

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Audited Financial Statements
Year Ended June 30, 2017
(With Summarized Totals for the Year Ended June 30, 2016)

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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, 2017, and the related statement of activities and statement of 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, 2017, 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
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Report on Summarized Comparative Information

We have previously audited the Skylight Music Theatre Corp. June 30, 2016 financial statements, and our report dated September 23, 2016, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rexley, Penner & Benton LLP

September 11, 2017
Milwaukee, Wisconsin

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Statement of Financial Position
June 30, 2017
(With Summarized Totals for June 30, 2015)

| | <u>2017</u> | <u>2016</u> <u>(As Restated)</u> |
|--|---------------------|-------------------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and equivalents | \$ 413,219 | \$ 218,190 |
| Accounts receivable | 20,002 | 21,955 |
| Contributions and grants receivable, net | 137,243 | 258,611 |
| Inventory | 17,671 | 17,815 |
| Prepaid expenses | 30,313 | 44,470 |
| Total current assets | <u>618,448</u> | <u>561,041</u> |
| Property and Equipment: | | |
| Property and equipment | 7,616,202 | 7,583,198 |
| Accumulated depreciation | <u>(6,206,120)</u> | <u>(6,022,679)</u> |
| Net property and equipment | <u>1,410,082</u> | <u>1,560,519</u> |
| Long-term assets: | | |
| Long-term investments - Endowment | 900,874 | 1,240,168 |
| Contributions and grants receivable, net | 10,713 | 12,755 |
| Total long-term assets | <u>911,587</u> | <u>1,252,923</u> |
| Other assets: | | |
| Security deposits and advances | <u>7,448</u> | <u>9,349</u> |
| Total assets | <u>\$ 2,947,565</u> | <u>\$ 3,383,832</u> |
| Liabilities and Net Assets: | | |
| Current liabilities: | | |
| Accounts payable | \$ 109,910 | \$ 60,796 |
| Accrued payroll and tax liabilities | 21,607 | 16,358 |
| Deferred revenue | 264,297 | 263,583 |
| Line of credit | 880,342 | 845,342 |
| Current portion capital lease | 5,683 | 5,683 |
| Total current liabilities | <u>1,281,839</u> | <u>1,191,762</u> |
| Long-term liabilities: | | |
| Capital lease | 8,524 | 14,207 |
| Less: Current portion | <u>(5,683)</u> | <u>(5,683)</u> |
| Total long-term liabilities | <u>2,841</u> | <u>8,524</u> |
| Other liabilities: | | |
| Security deposits | 889 | 2,089 |
| Other liabilities | 2,170 | 727 |
| Total other liabilities | <u>3,059</u> | <u>2,816</u> |
| Total liabilities | <u>1,287,739</u> | <u>1,203,102</u> |
| Net Assets: | | |
| Unrestricted | 257,800 | 534,116 |
| Temporarily restricted | 501,152 | 406,446 |
| Permanently restricted | 900,874 | 1,240,168 |
| Total net assets | <u>1,659,826</u> | <u>2,180,730</u> |
| Total liabilities and net assets | <u>\$ 2,947,565</u> | <u>\$ 3,383,832</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, 2017
(With Summarized Totals for the Year Ended June 30, 2016)

| | <u>Undesignated</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2017 Total</u> | <u>2016 Total (As Restated)</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|---|
| Support and Revenue: | | | | | |
| Public support revenue: | | | | | |
| Contributions | \$ 522,000 | \$ 266,852 | \$ --- | \$ 788,852 | \$ 668,830 |
| Special events, net | 31,971 | --- | --- | 31,971 | 21,499 |
| United Performing Arts Fund | 479,032 | 105,000 | --- | 584,032 | 602,592 |
| Governmental grants | 27,591 | 7,000 | --- | 34,591 | 28,747 |
| Donated goods and services | 18,259 | --- | --- | 18,259 | 23,974 |
| Net assets released from restrictions | 641,535 | (302,241) | (339,294) | --- | --- |
| Total public support revenue | 1,720,388 | 76,611 | (339,294) | 1,457,705 | 1,345,642 |
| Performance revenue: | | | | | |
| Performance ticket income | 1,008,728 | --- | --- | 1,008,728 | 1,082,210 |
| Other Revenue: | | | | | |
| Program service fees | 5,576 | --- | --- | 5,576 | 7,527 |
| Investment income (loss) | 31,091 | 155 | --- | 31,246 | (22,534) |
| Rental income | 358,328 | --- | --- | 358,328 | 339,997 |
| Other income | 69,523 | --- | --- | 69,523 | 85,376 |
| Gain on sale of donated stock | (50) | --- | --- | (50) | 1,311 |
| Total other revenue | 464,468 | 155 | --- | 464,623 | 411,677 |
| Total support and revenue | 3,193,584 | 76,766 | (339,294) | 2,931,056 | 2,839,529 |
| Expenses: | | | | | |
| Program services | 2,897,914 | --- | --- | 2,897,914 | 2,970,007 |
| General and administrative | 411,577 | --- | --- | 411,577 | 427,958 |
| Fundraising | 142,469 | --- | --- | 142,469 | 132,073 |
| Total expenses | 3,451,960 | --- | --- | 3,451,960 | 3,530,038 |
| Change in net assets | (258,376) | 76,766 | (339,294) | (520,904) | (690,509) |
| Net assets, beginning of year (as restated) | 534,116 | 406,446 | 1,240,168 | 2,180,730 | 2,871,239 |
| Reclassification of net assets | (17,940) | 17,940 | --- | --- | --- |
| Net assets, end of year | \$ 257,800 | \$ 501,152 | \$ 900,874 | \$ 1,659,826 | \$ 2,180,730 |

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, 2017
(With Summarized Totals for the Year Ended June 30, 2015)

| | <u>2017</u> | <u>2016</u> <u>(As Restated)</u> |
|---|--------------|-------------------------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ (520,904) | \$ (690,509) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation | 183,441 | 210,326 |
| Net realized and unrealized (gain) loss on investments | (11,124) | 68,887 |
| Change in assets and liabilities: | | |
| Accounts receivable | 1,953 | (9,324) |
| Contributions and grants receivable | 123,410 | 32,888 |
| Inventory | 144 | (4,618) |
| Prepaid expenses | 14,157 | 30,297 |
| Other assets | 1,901 | 2,549 |
| Accounts payable | 49,114 | (3,153) |
| Accrued payroll and tax liabilities | 5,249 | (5,377) |
| Deferred revenue | 714 | (51,334) |
| Security deposits | (1,200) | (5,761) |
| Other liabilities | 1,443 | 727 |
| Total adjustments | 369,202 | 266,107 |
| Net cash used by operating activities | (151,702) | (424,402) |
| Cash Flows From Investing Activities: | | |
| Purchase of investments | (2,807,567) | (668,287) |
| Proceeds from sale of investments | 3,157,985 | 1,122,159 |
| Purchase of fixed assets | (33,004) | (7,800) |
| Net cash provided by investing activities | 317,414 | 446,072 |
| Cash Flows From Financing Activities: | | |
| Proceeds from line of credit | 35,000 | 170,000 |
| Payments on line of credit | --- | (96,629) |
| Payments on capital lease obligation | (5,683) | (5,683) |
| Net cash provided by financing activities | 29,317 | 67,688 |
| Change in cash and equivalents | 195,029 | 89,358 |
| Cash at beginning of year | 218,190 | 128,832 |
| Cash at end of year | \$ 413,219 | \$ 218,190 |
| Supplemental Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 42,989 | \$ 38,887 |

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, 2017

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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

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, and Grants 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, 2017.

Inventories

The Organization purchases building materials for set production. Inventories are recorded on a first-in, first-out (FIFO) basis.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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.

Purchases and sales of investments are recorded on a trade-date basis. 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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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 \$183,441 for the year ended June 30, 2017. 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, 2017 was \$154,569. Prepaid advertising as of June 30, 2017 was \$17,006.

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.

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.

Reclassifications

Certain reclassifications have been made to the June 30, 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

2. Contribution and Grants Receivable

Contributions and Grants receivable consist of the following as of June 30, 2017:

| <u>Source</u> | <u>Amount</u> |
|-----------------------------|--------------------------|
| United Performing Arts Fund | \$ 70,000 |
| Individuals | 43,606 |
| Corporations | <u>34,350</u> |
| Total | \$ <u>147,956</u> |

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

2. Contribution and Grants Receivable (Continued)

Contributions and Grants receivable are due as follows:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|------------------------------|--------------------------|
| 2018 | \$ 137,243 |
| 2019 | 2,380 |
| 2020 | 2,380 |
| 2021 | 2,380 |
| 2022 | 2,380 |
| Thereafter | 3,000 |
| Less: Present value discount | <u>(1,807)</u> |
| Total | \$ <u>147,956</u> |

The present value discount was calculated at the Organization's line of credit interest rate of 5.25% at June 30, 2017.

3. Property and Equipment

Property and Equipment consist of the following as of June 30, 2017:

| <u>Source</u> | <u>Amount</u> |
|-------------------------------------|----------------------------|
| Land | \$ 84,056 |
| Buildings and renovations | 6,162,327 |
| Leasehold improvements | 284,962 |
| Equipment | <u>1,084,857</u> |
| Total property and equipment | 7,616,202 |
| Less: accumulated depreciation | <u>(6,206,120)</u> |
| Net property and equipment | \$ <u>1,410,082</u> |

4. Investments – Donor Designated Endowment – UPMIFA

Interpretation of Law

The State of Wisconsin adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. UPMIFA requires that the portion of a donor restricted endowment fund that is classified as permanently restricted net assets is not reduced by losses on the investment of the fund, except for the extent required by the donor. Likewise, the amount of permanently restricted net assets is not reduced by an Organization's appropriations from the fund. The portion of the fund that is not classified as permanently restricted net assets is reported as temporarily restricted net assets until appropriated for expenditure by the Organization.

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

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

4. Investments – Donor Designated Endowment – UPMIFA (Continued)

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
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

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

4. Investments – Donor Designated Endowment – UPMIFA (Continued)

Acceptable Investments (Continued)

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, as a whole. Until such time as the endowment fund, as a whole, 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, as a whole.
- 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.

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

4. Investments – Donor Designated Endowment – UPMIFA (Continued)

Spending Policy

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, 2017 is as follows:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total Investments</u> |
|------------------------------------|---------------------|-------------------------------|--------------------------|
| Endowment investments, end of year | \$ --- | \$ 900,874 | \$ 900,874 |

Changes in endowment investments as of June 30, 2017 are as follows:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total Investments</u> |
|---|---------------------|-------------------------------|--------------------------|
| Endowment investments, beginning of year | \$ --- | \$ 1,240,168 | \$ 1,240,168 |
| Investment income | 18,776 | --- | 18,776 |
| Net appreciation | 11,124 | --- | 11,124 |
| Amounts appropriated for expenditure | (29,900) | (339,294) | (369,194) |
| Endowment investments, end of year | \$ --- | \$ 900,874 | \$ 900,874 |

Investments as of June 30, 2017, consist of pooled funds as follows:

| | <u>Cost</u> | <u>Market Value</u> | <u>Unrealized Gain (Loss)</u> |
|--------------|-------------------|---------------------|-------------------------------|
| Money market | \$ 455,456 | \$ 455,456 | \$ --- |
| Bond funds | 455,614 | 445,418 | (10,196) |
| Total | \$ 911,070 | \$ 900,874 | \$ (10,196) |

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

4. Investments – Donor Designated 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, 2017, 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, 2017:

| <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 | \$ 455,456 | \$ --- | \$ --- | \$ 455,456 |
| Bond Funds | 445,418 | --- | --- | 445,418 |
| Total | \$ 900,874 | \$ --- | \$ --- | \$ 900,874 |

5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are set aside in accordance with donor restrictions as to time or purpose. Temporarily restricted net assets are available for the following purposes at June 30, 2017:

| | |
|--|--------------------------|
| Operations | \$ 125,442 |
| United Performing Arts Fund | 105,000 |
| Show Sponsorship | 53,670 |
| Artistic Initiatives | 2,320 |
| Capital | 199,720 |
| Education | <u>15,000</u> |
| Total temporarily restricted net assets | \$ <u>501,152</u> |

SKYLIGHT MUSIC THEATRE CORP.
Milwaukee, Wisconsin

Notes to Financial Statements
June 30, 2017
(Continued)

5. Temporarily and Permanently Restricted Net Assets (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, 2017 are as follows:

| | |
|---|--------------------------|
| Temporarily Restricted: | |
| Operations | \$ 75,041 |
| United Performing Arts Fund | 109,200 |
| Capital | 73,000 |
| Education | <u>45,000</u> |
| Total temporarily restricted | 302,241 |
| Permanently Restricted: | |
| Operations | <u>339,294</u> |
| Total net assets released from restriction | \$ <u>641,535</u> |

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. At June 30, 2017, the Organization had \$900,874 of permanently restricted net assets. Permanently restricted net assets are as follows:

| | |
|--|--------------------------|
| Self-Managed Endowment: | |
| Education | \$ 250,000 |
| Artistic Direction | 250,000 |
| Artistic Initiatives | 55,764 |
| Operations | <u>345,110</u> |
| Total permanently restricted net assets | \$ <u>900,874</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 do to time restriction. UPAF revenue for the year ended June 30, 2017 is as follows:

| | |
|---|-----------------------|
| UPAF Summer Allocation (Restricted as of June 30, 2016, released on July 01, 2016) | \$ 109,200 |
| Additional Contributions made during the year | <u>479,032</u> |
| UPAF Contributions, for fiscal year ended June 30, 2017 | <u>\$ 588,232</u> |
| UPAF Summer Allocation (Restricted as of June 30, 2017, released on July 01, 2017) | <u>\$ 105,000</u> |

6. Deferred Revenue – Ticket Sales

Deferred revenue as of June 30, 2017 was \$264,297. 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.

7. Line of Credit

As of June 30, 2017, pursuant to an agreement with a bank, the Organization had a line of credit of \$900,000 available with an interest rate of 1% over Johnson Bank Reference Rate with a minimum of 5.25% secured by Organization's investments and is due on November 30, 2017. The amount outstanding as of June 30, 2017 was \$880,342.

SKYLIGHT MUSIC THEATRE CORP.
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Notes to Financial Statements
June 30, 2017
(Continued)

8. Lease Agreement

The Organization leases space in its primary operating facility to other third-party organizations under operating leases. The leases provide operating space for the lessees on an annual basis as well as the ability to lease theatre and rehearsal space. Per lease agreements, the leases are month to month and can be cancelled by either party with written notice. Rental income for the year ended June 30, 2017 was \$358,328.

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 following is a schedule by years of the future minimum payments required under the lease as of June 30, 2017:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|------------------------------|------------------------|
| 2018 | \$ 5,683 |
| 2019 | <u>2,841</u> |
| Total | \$ <u>8,524</u> |

10. Operational Lease

The Organization leases warehouse space under an operational lease.

The following is a schedule of the future minimum lease expenses required under the lease as of June 30, 2017:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|------------------------------|-------------------------|
| 2018 | \$ 64,356 |
| 2019 | <u>32,808</u> |
| Total | \$ <u>97,164</u> |

Rent expense for the year ended June 30, 2017 was \$60,865.

11. Donated Goods and Services

The Organization received lighting rental services, printing and copying services, and management fees. These total in-kind donations of \$18,259 consisted of \$8,029 of waived investment management fees, \$4,350 for volunteer of time and services, and \$1,835 for printing and copying services. There were also various items and services donated for the special events totaling \$4,045. These donations were valued at fair market value on the date of the donation.

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Notes to Financial Statements
June 30, 2017
(Continued)

12. Restatement of Financial Statements

As a result of an internal review of the Organization's procedures for recording performance revenue for tickets sold, the Organization discovered that performance revenue for fiscal year ended June 30, 2016 had been overstated. Accordingly, the Organization restated its results for the affected year. The effect of the restatement was to decrease the change in net assets by approximately \$16,000.

The effect of the restatement on the change in unrestricted net assets and financial position as of and for the year ended June 30, 2016 is as follows:

| | <u>As previously reported</u> | <u>Restated</u> |
|---------------------------|-----------------------------------|-----------------|
| Total performance revenue | \$ 1,097,602 | \$ 1,082,210 |
| Other income | 104,982 | 104,383 |
| Change in net assets | (674,518) | (690,509) |
| Cash | \$ 236,827 | \$ 218,190 |
| Accounts receivable | 21,912 | 21,955 |
| Accounts payable | 63,339 | 60,796 |
| Net assets | 2,196,721 | 2,180,730 |

13. Reclassification of Net assets

The Organization received a pledge during year ended June 30, 2014 to be paid over 10 years for the purchase of a new sound board. The entire pledge was incorrectly recorded as an unrestricted contribution. As a result, temporarily restricted contributions were understated and unrestricted contributions were overstated. The result of this correction was to decrease unrestricted net assets and increase temporarily restricted net assets for \$17,940, respectively.

14. 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 11, 2017. There were no subsequent events that require disclosure in the notes to the financial statements.

SKYLIGHT MUSIC THEATRE CORP.
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Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Summarized Totals for the Year Ended June 30, 2016)

| Expenses | Program Services | General and Administrative | Fundraising | 2017 Total | 2016 Total |
|--------------------------------|-----------------------------|---------------------------------------|--------------------|-----------------------|-----------------------|
| Salaries and wages | \$ 1,375,013 | \$ 165,025 | \$ 107,225 | \$ 1,647,263 | \$ 1,699,453 |
| Employee benefits | 145,057 | 28,612 | 9,368 | 183,037 | 205,881 |
| Payroll taxes | 102,345 | 12,214 | 8,562 | 123,121 | 135,094 |
| Professional fees | 208,141 | 37,055 | --- | 245,196 | 184,550 |
| Scholarships | 500 | --- | --- | 500 | 500 |
| Supplies | 18,050 | 7,755 | --- | 25,805 | 27,032 |
| Telephone | --- | 5,948 | --- | 5,948 | 6,344 |
| Postage | 50 | 6,352 | 1,538 | 7,940 | 7,954 |
| Occupancy | 60,865 | --- | --- | 60,865 | 71,473 |
| Utilities | 92,384 | --- | --- | 92,384 | 94,323 |
| Real estate taxes | --- | 9,001 | --- | 9,001 | 8,903 |
| Production materials | 145,714 | --- | --- | 145,714 | 106,913 |
| Equipment rental & maintenance | 23,455 | --- | --- | 23,455 | 29,396 |
| Depreciation expense | 183,441 | --- | --- | 183,441 | 210,326 |
| Royalties | 102,464 | --- | --- | 102,464 | 76,422 |
| Housing | 34,406 | --- | --- | 34,406 | 50,269 |
| Travel | 21,310 | --- | --- | 21,310 | 25,913 |
| Interest | --- | 42,989 | --- | 42,989 | 38,887 |
| Insurance | --- | 65,744 | --- | 65,744 | 71,637 |
| Membership dues | 623 | 1,200 | --- | 1,823 | 7,060 |
| Staff development | 21,084 | 65 | 1,945 | 23,094 | 5,622 |
| Bar expenses | 1,621 | --- | --- | 1,621 | 672 |
| Advertising | 154,569 | --- | --- | 154,569 | 169,927 |
| Repairs & maintenance | 45,810 | 6,157 | --- | 51,967 | 57,992 |
| Lease expense | --- | 12,287 | --- | 12,287 | 13,411 |
| Credit card fees | 38,100 | --- | 2,561 | 40,661 | 40,957 |
| Bad debt expense | --- | --- | --- | --- | 10,814 |
| Information technology | 66,484 | --- | 6,952 | 73,436 | 76,147 |
| Workshops | 3,400 | --- | --- | 3,400 | 2,067 |
| Other expenses | 53,028 | 11,173 | 4,318 | 68,519 | 94,099 |
| Totals | \$ 2,897,914 | \$ 411,577 | \$ 142,469 | \$ 3,451,960 | \$ 3,530,038 |

See independent auditors' report.