

RUTH ECKERD HALL, INC.

**Financial Statements
And
Supplemental Schedules**

**September 30, 2017 and 2016
(With Independent Auditor's Report Thereon)**

RUTH ECKERD HALL, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 29
Supplemental Information:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31
Independent Auditor's Report on Compliance for Each Major State Project and Report on Internal Control over Compliance Required by Chapter 10.650, <i>Rules of the Auditor General</i>	32 - 33
Schedule of Expenditures of State Financial Assistance	34
Notes to Schedule of Expenditures of State Financial Assistance	35
Schedule of Findings and Questioned Costs - State Projects	36 - 37



13577 Feather Sound Drive, Suite 400 ■ Clearwater, Florida 33762
Main: 727.572.1400 ■ Fax: 727.571.1933 ■ www.mhm-pc.com

Independent Auditor's Report

The Board of Directors
Ruth Eckerd Hall, Inc.:

We have audited the accompanying financial statements of Ruth Eckerd Hall, Inc. (the "Organization"), which comprise the statements of financial position as of September 30, 2017 and 2016, 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.

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 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ruth Eckerd Hall, Inc. as of September 30, 2017 and 2016, 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 Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance, as required by Chapter 10.650, *Rules of the Auditor General*, is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

MAYER HOFFMAN MCCANN P.C.

January 24, 2018
Clearwater, Florida

RUTH ECKERD HALL, INC.

Statements of Financial Position

September 30, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 3,367,722	5,182,195
Accounts receivable	368,894	407,964
Contributions receivable:		
Annual campaign, net of allowance	1,166,154	876,592
Capital campaign, net of allowance	167,774	372,238
Other receivables	-	40,409
Inventory	25,461	25,461
Prepaid advertising and show expenses	634,603	416,502
Deposits	23,103	20,712
Show investments	21,969	23,000
Property and equipment, net	22,161,768	21,946,851
Intangible assets, net	198,334	222,919
Escrow deposits	1,599,653	1,500,000
Remainder interest in trusts	595,687	575,664
Investments	6,012,241	5,797,794
Beneficial interest in external endowment	120,443	116,171
	<u>36,463,806</u>	<u>37,524,472</u>
Total assets	\$ <u>36,463,806</u>	<u>37,524,472</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,366,658	1,452,973
Deferred program revenue	3,934,850	5,844,038
Liability under trust agreement	42,411	45,019
Term loan, net of loan costs	5,121,236	5,494,114
Capital leases	-	6,991
Fair value of interest rate swap agreement	218,439	343,068
	<u>10,683,594</u>	<u>13,186,203</u>
Total liabilities	10,683,594	13,186,203
Net assets:		
Unrestricted	18,542,277	17,822,108
Temporarily restricted	2,813,911	2,097,437
Permanently restricted	4,424,024	4,418,724
	<u>25,780,212</u>	<u>24,338,269</u>
Total net assets	25,780,212	24,338,269
Total liabilities and net assets	\$ <u>36,463,806</u>	<u>37,524,472</u>

See accompanying independent auditor's report and notes to financial statements.

RUTH ECKERD HALL, INC.

Statement of Activities

Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions and other support:				
Contributions	\$ 1,267,593	200,407	1,028	1,469,028
Grants	1,464,610	150,000	-	1,614,610
Membership fees	1,764,803	591,133	-	2,355,936
Special events	8,528	-	-	8,528
Total contributions and other support	4,505,534	941,540	1,028	5,448,102
Revenues:				
Admissions and rentals	18,073,414	-	-	18,073,414
Education	419,459	-	-	419,459
Food and beverage	474,351	-	-	474,351
Other	2,617,016	-	-	2,617,016
Total revenues	21,584,240	-	-	21,584,240
Net assets released from restrictions	432,513	(432,513)	-	-
Total contributions, other support and revenues	26,522,287	509,027	1,028	27,032,342
Expenses:				
Artist fees	11,302,243	-	-	11,302,243
Education	953,065	-	-	953,065
Operations	4,389,554	-	-	4,389,554
Food and beverage	80,819	-	-	80,819
Fund-raising	1,119,529	-	-	1,119,529
Special events	2,164	-	-	2,164
General and administrative	918,483	-	-	918,483
Marketing	785,178	-	-	785,178
Other	352,870	-	-	352,870
Programming - advertising and promotion	1,225,154	-	-	1,225,154
Programming - other	1,945,852	-	-	1,945,852
Rental production costs	402,285	-	-	402,285
Technical services and maintenance	1,297,173	-	-	1,297,173
Depreciation - furniture, fixtures and equipment	149,410	-	-	149,410
Total expenses	24,923,779	-	-	24,923,779
Operating income	1,598,508	509,027	1,028	2,108,563
Other income (expense):				
Interest income on deposit accounts	199	-	-	199
Investment income:				
Investments	149,768	363,382	4,272	517,422
Show investments	238	-	-	238
Investment return appropriated for expenditure	175,527	(175,527)	-	-
Interest expense	(246,466)	-	-	(246,466)
Loan fee amortization expense	(17,789)	-	-	(17,789)
Amortization of intangible assets	(24,585)	-	-	(24,585)
Change in split interest agreements	-	19,592	-	19,592
Change in fair value of interest rate swap agreement	124,629	-	-	124,629
Total other income (expense)	161,521	207,447	4,272	373,240
Change in net assets before building depreciation	1,760,029	716,474	5,300	2,481,803
Depreciation - building and improvements	(1,039,860)	-	-	(1,039,860)
Change in net assets	720,169	716,474	5,300	1,441,943
Net assets, beginning of year	17,822,108	2,097,437	4,418,724	24,338,269
Net assets, end of year	\$ 18,542,277	2,813,911	4,424,024	25,780,212

See accompanying independent auditor's report and notes to financial statements.

RUTH ECKERD HALL, INC.

Statement of Activities

Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and other support:				
Contributions	\$ 1,131,128	234,896	6,529	1,372,553
Grants	975,884	46,483	-	1,022,367
Membership fees	1,655,948	293,000	-	1,948,948
Special events	417,206	-	-	417,206
Total contributions and other support	4,180,166	574,379	6,529	4,761,074
Revenues:				
Admissions and rentals	15,982,365	-	-	15,982,365
Education	486,318	-	-	486,318
Food and beverage	642,221	-	-	642,221
Other	2,626,310	-	-	2,626,310
Total revenues	19,737,214	-	-	19,737,214
Net assets released from restrictions	346,096	(346,096)	-	-
Total contributions, other support and revenues	24,263,476	228,283	6,529	24,498,288
Expenses:				
Artist fees	9,510,455	-	-	9,510,455
Education	917,338	-	-	917,338
Operations	4,431,441	-	-	4,431,441
Food and beverage	182,907	-	-	182,907
Fund-raising	1,056,786	-	-	1,056,786
Special events	171,129	-	-	171,129
General and administrative	932,377	-	-	932,377
Marketing	749,983	-	-	749,983
Other	354,034	-	-	354,034
Programming - advertising and promotion	1,271,157	-	-	1,271,157
Programming - other	1,868,976	-	-	1,868,976
Rental production costs	332,080	-	-	332,080
Technical services and maintenance	1,143,479	-	-	1,143,479
Depreciation - furniture, fixtures and equipment	130,819	-	-	130,819
Total expenses	23,052,961	-	-	23,052,961
Operating income	1,210,515	228,283	6,529	1,445,327
Other income (expense):				
Interest income on deposit accounts	40,409	-	-	40,409
Investment income:				
Investments	69,794	313,835	1,487	385,116
Show investments	818	-	-	818
Investment return appropriated for expenditure	167,975	(167,975)	-	-
Interest expense	(228,466)	-	-	(228,466)
Debt renewal, servicing and loan fee amortization expenses	(105,798)	-	-	(105,798)
Amortization of intangible assets	(24,287)	-	-	(24,287)
Change in split interest agreements	-	31,151	-	31,151
Change in fair value of interest rate swap agreement	92,387	-	-	92,387
Total other income (expense)	12,832	177,011	1,487	191,330
Change in net assets before building depreciation	1,223,347	405,294	8,016	1,636,657
Depreciation - building and improvements	(1,016,554)	-	-	(1,016,554)
Change in net assets	206,793	405,294	8,016	620,103
Net assets, beginning of year	17,615,315	1,692,143	4,410,708	23,718,166
Net assets, end of year	\$ 17,822,108	2,097,437	4,418,724	24,338,269

See accompanying independent auditor's report and notes to financial statements.

RUTH ECKERD HALL, INC.

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 1,441,943	620,103
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on remainder interests in trusts, investments, and escrow deposits	(386,054)	(263,780)
Change in fair value of interest rate swap agreement	(124,629)	(92,387)
Depreciation and amortization	1,231,644	1,194,557
Loss on extinguishment of loan costs	-	62,185
Change in split-interest agreements	(19,592)	(31,151)
Change in liabilities under trust agreements	4,782	3,930
Change in beneficial interest in external endowment	(4,272)	(1,487)
Changes in operating assets and liabilities:		
Accounts receivable	39,070	119,373
Contributions receivable, net	(85,098)	211,714
Other receivables	40,409	(36,806)
Inventory	-	13,245
Prepaid advertising and show expenses	(218,101)	284,244
Deposits and escrow deposits	(2,391)	(259,179)
Show investments	1,031	-
Accounts payable and accrued expenses	164,303	(123,228)
Deferred program revenue	(1,909,188)	1,532,517
Net cash provided by operating activities	173,857	3,233,850
Cash flows from investing activities:		
Acquisition of property and equipment	(1,654,805)	(685,514)
Acquisition of intangible assets	-	(14,499)
Proceeds from sales and reinvestments	608,248	1,982,690
Purchases of investments	(536,725)	(2,150,097)
Net cash used in investing activities	(1,583,282)	(867,420)
Cash flows from financing activities:		
Borrowings on term note	-	5,860,000
Payments on term note	(390,667)	(293,000)
Repayment of construction loan	-	(1,572,811)
Repayment of revenue bonds payable	-	(4,110,000)
Payments on capital lease obligations	(6,991)	(49,353)
Loan acquisition costs	-	(70,269)
Payments of liabilities under trust agreements	(7,390)	(7,390)
Net cash used in financing activities	(405,048)	(242,823)
Net increase (decrease) in cash and cash equivalents	(1,814,473)	2,123,607
Cash and cash equivalents, beginning of year	5,182,195	3,058,588
Cash and cash equivalents, end of year	\$ 3,367,722	5,182,195
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 233,492	228,466
Non-cash investing and financing activities:		
Change in accounts payable attributable to purchases of property and equipment	\$ 179,119	429,737

See accompanying independent auditor's report and notes to financial statements.

RUTH ECKERD HALL, INC.

Notes to Financial Statements

September 30, 2017 and 2016

(1) Organization and Nature of Operations

Ruth Eckerd Hall, Inc. (“Ruth Eckerd Hall” or “Organization”) is a not-for-profit organization incorporated under the laws of Florida in 1978. Ruth Eckerd Hall was organized to support the establishment and operation of a performing arts center and theater facility on property donated to the City of Clearwater (“City”) for this purpose.

The performing arts center and the theater, named Ruth Eckerd Hall at the Richard B. Baumgardner Center for the Performing Arts (“Center”), opened its doors in October 1983. The Center, through year-round programming, serves the local and regional community of the Tampa Bay, Florida area by offering a variety of activities that are both educational and entertaining. The theater features Broadway shows, orchestral performances, opera, dance, jazz, and popular music. The Center provides educational opportunities to the community through performances and participatory classes in music, dance, and theater. Community groups may rent the facility, at reduced rates, through an arrangement between the Center and the City. The Center is also available for private and commercial rental. The Center’s primary source of revenue is show admissions.

(2) Significant Accounting Policies

(a) Basis of Presentation

Financial statement presentation follows the guidance of the Accounting Standards Codification Topic 958, *Not-for-Profit Entities* (“ASC 958”), in which the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets consist of net assets that are not subject to donor-imposed stipulations, including restricted contributions whose restrictions are met in the same reporting period and board-designated funds.

Temporarily restricted net assets consist of net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization or the passage of time. When a restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets consist of net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. In some cases, donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(2) Significant Accounting Policies - Continued

(b) Liquidity

Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

(c) Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of 90 days or less and money market accounts to be cash equivalents.

(d) Accounts Receivable

Accounts receivable include auditorium rentals, credit card sales, and block ticket sales to individuals and organizations located in the Tampa Bay, Florida area. Management believes that all accounts receivable are collectible; therefore, no allowance for doubtful accounts has been established.

(e) Inventory

Inventory is recorded at the lower of cost, determined on the first-in, first-out (“FIFO”) method, or market. Inventory consists primarily of beverages and memorabilia held for resale.

(f) Prepaid Advertising and Show Expenses

Prepaid advertising and show expenses consist primarily of program expenses incurred in advance of the performance date as well as costs incurred by the organization to produce a show.

(g) Intangible Assets

Intangible assets include overages on the Capitol Theatre renovation as further described in Note 12(d). These costs were not reimbursed by the City of Clearwater. Because the Organization does not have a lease for the Capitol Theatre, overages have been capitalized as intangible assets and are being amortized over the shorter of the useful life of the assets or the operating agreement term.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(2) Significant Accounting Policies - Continued

(h) Property and Equipment

Property and equipment, including property and equipment leased under long-term agreements from the City, are capitalized at the lower of cost or depreciated net book value at the inception of the lease if the capitalized cost is greater than or equal to \$1,000. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets, and capitalized leasehold property is amortized over the lesser of the economic life of the asset or the term of the lease:

	<u>Years</u>
Capitalized leasehold property	3 - 40
Buildings and improvements	3 - 40
Furniture, fixtures and equipment	3 - 20

Contributed property and equipment, including collections of artwork, are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

The Organization maintains certain facilities improved with funding provided to the Organization by the state of Florida. These facilities are subject to restrictive covenants filed with the Clerk of the Circuit Court of Pinellas County, Florida. The Organization must operate and maintain each of the facilities as a “cultural facility,” defined as a building which shall be used primarily for programming, production, presentation, exhibition or any combination of the above functions of any of the cultural disciplines, such as: music, dance, theatre, creative writing, literature, painting, sculpture, folks arts, photography, crafts, media arts, and historical and science. If the facilities cease to be used as cultural facilities within ten years following the execution of the related grant award agreements, the Organization could be required to repay all or part of the state funds received.

(i) Investments

Investments are carried at fair value. Realized and unrealized investment gains and losses are included in the accompanying statements of activities. See Note 22 for discussion of fair value measurement.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains and losses are recorded using the specific identification method. Unrealized gains and losses represent the change in fair value of the individual investments.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(2) Significant Accounting Policies - Continued

(j) Show Investments

Investments in Broadway shows are carried at cost. The Organization reviews show investments for impairment and reduces the carrying value to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

(k) Loan Costs

Costs incurred with obtaining financing are capitalized and amortized over the life of the related loan agreement. For the years ended September 30, 2017 and 2016, the Organization recorded amortization expense of \$17,789 and \$22,897, respectively. Accumulated amortization as of September 30, 2017 and 2016 was \$40,171 and \$22,381 respectively. As further described in Note 9, the Organization obtained a new term loan and used the proceeds to repay its bonds payable and construction loan. As a result of these transactions, a loss on extinguishment of debt was recorded for \$62,185 related to unamortized loan costs included in interest expense on the statement of activities for the year ended September 30, 2016. The Organization capitalized new loan costs of \$70,269.

Loan costs, net of accumulated amortization, are shown as a reduction of the term loan balance in accordance with Accounting Standards Update 2015-03, *Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs*, which was effective for fiscal years ending after December 15, 2015. The Organization adopted this standard effective for the year ended September 30, 2017. Adoption of this standard required retrospective application which resulted in a change in presentation of loan costs of \$72,886 from loan acquisition costs, net to a reduction of the term loan as of September 30, 2016.

(l) Contributions

Contribution income is recognized when a donor makes an unconditional promise to give to the Organization. Contributions receivable are recorded at their estimated net realizable value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable has been established based on (a) specific identification of contributions receivable for which collection is deemed doubtful, and (b) management's estimate of future uncollectible contributions receivable based on such factors as prior collection history and type of contribution.

(m) Recognition of Donor-Restricted Contributions

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

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(2) **Significant Accounting Policies - Continued**

(n) **Revenue Recognition**

Program revenue is comprised primarily of ticket sales from events sponsored by Ruth Eckerd Hall, children's shows and the rental of the facility to outside groups. Program revenue is recognized in the period in which the related performance or rental takes place. Deferred program revenue consists primarily of amounts collected on advance ticket sales.

(o) **Expense Recognition**

Program expenses are comprised primarily of artist fees, technical services and maintenance, and advertising and promotion costs. These expenses are recognized in the period in which the related performance takes place.

(p) **Donated Services**

A substantial number of unpaid volunteers have made significant contributions of their time to assist in the Organization's programs and administrative services. These amounts have not been reflected in the accompanying financial statements for the value of such donated services, as they do not meet the criteria to be recorded under accounting principles generally accepted in the United States of America.

In addition to volunteers, the Organization occasionally receives various goods and professional services free of charge or at significant discounts. Such donated materials, services, or equipment, when received, are reflected in the accompanying financial statements at their estimated fair value at the date of receipt. In-kind donated services and materials were approximately \$109,000 and \$62,000, respectively, for the years ended September 30, 2017 and 2016.

(q) **Membership Fees**

Membership fees are recognized as revenue when received from the donor without regard to the membership period.

(r) **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(2) Significant Accounting Policies - Continued

(s) Income Taxes

The Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Organization applies Accounting Standards Codification Topic 740, *Income Taxes* (“ASC 740”). ASC 740 prescribes a recognition and measurement standard for uncertain tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There is no material impact on the Organization’s financial position or changes in net assets as a result of the application of this standard. The Organization’s policy is to recognize interest and penalties associated with tax positions under this standard as a component of income tax expense, and none were recognized since there was no material impact of overall application of this standard. The Organization’s information returns are open to IRS examination for the 2013 tax year ended September 30, 2014, and all subsequent tax years.

(t) Other Revenue and Other Expenses

Other revenue includes revenues from ticketing service fees and other miscellaneous revenue. Other expenses consist of credit card fees, licensing fees and box office-related expenses, and other miscellaneous programming expenses.

(u) Advertising

Advertising costs are expensed as incurred. Advertising expenses are included as a part of the total expenses listed for each program on the accompanying statements of activities and totaled approximately \$1,356,900 and \$1,396,300 for the years ended September 30, 2017 and 2016, respectively.

(v) Reclassifications

Certain reclassifications have been made to the 2016 financial statement presentation to conform to the 2017 presentation. These reclassifications had no effect on net assets or changes in net assets.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(3) Contributions Receivable

Contributions receivable at September 30, 2017 are summarized as follows:

	Annual Campaign	Capital Campaign
Gross contributions receivable	\$ 1,378,866	186,424
Less allowance for uncollectible contributions	(73,950)	(18,650)
Less unamortized discount, discounted using a rate of 2.98%	(138,762)	-
Net contributions receivable	\$ 1,166,154	167,774
Amounts due in:		
Less than one year	\$ 515,866	186,424
One to five years	569,214	-
More than five years	293,786	-
	\$ 1,378,866	186,424

Contributions receivable at September 30, 2016 are summarized as follows:

	Annual Campaign	Capital Campaign
Gross contributions receivable	\$ 1,012,651	456,900
Less allowance for uncollectible contributions	(12,804)	(79,796)
Less unamortized discount, discounted using a rate of 2.98%	(123,255)	(4,866)
Net contributions receivable	\$ 876,592	372,238
Amounts due in:		
Less than one year	\$ 460,033	269,950
One to five years	258,832	186,950
More than five years	293,786	-
	\$ 1,012,651	456,900

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(4) Property and Equipment, Net

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

	<u>2017</u>	<u>2016</u>
Nondepreciable assets:		
Land	\$ 37,500	37,500
Artwork	305,035	305,035
Construction in progress	1,186,304	1,049,749
Depreciable assets:		
Building and improvements	3,085,842	2,087,363
Furniture, fixtures and equipment	3,314,769	3,083,617
Capitalized leasehold property and improvements	<u>30,474,786</u>	<u>30,474,786</u>
	38,404,236	37,038,050
Less accumulated depreciation	<u>(16,242,468)</u>	<u>(15,091,199)</u>
Property and equipment, net	<u>\$ 22,161,768</u>	<u>21,946,851</u>

(5) Remainder Interest in Trusts

Remainder interests in trusts represent the present value of certain irrevocable trusts that name the Organization as the beneficiary and are recorded when the Organization is notified of their interest. These trusts are recorded as both unrestricted and temporarily restricted based on donor-imposed or time restrictions. The Organization's policy is to use a discount rate equal to the IRS Section 7520 rate for all remainder interest gifts presently recorded. The IRS Section 7520 rate was 2.4% and 1.4%, respectively, at September 30, 2017 and 2016.

(6) Line of Credit

The Organization had a line of credit which matured in November 2015 and was renewed on December 31, 2015 through the same commercial bank with a maximum borrowing capacity of \$450,000. The interest rate on the line of credit is the daily floating LIBOR plus 1.75% (2.98% at September 30, 2017). Interest on the outstanding principal is payable monthly. The line of credit is available through September 2018, unless an earlier date is determined. The line of credit is collateralized by certain real and personal property. There was no outstanding balance on the line at September 30, 2017 or 2016.

(7) Construction Loan

In February 2014, the Organization entered into a construction loan agreement with a bank for up to \$2,000,000. Advances under the loan were available under a non-revolving basis through November 2014 for heating, ventilation, cooling and roofing improvements. On December 31, 2015, the Organization entered into a new term note with a commercial bank and the construction loan was paid in full (Note 9).

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(8) Revenue Bonds Payable

On March 1, 2003, the Organization entered into an agreement for the issuance of revenue bonds in the amount of \$8,100,000 for the purpose of providing funds for the renovation and expansion of the performing arts complex. On December 31, 2015, the existing revenue bonds were paid in full (Note 9).

Effective October 2005, the Organization entered into an interest rate swap agreement for a portion of the outstanding bonds (see Note 10). The swap agreement is with the same commercial bank that issued the new term loan. There were no changes to the original swap agreement entered into by the Organization upon the payoff of the revenue bonds payable and the issuance of the new term loan.

Previously, the revenue bonds were collateralized by a bank letter of credit in an amount equal to the principal amount of outstanding bonds plus the amount required for interest thereon. The revenue bond agreement required the Organization to maintain an open letter of credit until all of the bonds had been paid in full. The letter of credit agreement expired when the bonds were repaid in December 2015.

(9) Term Loan

On December 31, 2015, the Organization obtained a new term loan for \$5,860,000 and used the proceeds to pay off the construction loan (Note 7) and revenue bonds payable (Note 8). The term loan accrues interest at 30-day LIBOR plus 1.75% per annum (2.98% at September 30, 2017). Interest is due monthly. Principal payments of \$32,556 commenced in January 2016 and are payable monthly until May 2023. All unpaid principal and accrued interest are due in full in June 2023.

The note is collateralized by essentially all the Organization's assets. The loan agreement contains various covenants, which among other things, place restrictions on the Organization's ability to incur additional indebtedness and require the Organization to maintain certain financial ratios. At September 30, 2017, the Organization was in compliance with all debt covenants.

At September 30, 2017 and 2016, the outstanding balance on the term loan was \$5,176,333 and \$5,567,000, respectively. Loan costs recorded as a reduction of the term loan on the accompanying statements of financial position as of September 30, 2017 and 2016 were \$55,097 and \$72,886, respectively. The future scheduled maturities of the term loan are as follows:

<u>Year Ending September 30,</u>	
2018	\$ 390,667
2019	390,667
2020	390,667
2021	390,667
2022	390,667
Thereafter	<u>3,222,998</u>
	<u>\$ 5,176,333</u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(10) Interest Rate Swap Agreement

Effective October 6, 2005, the Organization entered into an interest rate swap agreement to convert a portion of the revenue bonds from a variable rate to a fixed rate. The agreement initially converted \$5,400,000 of the bonds to a 4.05% fixed rate, with decreases to the notional amount in subsequent years. The remaining amount of these bonds continued to bear interest at the variable weekly rate. The balance of the bonds payable subject to the fixed interest rate of 4.05%, known as the notional amount, was \$2,400,000 and \$2,745,000, at September 30, 2017 and 2016, respectively. The interest rate swap agreement is scheduled to expire on April 1, 2023. The Organization repaid the revenue bonds using proceeds from a new term loan. The change in underlying debt did not impact the swap agreement.

The Organization's purpose in entering into this swap agreement was to hedge against the risk of interest rate increases on the related variable rate debt. Accordingly, and in accordance with generally accepted accounting principles in the United States of America, the swap agreement is classified as a derivative financial instrument. At September 30, 2017 and 2016, the interest rate swap agreement is reflected as a liability at its fair value of \$218,439 and \$343,068, respectively.

The payments made or received by the Organization under this swap agreement are recorded as interest expense, and any changes in the fair value of the swap are reflected as the change in fair value of interest rate swap agreement in the accompanying statements of activities. The effect of the interest rate swap for the years ended September 30, 2017 and 2016 was an increase in interest expense of \$97,200 and \$111,173, respectively. For the years ended September 30, 2017 and 2016, a gain of \$124,629 and \$92,387 were recorded for the change in the fair value of the interest rate swap, respectively.

(11) Capital Leases

Leases that transfer substantially all of the benefits and risks incidental to the ownership of property are classified as capital leases. Minimum lease payments are capitalized and the related asset obligations are recorded at the present value of the minimum lease payments at the inception of the lease.

The Organization leases certain equipment under agreements that are classified as capital leases. The costs under capital leases are included in the accompanying statements of financial position as property and equipment. At September 30, 2017 and 2016, the Organization had approximately \$169,700 of leased equipment under capital leases. Accumulated amortization of the leased equipment at September 30, 2017 and 2016 was included in accumulated depreciation and was \$85,503 and \$66,203, respectively.

During the fiscal year the Organization paid the full remaining balance due under the capital leases.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(12) Commitments and Contingencies

(a) Grant Agreements

Amounts received from grantor agencies are subject to audit adjustments by these grantor agencies. Disallowed items, if any, may need to be reimbursed by the Organization. Management believes all funds received were used for their intended purposes, and the chance of repayment is remote.

(b) Service Contracts

The Organization entered into non-cancelable contracts for cleaning and consulting services several years ago. The Organization reached an agreement to terminate its cleaning contract on October 31, 2015. Expense related to these contracts was approximately \$0 and \$30,000 for the years ended September 30, 2017 and 2016, respectively.

(c) Operating Leases

The Organization leases certain office equipment under non-cancelable operating leases. Rent expense under these leases was approximately \$36,000 and \$31,000 for the years ended September 30, 2017 and 2016, respectively.

Approximate future minimum lease payments for each of the next five years are as follows:

<u>Year Ending September 30,</u>	
2018	\$ 34,000
2019	30,000
2020	30,000
2021	<u>7,000</u>
	<u>\$ 101,000</u>

(d) Capitol Theatre Operating Agreement

On September 20, 2012, the Organization entered into an operating agreement with the City of Clearwater (“City”) to operate the Capitol Theatre (“Theatre”) and to oversee renovations of the Theatre. The agreement runs through September 21, 2042, unless terminated earlier. The City was responsible for renovation costs of \$7,612,209. Amounts incurred above that budget were the responsibility of the Organization and totaled \$284,708. The renovation project was completed, and the Theatre opened for operations on December 18, 2013. Related amortization expense of renovation cost overages was \$24,585 and \$24,287 for the years ended September 30, 2017 and 2016, respectively.

Under the operating agreement, the Organization is entitled to retain all revenues generated by the Theatre and is solely responsible for all costs of operations; however, the City retains ownership of the real property and improvements.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(12) Commitments and Contingencies - Continued

(d) Capitol Theatre Operating Agreement - Continued

The operating agreement, as amended, also requires monies to be held in escrow with the City of Clearwater as a reserve fund for the Theatre. Reserve funds will be used for costs of operation, maintenance, capital improvements and to cover any expenses due to insufficient revenues. The Organization and the City will meet at the end of the third year anniversary to determine if the \$100,000 reserve additions are necessary. At the end of the agreement, the City will assess the physical condition of the Theatre and may use reserve funds to restore the Theatre to its initial renovation condition. If the agreement is terminated prior to September 21, 2042, the City may use the reserve funds to pay costs of operation and maintenance until a successor is found. Any remaining reserves may be returned to the Organization. Termination of the agreement is allowed for cause only, with 30 days notice.

In December 2016, the Organization met with the City and signed a seventh amendment to the operating agreement. It was determined that the current reserve fund balance of \$1,500,000 was sufficient and future reserve deposits to the reserve fund were eliminated. In order to provide additional certainty that the Capitol Theatre will continue to be properly maintained, the amendment requires the Organization to annually budget, maintain, and fund a separate Capitol Theatre Capital Improvements Fund in the amount of \$99,665 annually until 2036 to be used for the continued maintenance and capital improvements of the Theatre. Additionally, the amendment allowed for the transfer of the reserve funds from the City of Clearwater to an investment institution and allowed for the administration of funds by the investment institution. The transfer was completed during the year ended September 30, 2017, and the Organization is now required to maintain a minimum balance of at least \$1,250,000 (the floor amount). If, at any time, the reserve fund balance is below the floor amount, the Organization will have up to three months to replenish the reserve fund balance to the floor amount. If, at any time, the reserve fund balance is greater than \$1,500,000 (the ceiling amount), the Organization may withdraw any funds in excess of the ceiling amount upon written request to the investment institution.

As of September 30, 2017, the balance of the reserve fund account was \$1,599,653 which is comprised of total deposits of \$1,500,000 plus investment income of \$99,653. The reserve fund account has been recorded as escrow deposits on the accompanying statement of financial position.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(12) Commitments and Contingencies - Continued

(e) Food and Beverage Agreement

The Organization entered into an agreement with Spectra Food Services & Hospitality (“Spectra”), formerly known as Ovations Food Services, to grant Spectra the exclusive rights to manage and operate the food and beverage services and catering services at Ruth Eckerd Hall and the Capitol Theatre. The term of the agreement is five years. As a result of the agreement, the Organization is reporting food and beverage revenue, costs of sales, and related operating expenses, net. Previously, food and beverage revenue, cost of sales, and related operating expenses were presented as gross amounts.

Under this agreement, the Organization owes gross receipts and incentive fees to Spectra which have been recorded as food and beverage expense on the accompanying statements of activities.

The agreement expired on October 31, 2017 and was not renewed.

(13) Facility Use Agreement

In May 2001, the remaining balance of the 1981 mortgage of approximately \$2,900,000 on the Ruth Eckerd Hall facilities was paid off and replaced with a \$5,000,000 leasehold mortgage, which was repaid in fiscal year 2010. The payoff of the initial mortgage caused all title to the building, land and improvements to be conveyed back to the City. The City unanimously voted to lease back all conveyed property and all land (approximately 40 acres) to the Organization for 30 years (renewable for another 30 years at the sole option of the Organization) in exchange for \$100. The Organization recorded the land, building and improvements leased back from the City at the net depreciated historical cost basis as leasehold improvements, which are amortized over the lesser of the remaining life of the property or the term of the lease. No gain or loss was recorded as a result of the agreement in exchange for making the facility available to community groups.

In consideration of the services and benefits provided the community at large and the City use of the Ruth Eckerd Hall facilities as part of its public recreation program, the Organization received funding from the City totaling \$400,000 during each of the years ended September 30, 2017 and 2016, which is included in grants on the accompanying statements of activities.

(14) Tax-Deferred Annuity Plan

The Organization offers a tax-deferred annuity plan (the “Plan”) which has a six-year vesting schedule. The Organization matched \$0.50 for each participant dollar contributed up to 12% of each participant’s annual salary during the years ended September 30, 2017 and 2016. Employer contributions to the Plan were approximately \$78,000 and \$76,000 for the years ended September 30, 2017 and 2016, respectively.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(15) Functional Expenses

Expenses for the years ended September 30, 2017 and 2016 are allocated to functional categories described below based on specific identification when possible, and by percentage of usage when necessary.

The functional expenses for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Programming	\$ 22,720,707	20,763,307
Development	1,720,877	1,913,837
General and administrative	<u>1,810,895</u>	<u>1,750,922</u>
Total	<u>\$ 26,252,479</u>	<u>24,428,066</u>

(16) Investments, Escrow Deposits, and Beneficial Interest in External Endowment

The investment classifications at September 30, 2017 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money markets/cash equivalents	\$ 222,417	222,417
Corporate debt securities	1,930,405	1,923,772
U.S. mortgage-backed securities	159,054	159,994
U.S. government securities	814,532	813,130
Common stock and ETFs	<u>2,283,718</u>	<u>2,892,928</u>
Total	<u>\$ 5,410,126</u>	<u>6,012,241</u>

The investment classifications at September 30, 2016 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money markets/cash equivalents	\$ 492,224	492,224
Corporate debt securities	1,847,213	1,851,497
U.S. mortgage-backed securities	170,299	174,190
U.S. government securities	729,924	737,893
Common stock and ETFs	<u>2,223,364</u>	<u>2,541,990</u>
Total	<u>\$ 5,463,024</u>	<u>5,797,794</u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(16) Investments, Escrow Deposits, and Beneficial Interest in External Endowment - Continued

The Organization is required to maintain escrow deposits for the purpose of maintaining the Capitol Theatre, as discussed in Note 12. The escrow deposits classifications at September 30, 2017 are summarized as follows:

	Cost	Fair Value
Money markets/cash equivalents	\$ 14,652	14,652
Corporate debt securities	483,366	483,959
U.S. government securities	201,379	201,207
Common stock and ETFs	844,423	899,835
Total	\$ 1,543,820	1,599,653

The Organization did not have possession of the escrow deposit funds during the year ended September 30, 2016. As such, no classifications for the period then ended are available.

Income from investments, escrow deposits and beneficial interest for the years ended September 30, 2017 and 2016 is summarized as follows:

	2017	2016
Interest and dividends	\$ 130,314	132,197
Realized and unrealized gains	387,108	252,919
Total	\$ 517,422	385,116

The Organization is a beneficiary of a \$100,000 externally controlled trust endowment to be held in perpetuity. At September 30, 2017 and 2016, the value of the endowment was \$120,443 and \$116,171, respectively, which includes an unrealized gain of \$4,272 and \$1,487 for the years ended September 30, 2017 and 2016, respectively.

The trust endowment assets consisted of the following:

	2017	2016
Short-term investments	\$ 1,802	1,741
Corporate debt securities	-	52,815
Common stocks	36,941	56,968
Mutual funds	81,700	4,647
	\$ 120,443	116,171

Income from this fund shall be distributed annually under the terms of the agreement and is to be used for cultural, musical and entertainment purposes. Distributions from the trust included in investment income for the years ended September 30, 2017 and 2016 were approximately \$4,100 and \$5,200, respectively.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(17) Board-Designated Net Assets

Included in unrestricted net assets at September 30, 2017 and 2016 is \$163,049 and \$161,421, respectively, that the board has designated for scholarships. The Board has also designated net assets of \$1,841,132 and \$1,586,277 at September 30, 2017 and 2016, respectively, as part of the endowment (Note 19).

(18) Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2017 and 2016 consist of the following:

	2017	2016
Contributions receivable - annual campaign, net	\$ 646,382	453,609
Contributions receivable - capital campaign, net	167,774	372,238
Remainder interest in trusts	506,002	486,410
Cash restricted for specific purposes	661,565	276,950
Unappropriated investment return	529,675	317,242
Funding restricted to future periods	130,000	-
Other	172,513	190,988
Total	\$ 2,813,911	2,097,437

(19) Permanently Restricted Net Assets (Endowment)

The Organization's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors. As required by generally accepted accounting principles in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Florida Uniform Prudent Management of Institutional Funds Act ("FLUPMIFA") as requiring the preservation of the 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 of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by FLUPMIFA.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(19) Permanently Restricted Net Assets (Endowment) - Continued

In accordance with FLUPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The purposes of the institution;
2. The intent of the donors of the endowment fund;
3. The terms of the applicable instrument;
4. The long-term and short-term needs of the institution in carrying out its purposes;
5. The general economic conditions;
6. The possible effect of inflation or deflation;
7. The other resources of the institution; and
8. Perpetuation of the endowment.

Endowment net asset composition by type of fund as of September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	529,675	4,424,024	4,953,699
Board-designated endowment funds	1,841,132	-	-	1,841,132
	\$ 1,841,132	529,675	4,424,024	6,794,831

Changes in endowment net assets for the year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,586,277	317,242	4,418,724	6,322,243
Contributions	-	-	1,028	1,028
Investment return (realized and unrealized including distributions)	-	363,382	4,272	367,654
Investment return appropriated for expenditure	-	(175,527)	-	(175,527)
Other	254,855	24,578	-	279,433
Endowment net assets, end of year	\$ 1,841,132	529,675	4,424,024	6,794,831

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(19) Permanently Restricted Net Assets (Endowment) - Continued

Endowment net asset composition by type of fund as of September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	317,242	4,418,724	4,735,966
Board-designated endowment funds	<u>1,586,277</u>	-	-	<u>1,586,277</u>
	<u>\$ 1,586,277</u>	<u>317,242</u>	<u>4,418,724</u>	<u>6,322,243</u>

Changes in endowment net assets for the year ended September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,270,950	64,978	4,410,708	5,746,636
Contributions	-	-	6,529	6,529
Investment return (realized and unrealized including distributions)	-	313,835	1,487	315,322
Investment return appropriated for expenditure	-	(167,975)	-	(167,975)
Other	<u>315,327</u>	<u>106,404</u>	-	<u>421,731</u>
Endowment net assets, end of year	<u>\$ 1,586,277</u>	<u>317,242</u>	<u>4,418,724</u>	<u>6,322,243</u>

Return Objectives and Risk Parameters

The Organization 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 seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds.

Under this policy, as approved by the Board of Directors, the investment objective is to generate a total rate of return, net of all investment management costs and fees, from all authorized investments that is equal to or greater than returns of the appropriate indices for the calculation of an overall performance return comparison. The benchmark returns for each segment will be proportional to its respective allocation in the portfolio when calculating an overall portfolio return.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(19) Permanently Restricted Net Assets (Endowment) - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year projected interest and dividends over the ensuing 12-month period, based on the current market value of the endowments at the time of the appropriation. An annual distribution may be taken each year, not to exceed the actual interest and dividend earnings over the prior 12-month period, provided changes in market value do not cause the value of the endowments to fall below the minimum requirements as approved or changed by the Board of Directors. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow primarily through capital appreciation. This is consistent with the Organization's objective of a total return strategy over the long term, as well as to provide additional real growth through new gifts.

(20) Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Organization held approximately \$1,874,000 and \$1,659,000 in a non-FDIC insured money market account at September 30, 2017 and 2016, respectively. Other cash balances in excess of the FDIC insured limit of \$250,000 were approximately \$1,117,000 and \$3,357,000 at September 30, 2017 and 2016, respectively.

(21) Related Party Transactions

The Organization has entered into advertising and co-promoting arrangements with companies affiliated with certain Board members. Additionally, board members and affiliated companies of board members provide sponsorships and contributions.

(22) Fair Value of Financial Instruments

The Organization has adopted Accounting Standards Codification Topic 820, *Fair Value Measurement* ("ASC 820"), for its financial assets and liabilities. Management uses the fair value hierarchy, which gives the highest priority to quoted prices in active markets. The fair value of financial instruments is estimated based on market trading information, where available. Absent published market values for an instrument or other assets, management uses observable market data to arrive at its estimates of fair value.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(22) Fair Value of Financial Instruments - Continued

ASC 820 defines fair value as an exit price, representing the amount 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Fair values for common stocks, ETFs and deposit sweep accounts/cash equivalents are based on quoted market prices for identical assets in active markets. Fair values for US mortgage-backed securities, US government securities and corporate debt securities are based on quoted market prices in markets that may not be active. Fair values for beneficial interest in external endowment and remainder interests in trusts are based on quoted market prices for the underlying assets held in these investments or based on the present value of expected future cash flows. Fair value for the derivative swap liability is based on quoted prices for similar assets in markets that may not be active. Show investments are valued at cost which approximates fair value.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(22) Fair Value of Financial Instruments - Continued

The following table sets forth by level, within the fair value hierarchy, assets and liabilities at fair value as of September 30, 2017:

<u>Description</u>	<u>Assets Measured at Fair Value at 9/30/2017</u>	<u>Fair Value Measurement at September 30, 2017 Using</u>		
		<u>Observable Inputs (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Common stocks	\$ 1,965,074	1,965,074	-	-
Foreign stocks	128,204	128,204	-	-
International mutual funds	642,024	642,024	-	-
Deposit sweep accounts/cash equivalents	222,417	222,417	-	-
Broad market ETF	95,065	95,065	-	-
Fixed income ETF	62,561	62,561	-	-
Corporate debt securities	1,923,772	-	1,923,772	-
U.S. mortgage-backed securities	159,994	-	159,994	-
U.S. government securities	813,130	-	813,130	-
	<u>6,012,241</u>	<u>3,115,345</u>	<u>2,896,896</u>	<u>-</u>
Total investments	6,012,241	3,115,345	2,896,896	-
Escrow deposits	1,599,653	914,487	685,166	-
Beneficial interest in external endowment	120,443	-	120,443	-
Remainder interests in trusts	595,687	-	595,687	-
Derivative swap liability	(218,439)	-	(218,439)	-
Show investments	21,969	-	-	21,969
	<u>\$ 8,131,554</u>	<u>4,029,832</u>	<u>4,079,753</u>	<u>21,969</u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(22) Fair Value of Financial Instruments - Continued

The following table sets forth by level, within the fair value hierarchy, assets and liabilities at fair value as of September 30, 2016:

<u>Description</u>	<u>Assets Measured at Fair Value at 9/30/2016</u>	<u>Fair Value Measurement at September 30, 2016 Using</u>		
		<u>Observable Inputs (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Common stocks	\$ 1,775,291	1,775,291	-	-
Foreign stocks	135,244	135,244	-	-
International mutual funds	483,079	483,079	-	-
Deposit sweep accounts/cash equivalents	492,224	492,224	-	-
Broad market ETF	96,974	96,974	-	-
Fixed income ETF	51,402	51,402	-	-
Corporate debt securities	1,851,497	-	1,851,497	-
U.S. mortgage-backed securities	174,190	-	174,190	-
U.S. government securities	737,893	-	737,893	-
	<u>5,797,794</u>	<u>3,034,214</u>	<u>2,763,580</u>	<u>-</u>
Total investments	5,797,794	3,034,214	2,763,580	-
Beneficial interest in external endowment	116,171	-	116,171	-
Remainder interests in trusts	575,664	-	575,664	-
Derivative swap liability	(343,068)	-	(343,068)	-
Show investments	23,000	-	-	23,000
	<u>\$ 6,169,561</u>	<u>3,034,214</u>	<u>3,112,347</u>	<u>23,000</u>

The change in the fair value of Level 3 investments for the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 23,000	23,000
Return of show investment capital	<u>(1,031)</u>	<u>-</u>
Ending balance	<u>\$ 21,969</u>	<u>23,000</u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(23) Legal Matters

From time to time, the Organization is involved in various legal matters in the ordinary course of business. Management does not anticipate that the resolution of any legal matter outstanding as of September 30, 2017 will have a material adverse effect on the Organization's financial position.

(24) Subsequent Events

The Organization's management has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 24, 2018, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



**Independent Auditor’s 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***

The Board of Directors
Ruth Eckerd Hall, Inc.:

We have audited, in accordance with the 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 Ruth Eckerd Hall, Inc. (the “Organization”), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 a 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MAYER HOFFMAN MCCANN P.C.

January 24, 2018
Clearwater, Florida



**Independent Auditor’s Report on Compliance for Each Major State Project
and Report on Internal Control over Compliance Required by
Chapter 10.650, Rules of the Auditor General**

The Board of Directors
Ruth Eckerd Hall, Inc.:

Report on Compliance for Each Major State Project

We have audited Ruth Eckerd Hall, Inc.’s (the “Organization”) compliance with the types of compliance requirements described in the *Department of Financial Services’ State Projects Compliance Supplement*, that could have a direct and material effect on the Organization’s major state project for the year ended September 30, 2017. The Organization’s major state project is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State projects.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Major State Project

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

MAYER HOFFMAN MCCANN P.C.

January 24, 2018
Clearwater, Florida

RUTH ECKERD HALL, INC.

Schedule of Expenditures of State Financial Assistance

Year Ended September 30, 2017

<u>Grantor/Description</u>	<u>State CSFA #</u>	<u>Grant ID #</u>	<u>Expenditures</u>	<u>Transfers To Subrecipients</u>
Florida Department of State				
Division of Cultural Affairs				
Cultural Facilities Program	45.014	16.9.200.562	\$ 239,572	-
Cultural Facilities Program	45.014	17-9915	<u>500,000</u>	<u>-</u>
Subtotal - Division of Cultural Affairs			739,572	-
General Program Support	45.061	17.6.180.138	<u>68,950</u>	<u>-</u>
Total expenditures of state financial assistance			<u>\$ 808,522</u>	<u>-</u>

RUTH ECKERD HALL, INC.

Notes to Schedule of Expenditures of State Financial Assistance

Year Ended September 30, 2017

(1) Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance includes the state grant activity of Ruth Eckerd Hall, Inc. (the "Organization") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

(2) Contingencies

These State projects are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures, and affect the Organization's continued participation in specific programs. The amount of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

RUTH ECKERD HALL, INC.

Schedule of Findings and Questioned Costs - State Projects

Year Ended September 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting
Material weakness identified? _____ yes x no
Significant deficiencies identified that are not
considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

State Financial Assistance

Internal control over major state project
Material weakness(es) identified? _____ yes x no
Significant deficiencies identified that are not
considered to be material weakness(es)? _____ yes x none reported

Type of auditor's report issued on compliance for
major state project Unmodified

Any audit findings disclosed that are to be reported
in accordance with Chapter 10.650, *Rules of the
Auditor General* _____ yes x no

Identification of major state project:

CSFA Number

45.014

Name of State Project

Cultural Facilities Grant Program

Dollar threshold used to distinguish between
type A and type B state projects

\$ 242,557

RUTH ECKERD HALL, INC.

Schedule of Findings and Questioned Costs - State Projects - Continued

Section II - Findings - Financial Statements

None.

Section III - Findings and Questioned Costs - Major State Project

None.

Section IV - Other Issues

- (a) No management letter is required because there were no findings required to be reported in the management letter;
- (b) No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to State projects; and
- (c) No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.