

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Audited Financial Statements
Year Ended June 30, 2019
(With Summarized Totals for the Year Ended June 30, 2018)

Table of Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 – 18



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, 2019, and the related statements of activities, functional expenses, 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, 2019, 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.

Reilly, Penner & Benton LLP

1233 N. Mayfair Road Suite #302 • Milwaukee, WI 53226-3255 • 414-271-7800

Report on Summarized Comparative Information

We have previously audited the Skylight Music Theatre Corp. June 30, 2018 financial statements, and our report dated September 13, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

September 16, 2019
Milwaukee, Wisconsin

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Financial Position
June 30, 2019
(With Summarized Totals for the Year Ended June 30, 2018)

	<u>Without Donor</u>	<u>With Donor</u>	<u>2019</u>	<u>2018</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>	<u>Total</u>
Assets:				
Current assets:				
Cash and equivalents	\$ 107,909	\$ 88,247	\$ 196,156	\$ 2,139,233
Accounts receivable	35,935	---	35,935	36,685
Contributions and grants receivable, net	---	189,560	189,560	241,149
Inventory	6,944	---	6,944	19,193
Prepaid expenses	40,737	---	40,737	43,586
Total current assets	<u>191,525</u>	<u>277,807</u>	<u>469,332</u>	<u>2,479,846</u>
Property and Equipment:				
Property and equipment:	1,238,173	---	1,238,173	1,136,385
Accumulated depreciation	(1,002,061)	---	(1,002,061)	(952,577)
Net property and equipment	<u>236,112</u>	<u>---</u>	<u>236,112</u>	<u>183,808</u>
Long-term assets:				
Long-term investments - Endowment	2,296,343	---	2,296,343	904,415
Contributions and grants receivable, net	---	5,622	5,622	7,200
Total long-term assets	<u>2,296,343</u>	<u>5,622</u>	<u>2,301,965</u>	<u>911,615</u>
Other assets:				
Security deposits and advances	52,649	---	52,649	52,649
Total assets	<u>\$ 2,776,629</u>	<u>\$ 283,429</u>	<u>\$ 3,060,058</u>	<u>\$ 3,627,918</u>
Liabilities and Net Assets:				
Current liabilities:				
Accounts payable and other liabilities	\$ 63,243	\$ ---	\$ 63,243	\$ 53,413
Accrued payroll and tax liabilities	23,661	---	23,661	14,805
Deferred revenue	340,953	---	340,953	294,863
Current portion capital lease	---	---	---	2,841
Current portion deferred gain	228,117	---	228,117	228,117
Total current liabilities	<u>655,974</u>	<u>---</u>	<u>655,974</u>	<u>594,039</u>
Long-term liabilities:				
Capital lease	---	---	---	2,841
Less: Current portion	---	---	---	(2,841)
Total long-term liabilities	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Other liabilities:				
Deferred gain on sale of building	1,977,017	---	1,977,017	2,205,134
Less: Current portion of deferred gain	(228,117)	---	(228,117)	(228,117)
Net long-term deferred gain	<u>1,748,900</u>	<u>---</u>	<u>1,748,900</u>	<u>1,977,017</u>
Security deposits	1,989	---	1,989	1,389
Other liabilities	2,469	---	2,469	2,990
Total other liabilities	<u>1,753,358</u>	<u>---</u>	<u>1,753,358</u>	<u>1,981,396</u>
Total liabilities	<u>2,409,332</u>	<u>---</u>	<u>2,409,332</u>	<u>2,575,435</u>
Net Assets (Deficit):				
Without donor restrictions				
Undesignated	(1,929,046)	---	(1,929,046)	(207,717)
Board Designated	2,296,343	---	2,296,343	3,541
With donor restrictions	---	283,429	283,429	1,256,659
Total net assets	<u>367,297</u>	<u>283,429</u>	<u>650,726</u>	<u>1,052,483</u>
Total liabilities and net assets	<u>\$ 2,776,629</u>	<u>\$ 283,429</u>	<u>\$ 3,060,058</u>	<u>\$ 3,627,918</u>

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, 2019
(With Summarized Totals for the Year Ended June 30, 2018)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2019</u> <u>Total</u>	<u>2018</u> <u>Total</u>
Support and Revenue:				
Public support revenue:				
Contributions	\$ 601,892	\$ 90,684	\$ 692,576	\$ 617,801
Special events, net	13,654	3,750	17,404	26,836
United Performing Arts Fund	419,017	100,755	519,772	577,415
Governmental grants	10,800	21,605	32,405	33,113
Donated goods and services	17,969	---	17,969	22,554
Net assets released from restrictions	1,190,024	(1,190,024)	---	---
Total public support revenue	<u>2,253,356</u>	<u>(973,230)</u>	<u>1,280,126</u>	<u>1,277,719</u>
Performance revenue:				
Performance ticket income	1,377,997	---	1,377,997	1,067,624
Other Revenue:				
Program service fees	8,671	---	8,671	5,934
Investment income (loss)	76,198	---	76,198	(5,218)
Rental income	271,757	---	271,757	322,792
Other income	149,922	---	149,922	136,894
Gain (loss) on sale of donated investments	(1,358)	---	(1,358)	249
Gain on sale of fixed assets	228,117	---	228,117	76,039
Total other revenue	<u>733,307</u>	<u>---</u>	<u>733,307</u>	<u>536,690</u>
Total support and revenue	<u>4,364,660</u>	<u>(973,230)</u>	<u>3,391,430</u>	<u>2,882,033</u>
Expenses:				
Program services	3,185,410	---	3,185,410	2,934,346
General and administrative	432,600	---	432,600	421,280
Fundraising	175,177	---	175,177	133,750
Total expenses	<u>3,793,187</u>	<u>---</u>	<u>3,793,187</u>	<u>3,489,376</u>
Change in net assets	571,473	(973,230)	(401,757)	(607,343)
Net assets (deficit), beginning of year	<u>(204,176)</u>	<u>1,256,659</u>	<u>1,052,483</u>	<u>1,659,826</u>
Net assets (deficit), end of year	<u>\$ 367,297</u>	<u>\$ 283,429</u>	<u>\$ 650,726</u>	<u>\$ 1,052,483</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, 2019

(With Summarized Totals for the Year Ended June 30, 2018)

Expenses	Program Services	General and Administrative	Fundraising	2019 Total	2018 Total
Salaries and wages	\$ 1,420,268	\$ 199,290	\$ 95,834	\$ 1,715,392	\$ 1,633,244
Employee benefits	150,188	37,466	6,278	193,932	200,653
Payroll taxes	108,391	14,756	7,584	130,731	117,981
Professional fees	189,706	34,028	---	223,734	191,363
Scholarships	1,050	---	---	1,050	1,000
Supplies	16,831	13,615	45	30,491	27,987
Telephone	4,846	680	327	5,853	5,408
Postage	615	4,135	1,072	5,822	5,942
Warehouse Rent	76,771	---	---	76,771	60,222
Occupancy	381,646	53,552	25,752	460,950	255,914
Real estate taxes	---	---	---	---	5,289
Production materials	198,269	---	---	198,269	176,645
Equipment rental & maintenance	13,312	---	---	13,312	8,562
Depreciation expense	49,484	---	---	49,484	136,980
Royalties	124,516	---	---	124,516	98,526
Housing	36,768	---	---	36,768	28,282
Travel	11,288	---	---	11,288	13,980
Interest	---	---	---	---	30,812
Insurance	55,924	7,847	3,774	67,545	72,023
Membership dues	1,425	1,727	---	3,152	7,062
Staff development	123	1,792	5	1,920	3,556
Bar expenses	6,314	---	---	6,314	4,638
Advertising	177,781	---	---	177,781	180,136
Repairs & maintenance	11,020	7,744	---	18,764	39,918
Lease expense	19,139	---	---	19,139	11,998
Credit card fees	50,800	---	1,050	51,850	44,692
Bad debt expense	---	---	4,976	4,976	2,297
Information technology	51,703	53,226	---	104,929	56,184
Workshops	4,222	---	---	4,222	1,681
Other expenses	23,010	2,742	28,480	54,232	66,401
Totals	\$ 3,185,410	\$ 432,600	\$ 175,177	\$ 3,793,187	\$ 3,489,376

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, 2019
(With Summarized Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (401,757)	\$ (607,343)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	49,484	136,980
(Gain) loss on sale of donated investments	1,358	(249)
(Gain) on sale of fixed assets	(228,117)	(76,039)
Net realized and unrealized (gain) loss on investments	(2,517)	7,278
Change in assets and liabilities:		
Accounts receivable	750	(16,683)
Contributions and grants receivable	53,167	(100,393)
Inventory	12,249	(1,522)
Prepaid expenses	2,849	(13,273)
Other assets	---	(45,201)
Accounts payable	9,830	(56,497)
Accrued payroll and tax liabilities	8,856	(6,802)
Deferred revenue	46,090	30,566
Security deposits	600	500
Other liabilities	(521)	820
Total adjustments	<u>(45,922)</u>	<u>(140,515)</u>
Net cash used by operating activities	<u>(447,679)</u>	<u>(747,858)</u>
Cash Flows From Investing Activities:		
Purchase of investments	(1,809,583)	(11,599)
Proceeds from sale of investments	418,814	780
Purchase of fixed assets	(101,788)	(115,275)
Proceeds from sale of fixed assets	---	3,485,991
Net cash provided by investing activities	<u>(1,492,557)</u>	<u>3,359,897</u>
Cash Flows From Financing Activities:		
Payments on line of credit	---	(880,342)
Payments on capital lease obligation	(2,841)	(5,683)
Net cash provided (used) by financing activities	<u>(2,841)</u>	<u>(886,025)</u>
Change in cash and equivalents	<u>(1,943,077)</u>	<u>1,726,014</u>
Cash and equivalents at beginning of year	<u>2,139,233</u>	<u>413,219</u>
Cash and equivalents at end of year	<u>\$ 196,156</u>	<u>\$ 2,139,233</u>
Supplemental Cash Flow Information:		
Cash paid during the year for interest	<u>\$ ---</u>	<u>\$ 30,812</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, 2019

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.

Revenue Recognition

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Pledges are recognized when the pledge is received. Gifts, other than cash, are recognized at fair market value at the date received. Government grants are recognized to the extent of expenses incurred. Program service fees are recognized when earned. Income on investments held is recognized when earned.

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.

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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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, 2019.

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.

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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Investment Valuation and Income Recognition (Continued)

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 \$49,484 for the year ended June 30, 2019. 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, 2019 was \$177,781. Prepaid advertising as of June 30, 2019 was \$14,124.

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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which had no impact on net asset classification.

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 of the Organization has evaluated all subsequent events for possible recognition or disclosure through the date the financial statements were available to be distributed, September 16, 2019. There were no subsequent events that require disclosure in the notes to the financial statements.

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, 2019</u>
Financial assets:	
Cash	\$ 196,156
Accounts receivable	35,935
Contributions and grants receivable, net	189,560
Investments	<u>2,296,343</u>
Total financial assets	\$ <u>2,717,994</u>
Less amounts not available to be used within one year for general expenditures:	
Net assets with donor restrictions	(283,429)
Net assets without donor restrictions – board designated	<u>(2,296,343)</u>
Financial assets available to meet general expenditures within one year	\$ <u><u>138,222</u></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, 2019, 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, 2019
(Continued)

3. Contribution and Grants Receivable

Contributions and Grants receivable consist of the following as of June 30, 2019:

<u>Source</u>	<u>Amount</u>
United Performing Arts Fund	\$ 100,755
Individuals	44,897
Corporations	<u>49,530</u>
Total	\$ <u>195,182</u>

Contributions and Grants receivable are due as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2020	\$ 189,560
2021	2,380
2022	2,380
2023	1,500
Less: Present value discount	<u>(638)</u>
Total	\$ <u>195,182</u>

The present value discount was calculated at the Organization's line of credit interest rate of 6.00% at June 30, 2019.

4. Property and Equipment

Property and Equipment consist of the following as of June 30, 2019:

<u>Source</u>	<u>Amount</u>
Computer and electronics	\$ 445,131
Equipment	611,171
Building equipment	1,950
Bar furniture	20,175
Musical instruments	47,385
Rental props	52,593
Vehicles	<u>59,768</u>
Total property and equipment	1,238,173
Less: accumulated depreciation	<u>(1,002,061)</u>
Net property and equipment	\$ <u>236,112</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 \$1,977,017 as of June 30, 2019. The gain recognized for the year ended June 30, 2019 was \$228,117.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(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, 2019, 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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(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

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Endowment investment composition as of June 30, 2019 is as follows:

	Unrestricted – Board Designated	Net Assets with Donor Restrictions	Total Investments
Endowment investments, end of year	\$ 2,296,343	\$ ---	\$ 2,296,343

Changes in endowment investments as of June 30, 2019 are as follows:

	Unrestricted – Board Designated	Net Assets with Donor Restrictions	Total Investments
Endowment investments, beginning of year	\$ 3,541	\$ 900,874	\$ 904,415
Investment income	89,411	---	89,411
Net appreciation	2,517	---	2,517
Amounts contributed	1,700,000	---	1,700,000
Amounts appropriated for expenditure	(400,000)	---	(400,000)
Amounts released from restrictions	900,874	(900,874)	---
Endowment investments, end of year	\$ 2,296,343	\$ ---	\$ 2,296,343

Investments as of June 30, 2019, consist of pooled funds as follows:

	Cost	Market Value	Unrealized Gain (Loss)
Money market	\$ 36,681	\$ 36,681	\$ ---
Bond funds	2,258,639	2,259,662	1,023
Total	\$ 2,295,320	\$ 2,296,343	\$ 1,023

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.

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, 2019, the Organization did not recognize a realized loss for an other than temporary decline.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

The following summarizes the classification of investments by classification and method of valuation in accordance with U.S. GAAP as of June 30, 2019:

<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 fund	\$ 36,681	\$ ---	\$ ---	\$ 36,681
Bond funds	2,259,662	---	---	2,259,662
Total	<u>\$ 2,296,343</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 2,296,343</u>

6. 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, 2019:

Specified purpose:	
Show sponsorships	\$ 18,670
Capital needs	9,000
Education	50,000
Promises to give restricted by donors for:	
Show sponsorships	26,750
Capital needs	5,509
Education	30,500
Total specified purpose	<u>140,429</u>
Time restrictions:	
Operating	10,577
Promises to give not restricted by donors for:	
UPAF (summer allocation)	100,755
Operating	31,668
Total time restrictions	<u>143,000</u>
Total net assets with donor restrictions	<u>\$ 283,429</u>

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

6. Net Assets With Donor Restrictions (Continued)

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, 2019 are as follows:

Expiration of time restrictions:	
UPAF (summer allocation)	\$ 100,755
Operating	<u>86,045</u>
Total expirations of time restrictions	186,800
Satisfactions of purpose restrictions:	
Show sponsorships	5,250
Artistic direction	250,000
Artistic initiatives	58,084
Capital needs	38,030
Operations	345,110
Education	<u>306,750</u>
Total satisfactions of purpose restrictions	<u>1,003,224</u>
Total net assets released from restriction	\$ <u>1,190,024</u>

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, 2019 is as follows:

UPAF Summer Allocation (Restricted as of June 30, 2018, released on July 01, 2018)	\$ 100,755
Additional Contributions made during the year	<u>419,017</u>
UPAF Contributions, for fiscal year ended June 30, 2019	<u>\$ 519,772</u>
UPAF Summer Allocation (Restricted as of June 30, 2019, released on July 01, 2019)	<u>\$ 100,755</u>

7. Deferred Revenue – Ticket Sales

Deferred revenue as of June 30, 2019 was \$340,953. 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.

8. 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, 2019 was \$271,757.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2019
(Continued)

9. Capital Lease

The Organization entered into a capital lease as the result of a like-kind exchange of similar office equipment under capital leases. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the leases, and accordingly, it is recorded in the Organization's assets and liabilities.

The leases present value of future year payments is more than 90% of the equipment value and is therefore treated as a capital lease. The lease has been paid in full as of June 30, 2019

10. 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, 2019:

<u>Years ending June 30,</u>	<u>Amount</u>
2020	\$ 419,988
2021	384,605
2022	394,220
2023	404,075
2024	414,177
Thereafter	<u>1,607,963</u>
Total	\$ <u>3,625,028</u>

Rent expense for the year ended June 30, 2019 was \$537,721.

11. Donated Goods and Services

The Organization received lighting rental services, printing and copying services, and management fees. These total in-kind donations of \$17,969 consisted of \$16,003 of waived investment management fees, \$150 for printing services, and \$1,814 for contributed assets for fundraiser.

12. 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, 2019, \$8,760 was expensed. As of June 30, 2019, \$10,950 has been accrued in accounts payable and other liabilities.