251,916	$ 195,079
Realized gain on sale of investments	71,904	35,228
Unrealized gain on investments	11,146	5,766
Investment management fees	(22,645)	(21,705)
Total Investment Income	$ 312,321	$ 214,368

6. UNCONDITIONAL PROMISES TO GIVE

When estimating fair value of unconditional promises to give, the relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness are considered and incorporated into present value techniques. The interest element resulting from amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as contributed revenue. Unconditional promises to give to be received after one year are discounted at a rate of 5 percent. Uncollectible promises are expected to be insignificant.

Unconditional promises to give consist of the following as of June 30, 2019:

	Less than One Year	Over One Year	Total
Without donor restrictions	$ 288,356	$ --	$ 288,356
With donor restrictions	220,000	150,000	370,000
	508,356	150,000	658,356
Less: discount for present value	--	(20,322)	(20,322)
	$ 508,356	$ 129,678	$ 638,034

Unconditional promises to give consist of the following as of June 30, 2018:

	Less than One Year	Over One Year	Total
Without donor restrictions	$ 204,265	$ --	$ 204,265
With donor restrictions	245,000	200,000	445,000
	449,265	200,000	649,265
Less: discount for present value	--	(31,145)	(31,145)
	$ 449,265	$ 168,855	$ 618,120

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	Life/Years	2019	2018
Building and improvements	20 - 39	$ 3,600,193	$ 1,313,341
Equipment	5 - 10	5,010,283	4,683,998
Furniture and fixtures	5	803,673	762,580
		9,414,149	6,759,919
Less: accumulated depreciation		(5,793,895)	(5,519,766)
		3,620,254	1,240,153
Construction in progress		--	817,422
		$ 3,620,254	$ 2,057,575

Depreciation expense for the years ended June 30, 2019 and 2018 was $274,129 and $143,423, respectively.

Construction in progress as of June 30, 2018 consisted of costs incurred in relation to renovations to the interior of the theatre. No depreciation was reflected until the theatre renovations were completed in the current year. The total cost of $2,225,652 has been capitalized as of June 30, 2019.

8. LOANS PAYABLE

The Organization entered into the following loan agreements during the year ended June 30, 2018. Loans payable consists of the following as of June 30:

	2019	2018
Loans payable to a bank due in equal monthly installments of $2,190 including interest of 6.7036% per annum through June 2023, secured by certain transportation equipment	$ 91,974	$ 111,374
	91,974	111,374
Less: current portion	(20,742)	(19,400)
	$ 71,232	$ 91,974

Loans payable are due as follows as of June 30, 2019:

Due during the year ending	June 30, 2020	$ 20,742
" " " " "	June 30, 2021	22,175
" " " " "	June 30, 2022	23,709
" " " " "	June 30, 2023	25,348
		$ 91,974

9. COMMITMENTS AND CONTINGENCIES

a) Government supported programs are subject to audit by the granting agency.

b) The Organization has received $40,000 in gift annuities. Grantors are paid annually over joint lives as a result of the gifts. The State of New Jersey requires that the Organization reserves $100,000 plus the earnings to guarantee payment on any gift annuities that the Organization may receive. These reserves are reflected within investments as of June 30, 2019 and 2018. The Organization paid $1,980 to the gift annuitants for each of the years ended June 30, 2019 and 2018.

c) The Organization contributes to five multiemployer pension plans under collective bargaining agreements covering union-represented employees, entirely in the entertainment industry. The vast majority of employers participating in these multiemployer plans are primarily engaged in the entertainment industry. These plans generally provide retirement benefits to vested participants based on their service to contributing employers, of which the Organization is one. In general, these plans are managed by a Board of Trustees with the unions appointing certain trustees and contributing employers of the plan appointing certain members. The Organization does not participate in any plan where it considers its contributions to be individually significant to the overall plan.

Based on information available to the Organization, the vast majority of the multiemployer plans to which it contributes are adequately funded under the applicable provisions of the Pension Protection Act enacted in 2006 (PPA). Only two funds are in either "critical" or "endangered" status as those terms are defined in the PPA. The PPA requires all underfunded pension plans to improve their funding ratios within prescribed intervals based on their level of underfunding. Until the plan trustees develop the funding improvement plans or rehabilitation plans as required by the PPA, the Organization is unable to determine the amount of assessments the Organization may be subject to, if any.

Under applicable law upon its ceasing to make contributions to, or other “withdrawal” from an underfunded multiemployer pension plan, the affected funds could seek contributions from the Organization for the Organization’s proportionate share of the plan's unfunded vested liabilities. The Organization believes that under such circumstances, if a Fund were to seek to assess such contribution obligation upon the Organization’s alleged “withdrawal,” the Organization would have significant defenses against such assessment under applicable law. The Organization cannot determine at this time the impact that any alleged withdrawal from the affected plans may have on the financial position, results of operations or cash flows.

Approximately 53 percent (2019) and 57 percent (2018) of the Organization's employees are participants in multiemployer plans for the years ended June 30, 2019 and 2018, respectively. Pension and welfare expense for multiemployer plans was $1,124,041 and $1,184,497, for the years ended June 30, 2019 and 2018, respectively.

d) The Organization has a lease with the Township of Millburn for an initial term of thirty-five years, with four successive ten year renewal options by the Organization for an additional forty years. The Organization is responsible for all costs of maintaining the property including utilities and capital expenditures. Effective August 1, 2010, the Organization began paying rent to the Township equal to .5 percent of the preceding year's annual operating income (defined as the "base rent formula"). The lease provides for annual increases of the base rent formula in fiscal years 2012 to .6 percent of the preceding year's annual operating income, increasing to .85 percent for 2013 and then 1 percent thereafter.

Rent expense for the years ended June 30, 2019 and 2018 was $217,146 and $186,000, respectively. The lease provides that the rent calculation will be the greater of the base rent formula or a minimum floor of the following:

For the year ending June 30, 2020	$ 198,000
" " " " June 30, 2021	204,000
" " " " June 30, 2022	210,000
" " " " June 30, 2023	216,000
" " " " June 30, 2024	222,000
For the fifty-nine years ending June 30, 2083	17,416,000
Total	$ 18,466,000

In June 2011, the Organization entered into an operating lease for the property located in New York to be used as costume shop. The lease currently expires June 30, 2025. Rent expense for the years ended June 30, 2019 and 2018 was $75,820 and $56,834, respectively. The lease provides for minimum annual rental payments as of June 30, 2019 as follows:

For the year ending June 30, 2020	$ 78,095
" " " " June 30, 2021	84,897
" " " " June 30, 2022	87,444
" " " " June 30, 2023	96,758
" " " " June 30, 2024	99,660
" " " " June 30, 2025	102,650
Total	$ 549,504

In September 2018, the Organization entered into an operating lease for the property located in New Jersey to be used as warehouse space. The lease currently expires September 30, 2028. Rent expense for the year ended June 30, 2019 was $65,250. The lease provides for minimum annual rental payments as of June 30, 2019 as follows:

For the year ending June 30, 2020	$ 88,350
" " " " June 30, 2021	90,150
" " " " June 30, 2022	91,950
" " " " June 30, 2023	93,750
" " " " June 30, 2024	95,550
For the four years and three months ending September 30, 2028	426,000
Total	$ 885,750

e) The Organization has entered into various contracts with playwrights in order to develop, produce, and present plays on the stage in the presence of an audience. The Organization is obligated to pay royalties to authors and/or composers for productions that they have produced. If a play produced by the Organization generates royalties to the author and/or composer, then the Organization will generally be entitled to a certain percentage of the net proceeds received by the author and/or composer.

f) The Organization has been named in one claim for a personal injury sustained during one of the Organization’s productions. Management and counsel for the insurance company believe the Organization’s insurance coverage is sufficient to cover any claim which may be realized.

g) The Organization is a defendant in a dispute regarding a previous employee’s alleged unlawful discharge. The Organization denies all claims and is vigorously defending this matter. The matter is being investigated by the New Jersey Division of Civil Rights.

h) The Organization received a claim from a previous seasonal employee’s attorney. The attorney’s letter claims the previous seasonal employee has not been hired for any new shows due to a disability. The Organization does not agree and will defend if the matter continues. The dispute is currently in the litigation stage. Management believes at this time that exposure, if any, cannot be assessed.

i) The Organization received a demand letter from a previous seasonal employee’s attorney. The attorney’s letter claims the previous seasonal employee was unlawfully terminated due to age. The previous seasonal employee seeks reinstatement and damages. The Organization does not agree and will defend if the matter continues. Management believes at this time that exposure, if any, cannot be assessed.

j) The Organization has a three year contract with a valet parking services company which manages its parking lot that expires September 30, 2022. The Organization receives 40 percent of the gross revenue less New Jersey State sales tax. Parking lot income for the years ended June 30, 2019 and 2018 was $83,906 and $92,483, respectively.

k) The Organization has an employment agreement which extends through January 31, 2024. The aggregated commitment under this agreement is approximately $1,468,000 at June 30, 2019.

10. CONCENTRATION OF CONTRIBUTIONS

New Jersey State Council on the Arts has contributed approximately 14% and 19% percent of the total public support for the years ended June 30, 2019 and 2018, respectively.

11. EMPLOYEE BENEFIT PLANS

The Organization has a 403(b) salary deferral plan covering substantially all employees. Under the plan, the Organization is able to make a contribution to the employee plan on a discretionary basis. The Board of Trustees elected to suspend employer contributions to the plan effective August 1, 2006.

During the year ended June 30, 2019, the Organization opened a 457(b) deferred compensation plan for a key employee. As of June 30, 2019, one employee was under the plan. Under the plan, the Organization may make a contribution to the employee plan on a discretionary basis. The June 30, 2019 balance of $114,620 represents roll-over from a past employer and employee’s contributions to the plan. As of June 30, 2019, the balance of the deferred compensation payable is $114,620.

12. DONATED SERVICES

The Organization received donated professional services during the years ended June 30, 2019 and 2018 in support of its program and operations. The fair market value has been recorded in the accompanying financial statements. Donated services for the years ended June 30 were as follows:

	2019	2018
Design for gala	$ 15,224	$ 15,248
Catering for gala	15,000	20,000
Cable television ads	--	300,000
Professional services	--	30,500
Printing	--	2,650
	$ 30,224	$ 368,398

13. NEW ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE

In June 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-08, *Not-for-Profit Entities*, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The FASB is issuing this ASU to improve and clarify existing guidance on revenue recognition of grants and contracts by not-for-profit organizations ("NFPs") because there is diversity in practice among NFPs with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This ASU also provides guidance to help determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. This ASU is effective for resource recipients for annual periods beginning after December 15, 2018 (fiscal year 2020) and interim periods beginning after December 15, 2019 (fiscal year 2021).

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), which requires the recognition of a "right to use" asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet for all of the Organization's lease obligations. This ASU is effective for years beginning after December 15, 2019 (fiscal year 2021).

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied using a retrospective transition method to each period presented.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customer. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU, which was deferred by ASU 2015-14, is effective for annual periods beginning after December 15, 2018 (fiscal year 2019) and interim periods beginning after December 15, 2019 (fiscal year 2020). The ASU is to be applied retrospectively or using a cumulative effect transition method. Early adoption is permitted.

The Organization is currently evaluating the effect that these pronouncements will have on its financial statements and related disclosures.

14. FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and the supporting services has been summarized on a functional basis in the statements of activities. Costs have been allocated among the programs and supporting services based on analysis of personnel time and utilization of related activities. Management and general expense include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization. The expenses that are allocated include space rental, depreciation and amortization, which are allocated on a square footage basis, as well as salaries, benefits, payroll taxes, office expense, insurance, professional fees, artistic fees, travel, repairs, maintenance and utilities, supplies and materials, computers and software, dues and memberships, printing and reproduction, bank charges and credit card processing fees, which are allocated on the basis of estimates of time and effort.

15. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 15, 2019, the date which the financial statements were available to be issued. Management has determined that there are no subsequent events that require disclosure in these financial statements.