

RUTH ECKERD HALL, INC.

**Financial Statements
and
Supplemental Schedules**

**September 30, 2015 and 2014
(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 - 26
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>	27 - 28
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>	29 - 30
Schedule of Expenditures of State Financial Assistance	31
Notes to Schedule of Expenditures of State Financial Assistance	32
Schedule of Findings and Questioned Costs - State Projects	33 - 34
Certification of Chief Executive Officer (Unaudited)	35
Revenue Bond Issue - Minimum Debt Service Coverage Calculation	36



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, 2015 and 2014, 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, 2015 and 2014, 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 supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements but are required by certain loan documents. Such information is the responsibility of management, and except for that portion marked “unaudited,” was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The Certification of the Chief Executive Officer is not a required part of the financial statements and has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2016 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.

February 9, 2016
Clearwater, Florida

RUTH ECKERD HALL, INC.

Statements of Financial Position

September 30, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents	\$ 2,808,588	3,521,930
Restricted cash and cash equivalents	<u>250,000</u>	<u>250,000</u>
Total cash and cash equivalents	3,058,588	3,771,930
Accounts receivable	527,337	544,633
Contributions receivable:		
Annual campaign, net of allowance	669,315	582,489
Capital campaign, net of allowance	791,229	1,445,051
Other receivables	3,603	4,455
Inventory	38,706	38,706
Prepaid advertising and show expenses	700,746	380,617
Deposits	11,533	15,584
Show investments	23,000	25,688
Property and equipment, net	22,103,058	21,314,421
Intangible assets, net	232,707	256,595
Escrow deposits	1,250,000	700,000
Loan acquisition costs, net	87,699	103,492
Remainder interest in trusts	544,189	593,583
Investments	5,366,931	5,455,833
Beneficial interest in external endowment	<u>114,684</u>	<u>123,452</u>
Total assets	<u>\$ 35,523,325</u>	<u>35,356,529</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,270,549	989,242
Deferred program revenue	4,311,521	4,377,201
Liability under trust agreement	48,479	52,849
Construction loan	1,572,811	1,829,221
Capital leases	56,344	100,555
Revenue bonds payable	4,110,000	4,540,000
Fair value of interest rate swap agreement	<u>435,455</u>	<u>427,358</u>
Total liabilities	11,805,159	12,316,426
Net assets:		
Unrestricted	17,615,315	15,835,051
Temporarily restricted	1,692,143	2,792,075
Permanently restricted	<u>4,410,708</u>	<u>4,412,977</u>
Total net assets	<u>23,718,166</u>	<u>23,040,103</u>
Total liabilities and net assets	<u>\$ 35,523,325</u>	<u>35,356,529</u>

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

RUTH ECKERD HALL, INC.

Statement of Activities

Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and other support:				
Contributions	\$ 825,354	348,561	6,499	1,180,414
Grants	782,625	563,379	-	1,346,004
Membership fees	1,508,578	-	-	1,508,578
Special events	419,209	-	-	419,209
Total contributions and other support	3,535,766	911,940	6,499	4,454,205
Revenues:				
Admissions and rentals	14,932,414	-	-	14,932,414
Education	481,639	-	-	481,639
Food and beverage	667,957	-	-	667,957
Other	2,144,090	-	-	2,144,090
Total revenues	18,226,100	-	-	18,226,100
Net assets released from restrictions	1,881,841	(1,881,841)	-	-
Total contributions, other support and revenues	23,643,707	(969,901)	6,499	22,680,305
Expenses:				
Artist fees	7,848,336	-	-	7,848,336
Education	975,496	-	-	975,496
Operations	4,055,038	-	-	4,055,038
Food and beverage	134,105	-	-	134,105
Fund-raising	1,358,438	-	-	1,358,438
Special events	133,498	-	-	133,498
General and administrative	824,334	-	-	824,334
Marketing	685,313	-	-	685,313
Other	358,635	-	-	358,635
Programming - advertising and promotion	1,217,146	-	-	1,217,146
Programming - other	1,568,047	-	-	1,568,047
Rental production costs	295,712	-	-	295,712
Technical services and maintenance	1,047,755	-	-	1,047,755
Depreciation - furniture, fixtures and equipment	152,548	-	-	152,548
Total expenses	20,654,401	-	-	20,654,401
Operating income	2,989,306	(969,901)	6,499	2,025,904
Other income (expense):				
Interest income on deposit accounts	93	-	-	93
Investment income:				
Investments	6,775	21,544	(8,768)	19,551
Show investments	3,485	-	-	3,485
Investment return appropriated for expenditure	110,675	(110,675)	-	-
Interest expense	(208,656)	-	-	(208,656)
Debt renewal, servicing and loan fee amortization expenses	(104,968)	-	-	(104,968)
Amortization of intangible assets	(23,891)	-	-	(23,891)
Change in split interest agreements	-	(40,900)	-	(40,900)
Change in fair value of interest rate swap agreement	(8,097)	-	-	(8,097)
Loss on disposal of equipment	(23,680)	-	-	(23,680)
Total other income (expense)	(248,264)	(130,031)	(8,768)	(387,063)
Change in net assets before building depreciation	2,741,042	(1,099,932)	(2,269)	1,638,841
Depreciation - building and improvements	(960,778)	-	-	(960,778)
Change in net assets	1,780,264	(1,099,932)	(2,269)	678,063
Net assets, beginning of year	15,835,051	2,792,075	4,412,977	23,040,103
Net assets, end of year	\$ 17,615,315	1,692,143	4,410,708	23,718,166

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

RUTH ECKERD HALL, INC.

Statement of Activities

Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and other support:				
Contributions	\$ 993,520	2,074,768	235,944	3,304,232
Grants	812,238	37,500	-	849,738
Membership fees	1,572,281	-	-	1,572,281
Special events	340,582	-	-	340,582
Total contributions and other support	3,718,621	2,112,268	235,944	6,066,833
Revenues:				
Admissions and rentals	14,578,602	-	-	14,578,602
Education	445,076	-	-	445,076
Food and beverage	529,798	-	-	529,798
Other	1,988,228	-	-	1,988,228
Total revenues	17,541,704	-	-	17,541,704
Net assets released from restrictions	1,645,157	(1,645,157)	-	-
Total contributions, other support and revenues	22,905,482	467,111	235,944	23,608,537
Expenses:				
Artist fees	8,367,294	-	-	8,367,294
Education	950,645	-	-	950,645
Operations	3,711,763	-	-	3,711,763
Food and beverage	169,080	-	-	169,080
Fund-raising	1,201,095	-	-	1,201,095
Special events	113,490	-	-	113,490
General and administrative	706,932	-	-	706,932
Marketing	722,599	-	-	722,599
Other	327,634	-	-	327,634
Programming - advertising and promotion	1,412,875	-	-	1,412,875
Programming - other	1,475,297	-	-	1,475,297
Rental production costs	266,971	-	-	266,971
Technical services and maintenance	1,142,968	-	-	1,142,968
Depreciation - furniture, fixtures and equipment	157,439	-	-	157,439
Total expenses	20,726,082	-	-	20,726,082
Operating income	2,179,400	467,111	235,944	2,882,455
Other income (expense):				
Interest income on deposit accounts	88	-	-	88
Investment income:				
Investments	61,212	274,702	5,174	341,088
Show investments	533	-	-	533
Investment return appropriated for expenditure	120,593	(120,593)	-	-
Interest expense	(181,948)	-	-	(181,948)
Debt renewal, servicing and loan fee amortization expenses	(112,550)	-	-	(112,550)
Amortization of intangible assets	(13,613)	-	-	(13,613)
Change in split interest agreements	-	43,044	-	43,044
Change in fair value of interest rate swap agreement	76,705	-	-	76,705
Total other income (expense)	(48,980)	197,153	5,174	153,347
Change in net assets before building depreciation	2,130,420	664,264	241,118	3,035,802
Depreciation - building and improvements	(806,379)	-	-	(806,379)
Change in net assets	1,324,041	664,264	241,118	2,229,423
Net assets, beginning of year	14,511,010	2,127,811	4,171,859	20,810,680
Net assets, end of year	\$ 15,835,051	2,792,075	4,412,977	23,040,103

RUTH ECKERD HALL, INC.

Statements of Cash Flows

Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 678,063	2,229,423
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on remainder interests in trusts and investments	94,795	(200,237)
Change in fair value of interest rate swap agreement	8,097	(76,705)
Depreciation and amortization	1,153,007	1,178,601
Loss on disposal of equipment	23,680	-
Remainder trust contributions	-	(20,000)
Change in split-interest agreements	40,900	(43,044)
Change in liabilities under trust agreements	3,020	51,654
Change in beneficial interest in external endowment	8,768	(5,174)
Write-off of show investments	-	3,062
Changes in operating assets and liabilities:		
Accounts receivable	17,296	(30,086)
Contributions receivable, net	566,996	(152,793)
Other receivables	852	980,474
Inventory	-	1,647
Prepaid advertising and show expenses	(320,129)	(93,807)
Deposits and escrow deposits	(545,949)	(712,609)
Show investments	2,688	-
Accounts payable and accrued expenses	157,222	(790,128)
Deferred program revenue	(65,680)	(123,162)
Net cash provided by operating activities	1,823,626	2,197,116
Cash flows from investing activities:		
Acquisition of property and equipment	(1,801,558)	(2,570,344)
Acquisition of intangible assets	-	(270,208)
Proceeds from sales and reinvestments	89,563	820,289
Purchases of investments	(86,962)	(904,309)
Net cash used in investing activities	(1,798,957)	(2,924,572)
Cash flows from financing activities:		
Repayment of construction loan	(256,410)	-
Proceeds from construction loan	-	1,829,221
Repayment of revenue bonds payable	(430,000)	(410,000)
Payments on capital lease obligation	(44,211)	(43,361)
Loan acquisition costs	-	(14,500)
Payments of liabilities under trust agreements	(7,390)	(7,044)
Net cash (used in) provided by financing activities	(738,011)	1,354,316
Net (decrease) increase in cash and cash equivalents	(713,342)	626,860
Cash and cash equivalents, beginning of year	3,771,930	3,145,070
Cash and cash equivalents, end of year	\$ 3,058,588	3,771,930
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 208,656	147,821
Non-cash investing and financing activities:		
Equipment acquired under capital lease obligation	\$ -	54,479
Change in accounts payable attributable to purchases of property and equipment	\$ 124,085	-

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

RUTH ECKERD HALL, INC.

Notes to Financial Statements

September 30, 2015 and 2014

(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.

(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.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(2) Significant Accounting Policies - Continued

(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 11(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.

(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

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

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

(h) **Property and Equipment - Continued**

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.

(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 21 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.

(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) **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.

(l) **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

(m) 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.

(n) 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.

(o) 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 \$71,000 and \$64,000, respectively, for the years ended September 30, 2015 and 2014.

(p) Membership Fees

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

(q) 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 statements.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

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

(r) **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 2011 tax year ended September 30, 2012, and all subsequent tax years.

(s) **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.

(t) **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 \$1,313,700 and \$1,520,200 for the years ended September 30, 2015 and 2014, respectively.

(u) **Reclassifications**

Certain reclassifications have been made to the 2014 financial statement presentation to conform to the 2015 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, 2015 are summarized as follows:

	Annual Campaign	Capital Campaign
Gross contributions receivable	\$ 813,233	894,000
Less allowance for uncollectible contributions	(12,804)	(79,796)
Less unamortized discount, discounted using a rate of 2.98%	(131,114)	(22,975)
Net contributions receivable	\$ 669,315	791,229
Amounts due in:		
Less than one year	\$ 412,936	636,750
One to five years	106,511	257,250
More than five years	293,786	-
	\$ 813,233	894,000

Contributions receivable at September 30, 2014 are summarized as follows:

	Annual Campaign	Capital Campaign
Gross contributions receivable	\$ 736,120	1,592,550
Less allowance for uncollectible contributions	(12,804)	(79,796)
Less unamortized discount, discounted using a rate of 2.98%	(140,827)	(67,703)
Net contributions receivable	\$ 582,489	1,445,051
Amounts due in:		
Less than one year	\$ 153,505	320,550
One to five years	288,829	1,272,000
More than five years	293,786	-
	\$ 736,120	1,592,550

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(4) Property and Equipment, Net

Property and equipment, net at September 30, 2015 and 2014 consist of the following:

	2015	2014
Nondepreciable assets:		
Land	\$ 37,500	37,500
Artwork	305,035	305,035
Construction in progress	554,163	296,103
Depreciable assets:		
Building and improvements	1,724,745	193,769
Furniture, fixtures and equipment	2,950,655	3,335,377
Capitalized leasehold property and improvements	30,474,786	31,888,755
	36,046,884	36,056,539
Less accumulated depreciation	(13,943,826)	(14,742,118)
Property and equipment, net	\$ 22,103,058	21,314,421

(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 2.2% at both September 30, 2015 and 2014.

(6) Line of Credit

The Organization has a line of credit with a maximum borrowing capacity of \$450,000. The interest rate on the line of credit is the 30-day LIBOR plus 1% (1.20% at September 30, 2015). Interest on the outstanding principal is payable monthly and the line of credit matured in November 2015 and was not renewed. The line of credit is secured by a certificate of deposit in the amount of \$250,000, which is presented as restricted cash and cash equivalents in the accompanying statements of financial position. There was no outstanding balance at September 30, 2015 and 2014.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(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. Interest accrues at LIBOR plus 3.25% (3.45% at September 30, 2015). Interest is due monthly. Principal payments of \$25,641 commenced in December 2014 and are payable monthly until January 2017. All unpaid principal and accrued interest are due in full in February 2017. Certain minimum financial debt covenants are required to be met. At September 30, 2015, the Organization was in compliance with all debt covenants.

As further discussed in Note 23, this loan was consolidated into a new note payable as of December 31, 2015.

(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. The bonds bear interest at a variable weekly rate (0.198% at September 30, 2015). As of September 30, 2015 and 2014, the outstanding principal balance of the bonds was \$4,110,000 and \$4,540,000, respectively. The bonds are secured by a letter of credit. The bonds will mature, subject to prior redemption, on March 1, 2023. The Organization has entered into an interest rate swap agreement for a portion of the outstanding bonds (see Note 9).

The revenue bonds are 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 requires the Organization to maintain an open letter of credit until all of the bonds have been paid in full. The letter of credit agreement expires March 15, 2016 and may be extended at the discretion of the bank.

Certain minimum financial debt covenants are required to be met. At September 30, 2015, the Organization was in compliance with all debt covenants.

As further discussed in Note 23, the revenue bonds were repaid in full on December 31, 2015.

(9) **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 \$3,082,500 and \$3,405,000, at September 30, 2015 and 2014, respectively. The interest rate swap agreement is scheduled to expire on April 1, 2023.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(9) Interest Rate Swap Agreement - Continued

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, 2015 and 2014, the interest rate swap agreement is reflected as a liability at its fair value of \$435,455 and \$427,358, 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 the 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, 2015 and 2014 was an increase in interest expense of \$124,841 and \$137,903, respectively. For the years ended September 30, 2015 and 2014, a loss of \$8,097 and a gain of \$76,705 were recorded for the change in the fair value of the interest rate swap, respectively.

(10) 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, 2015 and 2014, the Organization had approximately \$169,700 of leased equipment under capital leases. Accumulated amortization of the leased equipment at September 30, 2015 and 2014 was included in accumulated depreciation and was \$46,902 and \$27,602, respectively.

Approximate future minimum lease payments under capital leases and the present value of the net minimum lease payments are as follows, as of September 30, 2015:

<u>Year Ending September 30,</u>		
2016	\$	51,082
2017		<u>7,170</u>
Total minimum lease payments		58,252
Less: amount representing interest		<u>(1,908)</u>
Present value of net minimum lease payments	\$	<u><u>56,344</u></u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(11) **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 has entered into non-cancelable contracts for cleaning and consulting services. Expense related to these contracts was approximately \$322,000 and \$290,000 for the years ended September 30, 2015 and 2014, respectively.

During 2015, the Organization reached an agreement to terminate its cleaning contract on October 31, 2015.

(c) **Operating Leases**

The Organization leases certain office equipment under non-cancelable operating leases. Rent expense under these leases was approximately \$35,000 and \$34,000 for the years ended September 30, 2015 and 2014, respectively.

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

<u>Year Ending</u> <u>September 30,</u>		
2016	\$	39,000
2017		36,000
2018		30,000
2019		30,000
2020		<u>30,000</u>
	\$	<u><u>165,000</u></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 \$270,208. The renovation project was completed, and the Theatre opened for operations on December 18, 2013. Related amortization expense of overages was \$23,891 and \$13,613 for the years ended September 30, 2015 and 2014, respectively.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(11) **Commitments and Contingencies - Continued**

(d) **Capitol Theatre Operating Agreement - Continued**

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.

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 3rd 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.

As of September 30, 2015, the Organization had deposited \$1,250,000 into the reserve fund account which has been recorded as escrow deposits on the accompanying statement of financial position. Future annual commitments to the reserve fund under the operating agreement are as follows, as of September 30, 2015:

<u>Year Ending</u> <u>September 30,</u>		
2016	\$	250,000
2017		250,000
2018		100,000
2019		100,000
2020		100,000
Thereafter		<u>600,000</u>
	\$	<u>1,400,000</u>

(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.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(12) 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 year ended September 30, 2015 and 2014, which is included in grants on the accompanying statements of activities.

(13) 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 6% of each participant's annual salary during the years ended September 30, 2015 and 2014. Employer contributions to the Plan were approximately \$77,000 and \$60,000 for the years ended September 30, 2015 and 2014, respectively.

(14) Functional Expenses

Expenses for the years ended September 30, 2015 and 2014 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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Programming	\$ 18,468,257	18,670,460
Development	1,732,575	1,500,035
General and administrative	<u>1,751,862</u>	<u>1,670,077</u>
Total	<u>\$ 21,952,694</u>	<u>21,840,572</u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(15) Investments and Beneficial Interest in External Endowment

The investment classifications at September 30, 2015 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money markets/cash equivalents	\$ 128,480	128,480
Corporate debt securities	1,667,730	1,660,122
U.S. mortgage-backed securities	183,586	187,867
U.S. government securities	708,950	713,054
Common stock and ETFs	2,015,398	2,378,670
Hedge fund portfolio	300,000	298,738
	<u>5,004,144</u>	<u>5,366,931</u>
Total	\$ <u>5,004,144</u>	<u>5,366,931</u>

The investment classifications at September 30, 2014 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money markets/cash equivalents	\$ 105,116	105,116
Corporate debt securities	2,170,067	2,170,366
U.S. mortgage-backed securities	305,835	307,368
U.S. government securities	203,712	202,723
Common stock and ETFs	1,797,148	2,347,206
Hedge fund portfolio	300,000	323,054
	<u>4,881,878</u>	<u>5,455,833</u>
Total	\$ <u>4,881,878</u>	<u>5,455,833</u>

Investment income for the years ended September 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 132,258	135,677
Realized and unrealized gains (losses)	(112,707)	205,411
	<u>19,551</u>	<u>341,088</u>
Total	\$ <u>19,551</u>	<u>341,088</u>

The Organization is a beneficiary of a \$100,000 externally controlled trust endowment to be held in perpetuity. At September 30, 2015 and 2014, the value of the endowment was \$114,684 and \$123,452, respectively, which includes an unrealized loss of \$8,768 and an unrealized gain of \$5,174 for the years ended September 30, 2015 and 2014, respectively.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(15) Investments and Beneficial Interest in External Endowment - Continued

The trust endowment assets consisted of the following:

	2015	2014
Short-term investments	\$ 614	1,916
Corporate debt securities	50,502	45,985
Common stocks	54,549	64,474
Mutual funds	9,019	11,077
	\$ 114,684	123,452

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, 2015 and 2014 were approximately \$4,700 and \$4,600, respectively.

(16) Board-Designated Net Assets

Included in unrestricted net assets at September 30, 2015 and 2014 is \$146,607 and \$149,846, respectively, that the board has designated for scholarships. The Board has also designated net assets of \$977,704 at September 30, 2015 and 2014, as part of the endowment (Note 18).

(17) Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2015 and 2014 consist of the following:

	2015	2014
Contributions receivable - annual campaign, net	\$ 239,240	206,458
Contributions receivable - capital campaign, net	791,229	1,445,051
Remainder interest in trust	455,259	496,159
Cash restricted for capital campaign projects	-	413,559
Unappropriated investment return	64,978	154,109
Other	141,437	76,739
Total	\$ 1,692,143	2,792,075

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(18) Permanently Restricted Net Assets (Endowment)

The Organization has received multiple endowment gifts from donors that require only the investment income be used for operational expenses. These gifts are reflected as permanently restricted in the accompanying financial statements.

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.

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.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

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

Endowment Net Asset Composition by Type of Fund as of September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	64,978	4,410,708	4,475,686
Board-designated endowment funds	977,704	-	-	977,704
	<u>\$ 977,704</u>	<u>64,978</u>	<u>4,410,708</u>	<u>5,453,390</u>

Changes in Endowment Net Assets for the Year Ended September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 977,704	154,109	4,412,977	5,544,790
Contributions	-	-	6,499	6,499
Investment return (realized and unrealized including distributions)	-	21,544	(8,768)	12,776
Investment return appropriated for expenditure	-	(110,675)	-	(110,675)
Endowment net assets, end of year	<u>\$ 977,704</u>	<u>64,978</u>	<u>4,410,708</u>	<u>5,453,390</u>

Endowment Net Asset Composition by Type of Fund as of September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	154,109	4,412,977	4,567,086
Board-designated endowment funds	977,704	-	-	977,704
	<u>\$ 977,704</u>	<u>154,109</u>	<u>4,412,977</u>	<u>5,544,790</u>

Changes in Endowment Net Assets for the Year Ended September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 977,704	-	4,171,859	5,149,563
Contributions	-	-	235,944	235,944
Investment return (realized and unrealized including distributions)	-	274,702	5,174	279,876
Investment return appropriated for expenditure	-	(120,593)	-	(120,593)
Endowment net assets, end of year	<u>\$ 977,704</u>	<u>154,109</u>	<u>4,412,977</u>	<u>5,544,790</u>

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

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

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.

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.

(19) 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 \$1,662,000 and \$940,000 in a non-FDIC insured money market account at September 30, 2015 and 2014, respectively. Other cash balances in excess of the FDIC insured limit of \$250,000 were approximately \$818,000 and \$2,261,000 at September 30, 2015 and 2014, respectively.

(20) Related Party Transactions

The Organization has entered into advertising and legal services with companies affiliated with certain Board members. Additionally, board members and affiliated companies of board members provide sponsorships and contributions.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(21) 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.

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. Investment in the hedge fund portfolio is valued based on the net asset value of the hedge fund portfolio, as determined by the investment advisor and reported in the fund’s audited financial statements. The portfolio consists of investments in hedge funds which are valued based on the net asset value of the underlying hedge fund portfolios as reported to the investment advisor. The investment in the hedge fund portfolio may be redeemed only when the investment advisors allow it, which is anticipated to be quarterly.

During 2015, the Organization adopted Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (“ASU 2015-07”). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at NAV (or its equivalent) under the practical expedient in ASC 820. ASU 2015-07 also limits the disclosure requirements that currently apply to all investments eligible to be measured at NAV under the practical expedient to only those in which the practical expedient is applied. The Organization has included the required disclosures herein. As a result of the adoption of ASU 2015-07, the following fair value hierarchy tables no longer present the hedge fund portfolio as a Level 3 investment as of September 30, 2015 and 2014.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(21) Fair Value of Financial Instruments - Continued

The following tables set forth by level, within the fair value hierarchy, assets at fair value as of September 30, 2015 and 2014:

Description	09/30/2015	Fair Value Measurement at September 30, 2015 Using:		
		(Level 1)	(Level 2)	(Level 3)
Common stocks	\$ 1,617,695	1,617,695	-	-
Foreign stocks	176,692	176,692	-	-
International mutual funds	319,577	319,577	-	-
Domestic mutual funds	128,032	128,032	-	-
Deposit sweep accounts/cash equivalents	128,480	128,480	-	-
Broad market ETF	82,338	82,338	-	-
Fixed income ETF	54,336	54,336	-	-
Corporate debt securities	1,660,122	-	1,660,122	-
U.S. mortgage-backed securities	187,867	-	187,867	-
U.S. government securities	713,054	-	713,054	-
Hedge fund portfolio *	298,738	-	-	-
Total investments	5,366,931	2,507,150	2,561,043	-
Beneficial interest in external endowment	114,684	-	114,684	-
Remainder interests in trusts	544,189	-	544,189	-
Derivative swap liability	(435,455)	-	(435,455)	-
Show investments	23,000	-	-	23,000
	<u>\$ 5,613,349</u>	<u>2,507,150</u>	<u>2,784,461</u>	<u>23,000</u>

Description	09/30/2014	Fair Value Measurements at September 30, 2014 Using:		
		(Level 1)	(Level 2)	(Level 3)
Common stocks	\$ 1,582,976	1,582,976	-	-
Foreign stocks	225,906	225,906	-	-
International mutual funds	256,210	256,210	-	-
Domestic mutual funds	139,641	139,641	-	-
Deposit sweep accounts/cash equivalents	105,116	105,116	-	-
Broad market ETF	86,009	86,009	-	-
Fixed income ETF	56,464	56,464	-	-
Corporate debt securities	2,170,366	-	2,170,366	-
U.S. mortgage-backed securities	307,368	-	307,368	-
U.S. government securities	202,723	-	202,723	-
Hedge fund portfolio *	323,054	-	-	-
Total investments	5,455,833	2,452,322	2,680,457	-
Beneficial interest in external endowment	123,452	-	123,452	-
Remainder interests in trusts	593,583	-	593,583	-
Derivative swap liability	(427,358)	-	(427,358)	-
Show investments	25,688	-	-	25,688
	<u>\$ 5,771,198</u>	<u>2,452,322</u>	<u>2,970,134</u>	<u>25,688</u>

*Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

RUTH ECKERD HALL, INC.

Notes to Financial Statements - Continued

(21) Fair Value of Financial Instruments - Continued

The change in the fair value of Level 3 investments for the years ended September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 25,688	28,750
Return of show investment capital	(2,688)	-
Write-off of show investments	<u>-</u>	<u>(3,062)</u>
Ending balance	<u>\$ 23,000</u>	<u>25,688</u>

(22) 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, 2015 will have a material adverse effect on the financial statements.

(23) Subsequent Events

On December 31, 2015, the Organization entered into a new promissory note for \$5,860,000 and line of credit for \$450,000 with a commercial bank. The existing revenue bonds payable were repaid and the existing construction loan was consolidated into the new promissory note. The new promissory note bears interest at LIBOR plus 1.75% and is due on June 30, 2023. The line of credit bears interest at daily LIBOR plus 1.75% and expires on September 30, 2018.

The Organization's management has evaluated events and transactions for potential recognition or disclosure in the financial statements through February 9, 2016, the date which 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 the Ruth Eckerd Hall, Inc. (the “Organization”), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 9, 2016.

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.

February 9, 2016
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, 2015. 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, 2015.

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.

February 9, 2016
Clearwater, Florida

RUTH ECKERD HALL, INC.

Schedule of Expenditures of State Financial Assistance

Year Ended September 30, 2015

<u>Grantor/Description</u>	<u>State CSFA #</u>	<u>Grant ID #</u>	<u>Expenditures</u>
Florida Department of State			
Division of Cultural Affairs			
Cultural Facilities Program	45.014	14.9006	\$ 500,000
General Program Support	45.061	15.6.180.383	112,500
General Program Support	45.061	16.6.180.215	<u>17,718</u>
Total expenditures of state financial assistance			<u>\$ 630,218</u>

RUTH ECKERD HALL, INC.

Notes to Schedule of Expenditures of State Financial Assistance

Year Ended September 30, 2015

(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, 2015

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 projects

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 projects

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 projects:

CSFA Number

Name of State Project

45.014

FL Dept. of State, Division of Cultural Affairs
Cultural Facilities Program

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

\$ 300,000

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.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
(Unaudited)**

I, Zev Buffman, CEO of Ruth Eckerd Hall, Inc., make the following statement regarding the Letter of Credit, Loan and Reimbursement Agreement dated March 1, 2003 between Ruth Eckerd Hall, Inc. and Bank of America, N.A. relating to the \$8,100,000 Pinellas County Industrial Development Authority Revenue Bonds (Ruth Eckerd Hall, Inc. Project - Series 2003):

1. To the best of my knowledge, I have performed and observed each and every agreement, covenant and obligation contained in this Reimbursement Agreement and that no Event of Default or an event which, with notice or lapse of time or both, would constitute an Event of Default has occurred.
2. The following computation of minimum debt service coverage demonstrates that Ruth Eckerd Hall, Inc. has complied with the covenants and conditions contained in Section 5.01(m) and (n) of this Reimbursement Agreement. Therefore I certify that Ruth Eckerd Hall, Inc. has complied in all material respects with all of the terms, covenants and conditions contained in Section 5.01(m) and (n) of this Reimbursement Agreement.

Zev Buffman, President and CEO
Ruth Eckerd Hall, Inc.

RUTH ECKERD HALL, INC.

**Revenue Bond Issue - Minimum Debt
Service Coverage Calculation**

Year Ended September 30, 2015

Change in unrestricted net assets of Ruth Eckerd Hall, Inc.	\$	1,780,264
Plus:		
Depreciation and amortization		1,153,007
Interest expense and change in fair value of interest rate swap agreement		216,753
Unrealized losses on investments		<u>144,415</u>
	\$	<u><u>3,294,439</u></u>
Interest payments	\$	208,656
Principal payments		<u>730,621</u>
Total debt service obligations	\$	<u><u>939,277</u></u>
Coverage ratio		<u><u>3.51</u></u>