

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Audited Financial Statements
Year Ended June 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

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Independent Auditors' Report

Board of Directors
Skylight Music Theatre Corp.
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Skylight Music Theatre Corp. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skylight Music Theatre Corp. as of June 30, 2020, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Skylight Music Theatre Corp. June 30, 2019 financial statements, and our report dated September 16, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

September 8, 2020
Milwaukee, Wisconsin

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Financial Position

June 30, 2020

(With Summarized Totals for the Year Ended June 30, 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Assets:				
Current assets:				
Cash and equivalents	\$ 33,130	\$ 134,410	\$ 167,540	\$ 196,156
Accounts receivable	50,254	---	50,254	35,935
Contributions and grants receivable, net	---	167,652	167,652	189,560
Inventory	7,480	---	7,480	6,944
Prepaid expenses	124,686	---	124,686	40,737
Total current assets	215,550	302,062	517,612	469,332
Property and Equipment:				
Property and equipment:	1,276,906	---	1,276,906	1,238,173
Accumulated depreciation	(1,059,090)	---	(1,059,090)	(1,002,061)
Net property and equipment	217,816	---	217,816	236,112
Long-term assets:				
Long-term investments - Endowment	2,166,329	---	2,166,329	2,296,343
Contributions and grants receivable, net	---	3,712	3,712	5,622
Total long-term assets	2,166,329	3,712	2,170,041	2,301,965
Other assets:				
Security deposits and other assets	59,949	---	59,949	52,649
Total assets	\$ 2,659,644	\$ 305,774	\$ 2,965,418	\$ 3,060,058
Liabilities and Net Assets:				
Current liabilities:				
Accounts payable and other liabilities	\$ 56,333	\$ ---	\$ 56,333	\$ 63,243
Accrued payroll and tax liabilities	22,071	---	22,071	23,661
Deferred revenue	434,160	---	434,160	340,953
Payroll Protection Program loan	389,700	---	389,700	---
Current portion deferred gain	228,117	---	228,117	228,117
Total current liabilities	1,130,381	---	1,130,381	655,974
Other liabilities:				
Deferred gain on sale of building	1,748,900	---	1,748,900	1,977,017
Less: Current portion of deferred gain	(228,117)	---	(228,117)	(228,117)
Net long-term deferred gain	1,520,783	---	1,520,783	1,748,900
Security deposits	2,024	---	2,024	1,989
Other liabilities	6,073	---	6,073	2,469
Total other liabilities	1,528,880	---	1,528,880	1,753,358
Total liabilities	2,659,261	---	2,659,261	2,409,332
Net Assets (Deficit):				
Without donor restrictions				
Undesignated	(2,165,946)	---	(2,165,946)	(1,929,046)
Board Designated	2,166,329	---	2,166,329	2,296,343
With donor restrictions	---	305,774	305,774	283,429
Total net assets	383	305,774	306,157	650,726
Total liabilities and net assets	\$ 2,659,644	\$ 305,774	\$ 2,965,418	\$ 3,060,058

The accompanying notes to financial statements
are an integral part of these statements.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Activities
For the Year Ended June 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2020</u> <u>Total</u>	<u>2019</u> <u>Total</u>
Support and Revenue:				
Public support revenue				
Performance ticket income	\$ 1,047,211	\$ ---	\$ 1,047,211	\$ 1,377,997
Contributions	547,170	112,915	660,085	692,576
United Performing Arts Fund	438,531	79,539	518,070	519,772
Governmental grants	10,800	22,203	33,003	32,405
Donated goods and services	29,838	---	29,838	17,969
Total public support revenue	<u>2,073,550</u>	<u>214,657</u>	<u>2,288,207</u>	<u>2,640,719</u>
Special Events				
Special events revenue	49,326	---	49,326	17,900
Less: costs of direct benefit to donors	<u>(27,817)</u>	<u>---</u>	<u>(27,817)</u>	<u>(7,413)</u>
Net special events revenue	21,509	---	21,509	10,487
Special events contributions	12,343	---	12,343	8,004
Less: incidental benefits	<u>(22,341)</u>	<u>---</u>	<u>(22,341)</u>	<u>(1,087)</u>
Net special event income	11,511	---	11,511	17,404
Other Revenue:				
Program service fees	4,839	---	4,839	8,671
Investment income	47,768	---	47,768	76,198
Rental income	160,775	---	160,775	271,757
Other income	91,647	---	91,647	149,922
Gain (loss) on sale of donated investments	---	---	---	(1,358)
Gain on sale of fixed assets	<u>228,117</u>	<u>---</u>	<u>228,117</u>	<u>228,117</u>
Total other revenue	533,146	---	533,146	733,307
Net assets released from restrictions	<u>192,312</u>	<u>(192,312)</u>	<u>---</u>	<u>---</u>
Total support and revenue	2,810,519	22,345	2,832,864	3,391,430
Expenses:				
Program services	2,596,714	---	2,596,714	3,185,410
General and administrative	391,504	---	391,504	432,600
Fundraising	<u>189,215</u>	<u>---</u>	<u>189,215</u>	<u>175,177</u>
Total expenses	3,177,433	---	3,177,433	3,793,187
Change in net assets	(366,914)	22,345	(344,569)	(401,757)
Net assets, beginning of year	<u>367,297</u>	<u>283,429</u>	<u>650,726</u>	<u>1,052,483</u>
Net assets (deficit), end of year	<u>\$ 383</u>	<u>\$ 305,774</u>	<u>\$ 306,157</u>	<u>\$ 650,726</u>

The accompanying notes to financial statements
are an integral part of these statements.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

Expenses	Program Services	General and Administrative	Fundraising	Cost of direct benefit to donors	2020 Total	2019 Total
Salaries and wages	\$ 1,159,058	\$ 195,141	\$ 98,963	\$ ---	\$ 1,453,162	\$ 1,715,392
Employee benefits	130,042	13,195	16,812	---	160,049	193,932
Payroll taxes	87,111	14,515	7,494	---	109,120	130,731
Professional fees	109,275	30,549	---	---	139,824	223,734
Scholarships	1,045	---	---	---	1,045	1,050
Supplies	10,062	8,541	---	---	18,603	30,491
Telephone	4,439	748	379	---	5,566	5,853
Postage	408	7,460	1,098	---	8,966	5,822
Warehouse Rent	78,619	---	---	---	78,619	76,771
Occupancy	379,921	63,964	32,439	---	476,324	460,950
Production materials	64,662	---	---	---	64,662	198,269
Equipment rental & maintenance	5,845	---	---	---	5,845	13,312
Depreciation expense	57,029	---	---	---	57,029	49,484
Royalties	125,140	---	---	---	125,140	124,516
Housing	39,427	---	---	---	39,427	36,768
Travel	12,143	---	---	---	12,143	11,288
Insurance	46,339	7,802	3,957	---	58,098	67,545
Membership dues	3,303	1,508	---	---	4,811	3,152
Staff development	---	---	130	---	130	1,920
Bar expenses	2,113	---	---	---	2,113	6,314
Advertising	148,384	---	---	---	148,384	177,781
Repairs & maintenance	6,167	5,328	---	---	11,495	18,764
Lease expense	13,196	---	---	---	13,196	19,139
Credit card fees	47,111	---	1,121	---	48,232	51,850
Bad debt expense	---	---	6,138	---	6,138	4,976
Information technology	31,118	40,346	---	---	71,464	104,929
Workshops	2,800	---	---	---	2,800	4,222
Special Events	---	---	22,341	27,817	50,158	8,500
Other expenses	31,957	2,407	20,684	---	55,048	54,232
Totals functional expenses	\$ 2,596,714	\$ 391,504	\$ 211,556	\$ 27,817	\$ 3,227,591	\$ 3,801,687
Less: special events included on statements of activities	---	---	(22,341)	(27,817)	(50,158)	(8,500)
To statements of activities	<u>2,596,714</u>	<u>391,504</u>	<u>189,215</u>	<u>---</u>	<u>3,177,433</u>	<u>3,793,187</u>

The accompanying notes to financial statements
are an integral part of these statements.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Cash Flows
For the Year Ended June 30, 2020
(With Summarized Totals for the Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (344,569)	\$ (401,757)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	57,029	49,484
(Gain) loss on sale of donated investments	---	1,358
(Gain) on sale of fixed assets	(228,117)	(228,117)
Net realized and unrealized (gain) loss on investments	7,033	(2,517)
Change in assets and liabilities:		
Accounts receivable	(14,319)	750
Contributions and grants receivable	23,818	53,167
Inventory	(536)	12,249
Prepaid expenses	(83,949)	2,849
Other assets	(7,300)	---
Accounts payable	(6,910)	9,830
Accrued payroll and tax liabilities	(1,590)	8,856
Deferred revenue	93,207	46,090
Security deposits	35	600
Other liabilities	3,604	(521)
Total adjustments	<u>(157,995)</u>	<u>(45,922)</u>
Net cash used by operating activities	<u>(502,564)</u>	<u>(447,679)</u>
Cash Flows From Investing Activities:		
Purchase of investments	(166,188)	(1,809,583)
Proceeds from sale of investments	289,168	418,814
Purchase of fixed assets	<u>(38,732)</u>	<u>(101,788)</u>
Net cash provided by investing activities	<u>84,248</u>	<u>(1,492,557)</u>
Cash Flows From Financing Activities:		
Borrowings on Payroll Protection Program loan	389,700	---
Payments on capital lease obligation	<u>---</u>	<u>(2,841)</u>
Net cash provided (used) by financing activities	<u>389,700</u>	<u>(2,841)</u>
Change in cash and equivalents	<u>(28,616)</u>	<u>(1,943,077)</u>
Cash and equivalents at beginning of year	<u>196,156</u>	<u>2,139,233</u>
Cash and equivalents at end of year	<u>\$ 167,540</u>	<u>\$ 196,156</u>

The accompanying notes to financial statements
are an integral part of these statements.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2020

1. Summary of Significant Accounting Policies

Nature of Activities

Skylight Music Theatre Corp. (“Organization”) is a not-for-profit corporation organized under the laws of the State of Wisconsin. The mission of the Organization is to bring the full spectrum of musical theatre works to a wide and diverse audience in celebration of the musical and theatrical arts and their reflection of the human condition.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under U.S. GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization’s changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The board has designated, from net assets without donor restrictions, net assets for board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The organization has no restrictions that are perpetual in nature.

Revenue Recognition

The Organization recognizes revenue based on the existence or absence of an exchange transaction. The Organization recognizes revenue from exchange transactions when it satisfies a performance obligation by providing a service to a customer or member or by transferring control over a product to a customer or member.

Revenue from exchange transactions satisfied at a point in time consists of the following:

Performance ticket income– recognized as performance obligations are met

Revenue from non-exchange transactions consist of the following:

Contributions of cash and pledges receivable - received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue and net assets without donor restriction. Unconditional contributions expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized at prime interest rate and is reported as contribution revenue.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2020
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Revenue that has characteristics of both exchange and non-exchange transactions consist of the following:

Special event revenue – The direct benefit to donors is recognized as revenue as an exchange transaction, while the remaining is recognized as a non-exchange contribution.

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expense present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated across the programs and supporting services benefited.

Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Cash and Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Accounts, Contributions, Grants, and Notes Receivable

Accounts receivable are stated at unpaid balances net of an allowance for doubtful accounts based on historical collection experience and a review of the current status of accounts receivable. The Organization was gifted a note receivable in the June 30, 2013 fiscal year valued at \$100,000. Management decided to take a conservative approach with this 10 year note and set up an allowance for uncollectible accounts of \$100,000 for the year ended June 30, 2020.

Inventories

The Organization purchases building materials for set production. Inventories are recorded at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis.

Investment Valuation and Income Recognition

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under U.S. GAAP are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2020
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Investment Valuation and Income Recognition (Continued)

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

Common Stocks, corporate bonds, and U.S. government securities - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the closing price reported on the active market on which the individual securities are traded.

Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Realized gains and losses and unrealized appreciation and depreciation of assets are reported in the statement of activities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Depreciation expense was \$57,029 for the year ended June 30, 2020. The Organization capitalizes all property and equipment over \$1,000.

Advertising Costs

The Organization uses advertising to promote its programs among audiences it serves. Advertising costs are expensed in the fiscal year in which the revenue is recognized. Advertising expense for the year ended June 30, 2020 was \$148,384. Prepaid advertising as of June 30, 2020 was \$6,993.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2020
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization has implemented accounting for uncertainty in income taxes in accordance with U.S. GAAP. This standard describes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognizing, interest, penalties and disclosure required. Management of the Organization evaluates the uncertain tax positions taken, if any. The Organization recognizes interest and penalties, if any, related to unrecognized tax liabilities in income tax expense. Management does not believe there are any uncertain tax positions.

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and qualifies for charitable contribution deductions. The Organization has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that directly 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

Change in Accounting Principle

Financial Accounting Standards Board (“FASB”) Accounting Standards Updated (“ASU”) 2016-14 Codification Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or a point in time, and expand disclosures about revenue. We have implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendment has been applied retrospectively. Accordingly, there is no effect on net assets in connection with our implementation of 2016-14.

In June 2018, Financial Accounting Standards Board issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and subsequently issued related ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10). These standards amend certain aspects of accounting and disclosure requirements for financial instruments, including the requirement that equity investments with readily determinable fair values are to be measured at fair value with any changes in fair value recognized in an entity’s income statement. The amendment has been applied retrospectively. Accordingly, there is no effect on net assets in connection with our implementation of 2016-01.

SKYLIGHT MUSIC THEATRE CORP.
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Notes to Financial Statements
June 30, 2020
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed (September 8, 2020). The COVID-19 outbreak in the United States has caused economic disruption. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of it. As a result, economic uncertainties have arisen which are likely to negatively impact future revenues. Other financial impact could occur though such potential impact is unknown at this time.

2. Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements, if any, would be invested in short-term investments. The table below presents financial assets available for general expenditures within one year:

	<u>June 30, 2020</u>
Financial assets:	
Cash	\$ 167,540
Accounts receivable	50,254
Contributions and grants receivable, net	167,651
Investments	<u>2,166,329</u>
Total financial assets	\$ <u>2,551,774</u>
Less amounts not available to be used within one year for general expenditures:	
Net assets with donor restrictions	(305,774)
Net assets without donor restrictions – board designated	<u>(2,166,329)</u>
Financial assets available to meet general expenditures within one year	\$ <u>79,671</u>

The Organization's Board has designated amounts otherwise without donor restrictions. These board designated funds can be made available to meet operating needs if necessary. During the year ended June 30, 2020, the Organization was able to meet its cash needs without utilizing designated reserves

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2020
(Continued)

3. Contribution and Grants Receivable

Contributions and Grants receivable consist of the following as of June 30, 2020:

<u>Source</u>	<u>Amount</u>
United Performing Arts Fund	\$ 79,539
Individuals	45,047
Corporations	<u>46,778</u>
Total	\$ <u>171,364</u>

Contributions and Grants receivable are due as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2021	\$ 167,652
2022	2,380
2023	1,500
Less: Present value discount	<u>(168)</u>
Total	\$ <u>171,364</u>

The present value discount was calculated at the prime rate published in the Wall Street Journal of 3.25% at June 30, 2020.

4. Property and Equipment

Property and Equipment consist of the following as of June 30, 2020:

<u>Source</u>	<u>Amount</u>
Computer and electronics	\$ 470,200
Equipment	622,556
Building equipment	1,950
Bar furniture	20,175
Musical instruments	47,385
Rental props	52,593
Vehicles	<u>62,047</u>
Total property and equipment	1,276,906
Less: accumulated depreciation	<u>(1,059,090)</u>
Net property and equipment	\$ <u>217,816</u>

Real estate assets were disposed of in February 2018 and were treated as a sale-lease back transaction. A long-term operating lease was entered into. A gain of \$2,281,173 was realized on the sale and has been deferred. The gain is being amortized over the initial lease term of ten years, which commenced in March 2018. The deferred gain was \$1,748,900 as of June 30, 2020. The gain recognized for the year ended June 30, 2020 was \$228,117.

SKYLIGHT MUSIC THEATRE CORP.
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Notes to Financial Statements
June 30, 2020
(Continued)

5. Investments and Endowment – UPMIFA

Interpretation of Law

The Organization has interpreted the Wisconsin Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2020, there were no such donor stipulations. As a result of this interpretation, the organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The Organization has adopted the following investment objectives, acceptable investment, risk and diversifications and spending policies:

Investment Objectives

The primary investment objective of the portfolio is to maximize total rate of return, consistent with preservation of principal. However, all income will be distributed within the fiscal year ending June 30th.

- Fixed Income – the objective of the fixed income asset class is to exceed the Lehman Brothers Government/Intermediate Bond Index on a total return basis over an interest rate cycle.
- Equities – the objective of the equity assets class is to exceed the S&P 500 Index on a total return basis over a complete business cycle.

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(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Asset Mix

The fund will pursue the following long-term allocation and rebalancing ranges:

Asset Class	Asset Allocation	Rebalancing Range
Cash and equivalents	0%	0 – 20%
Fixed income	35%	25 – 65%
US equities	50%	20 – 60%
International equities	15%	0 – 30%

Except for an unusual market when there is a major downside risk in a particular asset class, movement out of the normal ranges will be avoided.

Acceptable Investments

A. Money Market and Fixed Income Investments

1. Securities of the U.S. Government or agencies thereof
2. Taxable fixed income securities with a minimum investment grade (BAA+) rating at time of purchase by Moody's and Standard and Poor's
3. Commercial paper and variable rate demand notes of domestic corporations rates A-1 or P-1, or if unrated, restricted to those issuers whose long-term debt is rated A or higher by one of the major rating agencies
4. Bankers acceptances and certificates of deposit of major domestic banks and domestic subsidiaries of foreign banks meeting the quality criteria in item 3 above and meeting additional criteria established by investment counsel
5. Repurchase agreements 100% collateralized with respect to market value plus accrued interest in direct U.S. government securities
6. Money market funds adhering to the quality guidelines described in items 1-5 above

B. Equities

1. Marketable common stocks or securities convertible into common stock

C. Mutual funds/Other

1. No Load Mutual Funds and Exchange Traded Funds (ETF) which invest in securities meeting the above stated guidelines and are consistent with overall objectives

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(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Diversification

- A. Total issues of any one corporation may not exceed 10% of the market value of the entire portfolio at time of purchase.
- B. Fixed income securities of any one issue may not exceed 10% of the market value of the fixed income portfolio at time of purchase.
- C. The above restrictions do not apply to issues of U.S. Government or to any issues guaranteed as to both principal and interest by the U.S. Government.
- D. Individual equity investments may not exceed 5% of the market value of the equity portfolio at time of purchase.
- E. Investments in American depository receipts or in the securities of foreign issues may not exceed 25% of the equity portfolio.

Spending Policy

- A. Distribution from the endowment must be approved by the Board of Directors at a regularly scheduled or special meeting. The majority of those must affirm the recommendation presented.
- B. Distribution may be made on a schedule as recommended by staff and approved by the Investment Committee of the Board of Directors or the full Board of Directors.
- C. Fiscal year distributions may not exceed 5% of a twenty-quarter rolling average market value of the endowment fund. Until such time as the endowment fund has a life span of twenty quarters, the life span of the fund may be used to determine the average market value of the endowment fund.
- D. The twenty-quarter rolling average market value will be based on a start date of June 30th of the fiscal year prior to the start of the fiscal year during which funds will be drawn.
- E. One quarter (25%) of the calculated distribution will be taken in each of the four quarters of the fiscal year during which the funds will be drawn, on a schedule to be determined by the Managing Director.
- F. These policies must be reviewed on an annual basis by the Investment Committee of the Board of Directors or the full Board of Directors.
- G. These policies may be changed by a majority vote of the Board of Directors present at a regularly scheduled or special meeting.

This statement of investment objectives should be reviewed by the Investment Committee and fund advisor(s) annually.

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Notes to Financial Statements
June 30, 2020
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Endowment investment composition as of June 30, 2020 is as follows:

	Unrestricted – Board Designated	Net Assets with Donor Restrictions	Total Investments
Endowment investments, end of year	\$ 2,166,329	\$ ---	\$ 2,166,329

Changes in endowment investments as of June 30, 2020 are as follows:

	Unrestricted – Board Designated	Net Assets with Donor Restrictions	Total Investments
Endowment investments, beginning of year	\$ 2,296,343	\$ ---	\$ 2,296,343
Investment income	77,018	---	77,018
Net appreciation (depreciation)	(7,033)	---	(7,033)
Amounts contributed	89,169	---	89,169
Amounts appropriated for expenditure	(289,168)	---	(289,168)
Endowment investments, end of year	\$ 2,166,329	\$ ---	\$ 2,166,329

Investments as of June 30, 2020, consist of pooled funds as follows:

	Cost	Market Value	Unrealized Gain (Loss)
Money market	\$ 33,583	\$ 33,583	\$ ---
Domestic equity funds	878,857	959,280	80,423
International equity funds	297,974	298,375	401
Corporate bond funds	173,725	178,197	4,472
Domestic bond funds	611,800	681,974	70,174
Municipal bond funds	14,878	14,920	42
Total	\$ 2,010,817	\$ 2,166,329	\$ 155,512

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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Notes to Financial Statements
June 30, 2020
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Management assessed individual investment securities as to whether declines in market value are temporary or other than temporary. In assessing an issuer’s financial condition, management evaluates various financial indicators. The length of time and extent to which the fair value of the investment is less than cost and the Organization’s ability and intent to retain the investment to allow for any anticipated recovery of the investment’s fair value are key components as to whether management deems declines in fair value as temporary or other than temporary. If declines are determined to be other than temporary, the Organization records a realized loss in investment income. At June 30, 2020, the Organization did not recognize a realized loss for an other than temporary decline.

The following summarizes the classification of investments by classification and method of valuation in accordance with U.S. GAAP as of June 30, 2020:

<u>Description</u>	<u>Fair Value Measurement at Reporting Date Using</u>			<u>Total Assets at Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money market	\$ 33,583	\$ ---	\$ ---	\$ 33,583
Domestic equity funds	959,280	---	---	959,280
International equity funds	298,375	---	---	298,375
Corporate bond funds	178,197	---	---	178,197
Domestic bond funds	681,974	---	---	681,974
Municipal bond funds	14,920	---	---	14,920
Total	\$ 2,166,329	\$ ---	\$ ---	\$ 2,166,329

6. Payment Protection Program Loan

On April 15, 2020, the Organization was granted a loan from Johnson Bank (“Lender”) in the aggregate amount of \$389,700, pursuant to the Paycheck Protection Program (“Program”) administered by the Small Business Association (“SBA”).

The loan, which was in the form of a note dated April 15, 2020 issued by the Lender, matures on April 15, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 15, 2020. The Note may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Pursuant to the Program, all or a portion of the loan may be forgiven if the Organization uses the proceeds of the loan for its payroll costs and other expenses in accordance with the requirements. However, if the loan is not fully forgiven, the Organization will remain liable for the full and punctual payment and satisfaction of the remaining outstanding principal balance of the loan plus accrued but unpaid interest. Management believes the funds were correctly spent and therefore the likelihood of the loan being forgiven is very high.

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Notes to Financial Statements
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(Continued)

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are set aside in accordance with donor restrictions as to time or purpose. Net assets with donor restrictions are restricted for the following purposes at June 30, 2020:

Specified purpose:	
Show sponsorships	\$ 18,670
Capital needs	10,500
Education	30,000
Promises to give restricted by donors for:	
Show sponsorships	25,000
Capital needs	4,360
Education	22,000
Total specified purpose	110,530
Time restrictions:	
Operating	75,240
Promises to give not restricted by donors for:	
UPAF (summer allocation)	79,539
Operating	40,465
Total time restrictions	195,244
Total net assets with donor restrictions	\$ 305,774

Net assets were released from restrictions by incurring expenses, satisfying the restricted purpose, or by occurrence of other events specified by donors. Net assets released from restrictions as of June 30, 2020 are as follows:

Expiration of time restrictions:	
UPAF (summer allocation)	\$ 100,755
Operating	31,307
Total expirations of time restrictions	132,062
Satisfactions of purpose restrictions:	
Show sponsorships	1,750
Education	58,500
Total satisfactions of purpose restrictions	60,250
Total net assets released from restriction	\$ 192,312

The United Performing Arts Fund (UPAF) provides support to the Organization each year. A portion of the contribution is pledged during the prior fiscal year and recorded as temporarily restricted revenue due to time restriction. UPAF revenue for the year ended June 30, 2020 is as follows:

UPAF Summer Allocation (Restricted as of June 30, 2019, released on July 01, 2019)	\$ 100,755
Additional Contributions made during the year	438,537
UPAF Contributions, for fiscal year ended June 30, 2020	\$ 539,292
UPAF Summer Allocation (Restricted as of June 30, 2020, released on July 01, 2020)	\$ 79,539

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Notes to Financial Statements
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8. Deferred Revenue – Ticket Sales

Deferred revenue as of June 30, 2020 was \$434,160. The Organization defers recognition of advance ticket sales until the first quarter of the subsequent season, at which time the sales are credited to revenue. Due to COVID-19, two shows were postponed. Ticket revenue expected to be earned for these productions is \$144,192.

9. Special Events

Special event activities are reported by their natural classification in the statements of activities. Gross special event revenues and expenses are as follows for the years ended June 30, 2020:

	<u>2020</u>
Revenue:	
Non-exchange contributions	\$ 33,852
Exchange direct benefit to donor	27,817
Total revenue	<u>61,669</u>
Expenses:	
Direct benefit to donors	27,817
Incidental benefits	22,341
Total expense	<u>50,158</u>
Special events, net	<u>\$ 11,511</u>

10. Lease Agreement

The Organization sub-leased space in its primary operating facility to other third-party organizations under operating leases. The leases provide the ability to lease theatre and rehearsal space. Applicable portions of the current leases were transferred to the new owners at time of purchase. Rental income for the year ended June 30, 2020 was \$160,774.

11. Operational Lease

The Organization leases office space, theatre space, and warehouse space under an operational lease.

In March 2018, the Organization entered into a sales lease back transaction for the office space as well as the theatre space set to expire in February 2028. This is a ten-year lease and provides for a minimum lease rent plus a share of real estate and common area maintenance expenses.

The following is a schedule of the future minimum lease expenses required under the lease as of June 30, 2020:

<u>Years ending June 30,</u>	<u>Amount</u>
2021	\$ 309,484
2022	394,220
2023	404,075
2024	414,177
2025	424,531
Thereafter	1,183,432
Total	<u>\$ 3,129,919</u>

Rent expense for the year ended June 30, 2020 was \$554,943.

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Notes to Financial Statements
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(Continued)

12. Donated Goods and Services

The Organization received lighting rental services, printing and copying services, and management fees. These total in-kind donations of \$29,838 consisted of \$22,313 of waived investment management fees, \$425 for service fees, and \$7,100 for contributed performance tickets.

13. Consulting Commitment

In November 2017, the Organization entered into an agreement to pay \$26,250 for consulting services on the new ticketing software that has been implemented. There will be twelve quarterly installments in the amount of \$2,190. Through the year ended June 30, 2020, \$8,760 was expensed. As of June 30, 2020, \$2,190 has been accrued in accounts payable and other liabilities.