

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Audited Financial Statements
Year Ended June 30, 2021
(With Summarized Totals for the Year Ended June 30, 2020)

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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, 2021, 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, 2021, 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, 2020 financial statements, and our report dated September 8, 2020, 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

September 14, 2021
Milwaukee, Wisconsin

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Financial Position

June 30, 2021

(With Summarized Totals for the Year Ended June 30, 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Assets:				
Current assets:				
Cash and equivalents	\$ 334,990	\$ 105,907	\$ 440,897	\$ 167,540
Accounts receivable	94,237	---	94,237	50,254
Contributions and grants receivable, net	---	526,536	526,536	167,652
Inventory	7,480	---	7,480	7,480
Prepaid expenses	112,930	---	112,930	124,686
Total current assets	549,637	632,443	1,182,080	517,612
Property and Equipment:				
Property and equipment:	1,379,306	---	1,379,306	1,276,906
Accumulated depreciation	(1,118,674)	---	(1,118,674)	(1,059,090)
Net property and equipment	260,632	---	260,632	217,816
Long-term assets:				
Long-term investments - Endowment	2,337,386	---	2,337,386	2,166,329
Contributions and grants receivable, net	---	1,453	1,453	3,712
Total long-term assets	2,337,386	1,453	2,338,839	2,170,041
Other assets:				
Security deposits and other assets	58,649	---	58,649	59,949
Total assets	\$ 3,206,304	\$ 633,896	\$ 3,840,200	\$ 2,965,418
Liabilities and Net Assets:				
Current liabilities:				
Accounts payable and other liabilities	\$ 8,172	\$ ---	\$ 8,172	\$ 56,333
Accrued payroll and tax liabilities	23,404	---	23,404	22,071
Deferred revenue	324,873	---	324,873	434,160
Payroll Protection Program loan	170,833	---	170,833	389,700
Accrued interest	3,032	---	3,032	---
Lease liability	67,617	---	67,617	---
Current portion deferred gain	228,117	---	228,117	228,117
Total current liabilities	826,048	---	826,048	1,130,381
Other liabilities:				
Deferred gain on sale of building	1,520,782	---	1,520,782	1,748,900
Less: Current portion of deferred gain	(228,117)	---	(228,117)	(228,117)
Net long-term deferred gain	1,292,665	---	1,292,665	1,520,783
Security deposits	2,024	---	2,024	2,024
Other liabilities	6,693	---	6,693	6,073
Total other liabilities	1,301,382	---	1,301,382	1,528,880
Total liabilities	2,127,430	---	2,127,430	2,659,261
Net Assets (Deficit):				
Without donor restrictions				
Undesignated	(1,258,512)	---	(1,258,512)	(2,165,946)
Board Designated	2,337,386	---	2,337,386	2,166,329
With donor restrictions	---	633,896	633,896	305,774
Total net assets	1,078,874	633,896	1,712,770	306,157
Total liabilities and net assets	\$ 3,206,304	\$ 633,896	\$ 3,840,200	\$ 2,965,418

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, 2021

(With Summarized Totals for the Year Ended June 30, 2020)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2021</u> <u>Total</u>	<u>2020</u> <u>Total</u>
Support and Revenue:				
Public support revenue				
Performance ticket income	\$ 48,714	\$ ---	\$ 48,714	\$ 1,047,211
Contributions	456,769	581,911	1,038,680	660,085
United Performing Arts Fund	508,031	79,542	587,573	518,070
Governmental grants	148,512	6,200	154,712	33,003
Donated goods and services	27,349	---	27,349	29,838
Total public support revenue	<u>1,189,375</u>	<u>667,653</u>	<u>1,857,028</u>	<u>2,288,207</u>
Special Events				
Special events revenue	49,935	---	49,935	49,326
Less: costs of direct benefit to donors	(12,192)	---	(12,192)	(27,817)
Net special events revenue	<u>37,743</u>	<u>---</u>	<u>37,743</u>	<u>21,509</u>
Special events contributions	13,020	---	13,020	12,343
Less: incidental benefits	(7,485)	---	(7,485)	(22,341)
Net special event income	<u>43,278</u>	<u>---</u>	<u>43,278</u>	<u>11,511</u>
Other Revenue:				
Program service fees	---	---	---	4,839
Investment income	448,566	---	448,566	47,768
Rental income	111,778	---	111,778	160,775
Other income	81,677	---	81,677	91,647
PPP loan forgiveness	389,700	---	389,700	---
Gain on sale of fixed assets	228,117	---	228,117	228,117
Total other revenue	<u>1,259,838</u>	<u>---</u>	<u>1,259,838</u>	<u>533,146</u>
Net assets released from restrictions	<u>339,531</u>	<u>(339,531)</u>	<u>---</u>	<u>---</u>
Total support and revenue	<u>2,832,022</u>	<u>328,122</u>	<u>3,160,144</u>	<u>2,832,864</u>
Expenses:				
Program services	1,165,604	---	1,165,604	2,596,714
General and administrative	453,148	---	453,148	391,504
Fundraising	134,779	---	134,779	189,215
Total expenses	<u>1,753,531</u>	<u>---</u>	<u>1,753,531</u>	<u>3,177,433</u>
Change in net assets	<u>1,078,491</u>	<u>328,122</u>	<u>1,406,613</u>	<u>(344,569)</u>
Net assets, beginning of year	<u>383</u>	<u>305,774</u>	<u>306,157</u>	<u>650,726</u>
Net assets (deficit), end of year	<u>\$ 1,078,874</u>	<u>\$ 633,896</u>	<u>\$ 1,712,770</u>	<u>\$ 306,157</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, 2021
(With Summarized Totals for the Year Ended June 30, 2020)

Expenses	Program Services	General and Administrative	Fundraising	Cost of direct benefit to donors	2021 Total	2020 Total
Salaries and wages	\$ 491,047	\$ 198,736	\$ 63,384	\$ ---	\$ 753,167	\$ 1,453,162
Employee benefits	84,701	34,081	8,270	---	127,052	160,049
Payroll taxes	33,518	14,577	4,736	---	52,831	109,120
Professional fees	14,875	35,314	---	---	50,189	139,824
Scholarships	500	---	---	---	500	1,045
Supplies	1,495	2,674	---	---	4,169	18,603
Telephone	1,627	659	210	---	2,496	5,566
Postage	---	2,687	---	---	2,687	8,966
Warehouse Rent	78,788	---	---	---	78,788	78,619
Occupancy	250,916	101,550	32,388	---	384,854	476,324
Production materials	23,996	---	---	---	23,996	64,662
Equipment rental & maintenance	1,387	---	---	---	1,387	5,845
Depreciation expense	59,585	---	---	---	59,585	57,029
Royalties	6,237	---	---	---	6,237	125,140
Housing	1,186	---	---	---	1,186	39,427
Travel	8,981	---	---	---	8,981	12,143
Interest	---	3,032	---	---	3,032	---
Insurance	29,135	11,791	3,761	---	44,687	58,098
Membership dues	815	1,750	---	---	2,565	4,811
Staff development	---	1,000	245	---	1,245	130
Bar expenses	---	---	---	---	---	2,113
Advertising	15,381	---	---	---	15,381	148,384
Repairs & maintenance	8,513	1,416	---	---	9,929	11,495
Lease expense	---	---	---	---	---	13,196
Credit card fees	5,252	---	1,270	---	6,522	48,232
Bad debt expense	---	---	8,625	---	8,625	6,138
Information technology	26,538	40,236	---	---	66,774	71,464
Workshops	---	---	---	---	---	2,800
Special Events	---	---	7,486	12,192	19,678	50,158
Other expenses	21,131	3,645	11,890	---	36,666	55,048
Totals functional expenses	\$ 1,165,604	\$ 453,148	\$ 142,265	\$ 12,192	\$ 1,773,209	\$ 3,227,591
Less: special events included on statements of activities	---	---	(7,486)	(12,192)	(19,678)	(50,158)
To statements of activities	1,165,604	453,148	134,779	---	1,753,531	3,177,433

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, 2021

(With Summarized Totals for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,406,613	\$ (344,569)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	59,585	57,029
(Gain) on sale of fixed assets	(228,117)	(228,117)
Net realized and unrealized (gain) loss on investments	(414,423)	7,033
Forgiveness on Payroll Protection Program loan	(389,700)	---
Change in assets and liabilities:		
Accounts receivable	(43,983)	(14,319)
Contributions and grants receivable	(356,625)	23,818
Inventory	---	(536)
Prepaid expenses	11,756	(83,949)
Other assets	1,300	(7,300)
Accounts payable	(48,161)	(6,910)
Accrued payroll and tax liabilities	1,333	(1,590)
Deferred revenue	(109,287)	93,207
Accrued interest	3,032	---
Lease liability	67,617	---
Security deposits	---	35
Other liabilities	620	3,604
Total adjustments	<u>(1,445,053)</u>	<u>(157,995)</u>
Net cash used by operating activities	<u>(38,440)</u>	<u>(502,564)</u>
Cash Flows From Investing Activities:		
Purchase of investments	(1,046,636)	(166,188)
Proceeds from sale of investments	1,290,000	289,168
Purchase of fixed assets	<u>(102,400)</u>	<u>(38,732)</u>
Net cash provided by investing activities	<u>140,964</u>	<u>84,248</u>
Cash Flows From Financing Activities:		
Borrowings on Payroll Protection Program loan	<u>170,833</u>	<u>389,700</u>
Net cash provided by financing activities	<u>170,833</u>	<u>389,700</u>
Change in cash and equivalents	<u>273,357</u>	<u>(28,616)</u>
Cash and equivalents at beginning of year	<u>167,540</u>	<u>196,156</u>
Cash and equivalents at end of year	<u>\$ 440,897</u>	<u>\$ 167,540</u>
Noncash investing and financing activities:		
Forgiveness on Payroll Protection Program loan	<u>\$ 389,700</u>	<u>\$ ---</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, 2021

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. The Organization provides two major services, musicals and educational programming.

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 and program service fees– 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, 2021
(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, 2020, 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. During the year ended June 30, 2021, the estate came forward and signed a new promissory note to be paid. Management believes the full amount will be collected on the new note and therefore has removed the allowance.

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:

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Investment Valuation and Income Recognition (Continued)

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.

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 \$59,585 for the year ended June 30, 2021. 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, 2021 was \$15,381. Prepaid advertising as of June 30, 2021 was \$3,555.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2021
(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.

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 14, 2021). 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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2021
(Continued)

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, 2021</u>
Financial assets:	
Cash	\$ 440,897
Accounts receivable	94,237
Contributions and grants receivable, net	527,989
Investments	<u>2,337,386</u>
Total financial assets	\$ 3,400,509
Less amounts not available to be used within one year for general expenditures:	
Net assets with donor restrictions	(633,896)
Net assets without donor restrictions – board designated	<u>(2,337,386)</u>
Financial assets available to meet general expenditures within one year	\$ <u>429,227</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, 2021, the Organization was able to meet its cash needs without utilizing designated reserves

3. Contribution and Grants Receivable

Contributions and Grants receivable consist of the following as of June 30, 2021:

<u>Source</u>	<u>Amount</u>
United Performing Arts Fund	\$ 96,393
Individuals and trusts	353,143
Corporations	<u>77,000</u>
Total	\$ <u>526,536</u>

Contributions and Grants receivable are due as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2022	\$ 525,083
2023	1,500
Less: Present value discount	<u>(47)</u>
Total	\$ <u>526,536</u>

The present value discount was calculated at the prime rate published in the Wall Street Journal of 3.25% at June 30, 2021.

SKYLIGHT MUSIC THEATRE CORP.
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Notes to Financial Statements
June 30, 2021
(Continued)

4. Property and Equipment

Property and Equipment consist of the following as of June 30, 2021:

<u>Source</u>	<u>Amount</u>
Computer and electronics	\$ 553,995
Equipment	641,161
Building equipment	1,950
Bar furniture	20,175
Musical instruments	47,385
Rental props	52,594
Vehicles	<u>62,047</u>
Total property and equipment	1,379,306
Less: accumulated depreciation	<u>(1,118,674)</u>
Net property and equipment	\$ <u>260,632</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 \$1,520,782 as of June 30, 2021. The gain recognized for the year ended June 30, 2021 was \$228,117.

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, 2021, 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

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2021
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Interpretation of Law (Continued)

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.

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

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Notes to Financial Statements
June 30, 2021
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Acceptable Investments (Continued)

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

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.

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Notes to Financial Statements
June 30, 2021
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

Spending Policy (Continued)

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.

Endowment investment composition as of June 30, 2021 is as follows:

	Unrestricted – Board Designated	Net Assets with Donor Restrictions	Total Investments
Endowment investments, end of year	\$ 2,337,386	\$ ---	\$ 2,337,386

Changes in endowment investments as of June 30, 2021 are as follows:

	Unrestricted – Board Designated	Net Assets with Donor Restrictions	Total Investments
Endowment investments, beginning of year	\$ 2,166,329	\$ ---	\$ 2,166,329
Investment income	56,634	---	56,634
Net appreciation (depreciation)	414,423	---	414,423
Amounts contributed	990,000	---	990,000
Amounts appropriated for expenditure	(1,290,000)	---	(1,290,000)
Endowment investments, end of year	\$ 2,337,386	\$ ---	\$ 2,337,386

Investments as of June 30, 2021, consist of pooled funds as follows:

	Cost	Market Value	Unrealized Gain (Loss)
Money market	\$ 39,751	\$ 39,751	\$ ---
Domestic equity funds	601,067	944,957	343,890
International equity funds	184,889	273,179	88,290
Corporate bond funds	523,662	528,423	4,761
Domestic bond funds	504,636	529,928	25,292
Municipal bond funds	19,754	21,148	1,394
Total	\$ 1,873,759	\$ 2,337,386	\$ 463,627

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Notes to Financial Statements
June 30, 2021
(Continued)

5. Investments and Endowment – UPMIFA (Continued)

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, 2021, 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, 2021:

<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	\$ 39,751	\$ ---	\$ ---	\$ 39,751
Domestic equity funds	944,958	---	---	944,958
International equity funds	273,179	---	---	273,179
Corporate bond funds	528,423	---	---	528,423
Domestic bond funds	529,928	---	---	529,928
Municipal bond funds	21,148	---	---	21,148
Total	\$ 2,337,387	\$ ---	\$ ---	\$ 2,337,387

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. The loan was fully forgiven during the year ended June 30, 2021

On March 25, 2021, the Organization was granted a second loan from Johnson Bank (“Lender”) in the aggregate amount of \$170,833, pursuant to the Paycheck Protection Program (“Program”) administered by the Small Business Association (“SBA”).

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Notes to Financial Statements
June 30, 2021
(Continued)

6. Payment Protection Program Loan (Continued)

The loan, which was in the form of a note dated March 25, 2021 issued by the Lender, matures on March 25, 2026 and bears interest at a rate of 1.00% per annum, payable monthly commencing on July 10, 2022. 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.

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, 2021:

Specified purpose:	
Show sponsorships	\$ 43,670
Artistic Initiatives	45,950
Capital needs	16,283
Promises to give restricted by donors for:	
Capital needs	19,808
Total specified purpose	<u>125,711</u>
Time restrictions:	
Operating	---
Promises to give not restricted by donors for:	
UPAF (summer allocation)	79,542
Operating	428,643
Total time restrictions	<u>508,185</u>
Total net assets with donor restrictions	<u>\$ 633,896</u>

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, 2021 are as follows:

Expiration of time restrictions:	
UPAF (summer allocation)	\$ 79,539
Operating	134,130
Total expirations of time restrictions	<u>213,669</u>
Satisfactions of purpose restrictions:	
Capital needs	73,862
Education	52,000
Total satisfactions of purpose restrictions	<u>125,862</u>
Total net assets released from restriction	<u>\$ 339,531</u>

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Notes to Financial Statements
June 30, 2021
(Continued)

7. Net Assets With Donor Restrictions (Continued)

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, 2021 is as follows:

UPAF Summer Allocation (Restricted as of June 30, 2020, released on July 01, 2020)	\$ 79,539
Additional Contributions made during the year	<u>508,031</u>
UPAF Contributions, for fiscal year ended June 30, 2021	<u>\$ 587,570</u>
UPAF Summer Allocation (Restricted as of June 30, 2021, released on July 01, 2021)	<u>\$ 79,542</u>

8. Deferred Revenue – Ticket Sales

Deferred revenue as of June 30, 2021 was \$324,873. 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.

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, 2021:

	<u>2021</u>
Revenue:	
Non-exchange contributions	\$ 13,020
Exchange direct benefit to donor	<u>49,935</u>
Total revenue	<u>62,995</u>
Expenses:	
Direct benefit to donors	12,192
Incidental benefits	<u>7,485</u>
Total expense	<u>19,677</u>
Special events, net	<u>\$ 43,278</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, 2021 was \$111,778.

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Notes to Financial Statements
June 30, 2021
(Continued)

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, 2021:

<u>Years ending June 30,</u>	<u>Amount</u>
2022	\$ 384,605
2023	394,220
2024	404,075
2025	414,177
2026	424,531
Thereafter	<u>730,036</u>
Total	\$ <u>2,751,644</u>

Rent expense for the year ended June 30, 2021 was \$538,642.

Due to economic uncertainty related to the COVID-19, the Organization negotiated with the landlords to postpone minimum lease payments or have the lease payments forgiven for an extended period. The FASB issued a statement in April 2020 regarding the concessions related to COVID-19. An Organization can elect to account for lease concessions related to the effects of COVID-19 either:

As if the concession arises from the enforceable rights and obligations of the contract, regardless of whether the concession explicitly exists in the contract. That is, the entity accounts for the concession as if it is not a lease modification, or

As if the concession represents a lease modification for which the entity applies the modification guidance in either ASC 842 or ASC 840.

The Organization has elected to account for the concessions as if there are no lease modifications.

For leases where there will be rent abatement, the forgiven lease payment will be treated as negative rent expense (rent abatement).

Total rent abated is \$75,000 for the fiscal year ended June 30, 2021.

12. Donated Goods and Services

The Organization received video editing software and and management fees. These total in-kind donations of \$27,348 consisted of \$22,513 of waived investment management fees and \$4,830 for video editing services.