

UNITED PERFORMING ARTS FUND, INC.

FINANCIAL STATEMENTS

Years Ended August 31, 2017 and 2016

UNITED PERFORMING ARTS FUND, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1 - 2
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6 - 19
Supplementary Information	
Allocations to Member Organizations and Affiliates.....	20
Schedules of Functional Expenses.....	21 - 22

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
United Performing Arts Fund, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of United Performing Arts Fund, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audits. We conducted our audits 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 auditors consider 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 United Performing Arts Fund, Inc. as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Correction of errors

As discussed in Note 11 to the financial statements, the accounting for the allocations to member organizations and affiliates was restated to properly reflect the time period for which these allocations are applicable and to properly account for donor designated contributions. These revisions have resulted in a restatement of amounts previously reported for Allocations Payable, Net Assets, Net Campaign Contributions, and Allocations to Member Organizations and Affiliates as of and for the year ended August 31, 2016. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information presented on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Certified Public Accountants

Milwaukee, Wisconsin
November 27, 2017

UNITED PERFORMING ARTS FUND, INC.

STATEMENTS OF FINANCIAL POSITION

August 31, 2017 and 2016

ASSETS	2017	Restated 2016
<u>Current assets:</u>		
Cash and cash equivalents	\$ 4,465,705	\$ 4,452,578
Investments, at fair value	1,900,033	1,319,242
Contributions receivable, net of allowance	3,667,999	3,908,720
Advance payments to member groups	1,342,133	1,197,182
Prepaid expenses	22,932	17,649
Total current assets	<u>11,398,802</u>	<u>10,895,371</u>
Long-term portion of contributions receivable, net	<u>432,948</u>	<u>507,570</u>
Property and equipment, net	<u>12,071</u>	<u>16,662</u>
<u>Endowment funds:</u>		
Board designated, 21st Century Fund	2,192,823	2,726,133
Beneficial interest in assets held at the Greater Milwaukee Foundation	<u>1,044,060</u>	<u>1,041,503</u>
Total endowment funds	<u>3,236,883</u>	<u>3,767,636</u>
Total assets	<u>\$ 15,080,704</u>	<u>\$ 15,187,239</u>
LIABILITIES AND NET ASSETS		
<u>Current liabilities:</u>		
Accounts payable	\$ 121,075	\$ 35,729
Accrued lease payable	22,276	26,641
Accrued compensation and related benefits	216,385	180,762
Donor designations payable	<u>1,746,204</u>	<u>1,572,827</u>
Total current liabilities	<u>2,105,940</u>	<u>1,815,959</u>
<u>Net assets:</u>		
Unrestricted net assets		
Undesignated and available for future operations	1,787,627	1,354,447
Designated for future allocations to member groups and affiliates	<u>6,719,413</u>	<u>7,038,787</u>
Total unrestricted net assets	8,507,040	8,393,234
Board designated, 21st Century Fund	<u>2,192,823</u>	<u>2,726,133</u>
Total unrestricted net assets	10,699,863	11,119,367
Temporarily restricted net assets	<u>2,274,901</u>	<u>2,251,913</u>
Total net assets	<u>12,974,764</u>	<u>13,371,280</u>
Total liabilities and net assets	<u>\$ 15,080,704</u>	<u>\$ 15,187,239</u>

See accompanying notes to financial statements.

UNITED PERFORMING ARTS FUND, INC.

STATEMENTS OF ACTIVITIES
Years Ended August 31, 2017 and 2016

	2017				Restated 2016			
	Unrestricted	Board Designated, 21st Century Fund	Temporarily Restricted	2017 Total	Unrestricted	Board Designated, 21st Century Fund	Temporarily Restricted	2016 Total
Revenue:								
Public support								
Gross campaign contributions	\$ 10,917,868	\$ -	\$ 714,771	\$ 11,632,639	\$ 10,745,287	\$ -	\$ 620,310	\$ 11,365,597
Less donor designations	(1,946,204)	-	-	(1,946,204)	(1,622,827)	-	-	(1,622,827)
Less provision for uncollectible promises	(294,000)	-	-	(294,000)	(184,000)	-	-	(184,000)
Net campaign contributions	8,677,664	-	714,771	9,392,435	8,938,460	-	620,310	9,558,770
Special event income	519,195	-	-	519,195	559,869	-	-	559,869
Donated services	471,267	-	-	471,267	651,261	-	-	651,261
Total public support	9,668,126	-	714,771	10,382,897	10,149,590	-	620,310	10,769,900
Nonoperating revenue								
Investment return	3,459	346,690	-	350,149	2,241	150,835	-	153,076
Return on beneficial interest in assets held at Greater Milwaukee Foundation	-	-	99,914	99,914	-	-	49,476	49,476
Nonoperating revenue	3,459	346,690	99,914	450,063	2,241	150,835	49,476	202,552
Appropriation for expenditure	977,357	(880,000)	(97,357)	-	287,438	(250,879)	(36,559)	-
Net assets released from restrictions	694,340	-	(694,340)	-	594,000	-	(594,000)	-
Total revenue	11,343,282	(533,310)	22,988	10,832,960	11,033,269	(100,044)	39,227	10,972,452
Expenses:								
Program services								
Allocations to member organizations and affiliates	7,622,173	-	-	7,622,173	7,942,183	-	-	7,942,183
Other member support	609,286	-	-	609,286	417,878	-	-	417,878
Community engagement	159,853	-	-	159,853	185,135	-	-	185,135
Awareness	1,170,374	-	-	1,170,374	1,158,581	-	-	1,158,581
Total program services	9,561,686	-	-	9,561,686	9,703,777	-	-	9,703,777
Supporting activities								
Administrative expenses	402,786	-	-	402,786	388,857	-	-	388,857
Fundraising	1,265,004	-	-	1,265,004	1,398,987	-	-	1,398,987
Total supporting activities	1,667,790	-	-	1,667,790	1,787,844	-	-	1,787,844
Total expenses	11,229,476	-	-	11,229,476	11,491,621	-	-	11,491,621
Change in net assets	113,806	(533,310)	22,988	(396,516)	(458,352)	(100,044)	39,227	(519,169)
Net assets at beginning of year, as originally stated	8,393,234	2,726,133	2,251,913	13,371,280	1,389,403	2,826,177	1,732,686	5,948,266
Prior period adjustment (Note 11)	-	-	-	-	7,462,183	-	480,000	7,942,183
Net assets at beginning of year, as restated	8,393,234	2,726,133	2,251,913	13,371,280	8,851,586	2,826,177	2,212,686	13,890,449
Net assets at end of year	\$ 8,507,040	\$ 2,192,823	\$ 2,274,901	\$ 12,974,764	\$ 8,393,234	\$ 2,726,133	\$ 2,251,913	\$ 13,371,280

See accompanying notes to financial statements.

UNITED PERFORMING ARTS FUND, INC.

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2017 and 2016

	<u>2017</u>	<u>Restated 2016</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ (396,516)	\$ (519,169)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	7,726	7,413
Change in allowance uncollectible promises	29,548	(23,600)
Change in discounts to net present value	(25,378)	(28,970)
Realized gains on investments, including mutual fund distributions	(169,462)	(255,954)
Unrealized (appreciation) depreciation on investments	(152,307)	128,056
Return on beneficial interest in assets held at Greater Milwaukee Foundation	(99,914)	(49,476)
Changes in operating assets and liabilities:		
Contributions receivable	311,173	(341,608)
Advance payments to member groups	(144,951)	(207,186)
Prepaid expenses	(5,283)	309
Accounts payable	85,346	10,749
Accrued lease payable	(4,365)	(3,184)
Accrued compensation and other related benefits	35,623	1,534
Donor designations payable	173,377	540,010
	<u>(355,383)</u>	<u>(741,076)</u>
Net cash used in operating activities		
<u>Cash flows from investing activities:</u>		
Distributions received from beneficial interest in assets held at Greater Milwaukee Foundation	97,357	36,559
Purchase of investments, including reinvestment of income	(24,921)	(22,938)
Proceeds from sale of investments	299,209	-
Purchase of property and equipment	(3,135)	(7,169)
	<u>368,510</u>	<u>6,452</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	13,127	(734,624)
<u>Cash and cash equivalents:</u>		
Beginning of year	<u>4,452,578</u>	<u>5,187,202</u>
End of year	<u>\$ 4,465,705</u>	<u>\$ 4,452,578</u>

See accompanying notes to financial statements.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – Nature of activities and summary of significant accounting policies

Nature of activities: United Performing Arts Fund, Inc. ("UPAF") is a local, independent nonprofit agency that was formed to raise operating funds for its member organizations and affiliates. UPAF makes it possible for several non-profit performing arts organizations in the greater Milwaukee area to meet their daily operating needs. Its mission statement is to "secure community resources and improve the quality of life through responsible investment in and financial support of the performing arts in southeastern Wisconsin."

Annual campaigns are conducted in the spring of each year to raise campaign contributions that are used to support numerous performing arts organizations during the subsequent fiscal year and to pay UPAF's current operating expenses. For example, pledges that are not designated to specific member organizations from the spring 2017 campaign will fund allocations to member organizations and affiliates for the fiscal year beginning September 1, 2017. The amounts allocated to each member organization and affiliate are determined by a committee consisting of staff and members of the board of directors. These program allocations will be recorded as expenses during the fiscal year beginning September 1, 2017. Distribution of designated pledges by donors to both member and non-member agencies may begin prior to the start of the fiscal year beginning September 1, 2017 and any unpaid amounts are recorded as donor designations payable in the Statements of Financial Position.

Basis of accounting: The financial statements of UPAF have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities with revenues and expenses reflected in the period earned or incurred.

Basis of presentation: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UPAF are classified and reported as follows:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations or designated by the Board of Directors for a specific purpose and are fully available to utilize in achieving any of its program services or supporting activities. UPAF separately disclosed \$6,719,413 and \$7,038,787 of unrestricted net assets as of August 31, 2017 and 2016 that will be used to fund future allocations to member groups and affiliates during the next fiscal year.

Unrestricted and designated net assets - net assets that represent funds that have been designated for a specific purpose by the Board of Directors.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of UPAF pursuant to those stipulations.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by UPAF. There were no permanently restricted net assets as of August 31, 2017 and 2016.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2017 and 2016

NOTE 1 – Nature of activities and summary of significant accounting policies (continued)

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: UPAF defines cash and cash equivalents as highly liquid debt instruments with a maturity at the date of acquisition of three months or less. Money market funds held as part of the 21st Century Fund are included with investments.

Concentrations of credit risk: UPAF maintains cash accounts at three different financial institutions. Deposits with the financial institutions are insured by the Federal Deposit Insurance Corporation in the amount of \$250,000 per official custodian. UPAF's cash deposits may exceed these federally insured limits at times during the year. UPAF has not experienced any losses on these accounts and management believes UPAF is not exposed to any significant credit risk on its cash and cash equivalent balances.

Valuation of investments and income recognition: UPAF's investments are recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are used to value investments. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation).

Investment income or loss and unrealized gains or losses are included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Risks and uncertainties: UPAF invests in various investment securities within its investments and endowment investments. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in these financial statements.

Contributions receivable: General and donor-designated pledges to UPAF through the annual community campaign, less an allowance for uncollectible amounts, are recorded as receivables and gross campaign contributions in the year the unconditional promise is made. An allowance for uncollectible pledges is established based on the length of time pledges are past due, previous loss history, and the donor's current ability to pay. When amounts are determined to be uncollectible, they are charged to the allowance and recoveries of previously written off amounts replenish the allowance. Pledges receivable due beyond one year are recorded at fair value at the date of promise by computing a present value applied to the anticipated cash flows.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – Nature of activities and summary of significant accounting policies (continued)

Donor designations payable: In certain limited situations, donors can specify their campaign contribution to a specific member group. These contributions are included in gross campaign contributions and then recorded as a direct reduction from gross campaign contributions in the year of designation and reported as donor designations payable. These amounts are typically paid with the Board of Directors approved allocation payments over a 12 month period beginning in July of each year.

Property and equipment: Property and equipment are stated at cost if purchased or fair market value at date of the gift if donated. All acquisitions of equipment in excess of \$1,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Donated property and equipment is recorded as an increase in unrestricted net assets at its estimated fair market value as of the date received. Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. UPAF reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. UPAF reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Revenue recognition: Contributions, including promises receivable, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. When contributions raised are designated by donors to be distributed to specific member organizations, UPAF acts as an agent and these contributions are considered agency transactions, and as such, are not included in net campaign contributions.

UPAF reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Periodically, contributions and net asset classifications are reviewed to determine that all restrictions are documented and being followed, as a result changes may need to be made to classifications to better reflect the donor's intent.

Donated services: Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Such services totaled \$471,267 and \$651,261 for the years ended August 31, 2017 and 2016, respectively, and are reflected as public support and expenses on the Statements of Activities. Donated services are comprised of media coverage, creative advertising, public relations, print services, and fundraising research.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – Nature of activities and summary of significant accounting policies (continued)

Allocations to member organizations and affiliates: Allocations to member organizations and affiliates are recorded as an expense in the year the allocations are determined by management and approved by the Board of Directors and the year in which based on campaign pledges received during the previous fiscal year. UPAF makes ratable allocation payments over a 12 month period beginning in July of each year. Estimated payments begin in July and August of the current year for the next fiscal year and these payments are recorded as advance payments to member groups in the Statements of Financial Position.

Promotion and advertising costs: UPAF expenses the costs of producing advertisements as incurred. UPAF expenses the costs of communicating advertisements as the items or services are received. Promotion and advertising expenses for the years ended August 31, 2017 and 2016 were \$145,508 and \$105,043, respectively.

Functional expense allocation: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Schedules of Functional Expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Tax-exempt status: UPAF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, UPAF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a). UPAF is also exempt from Wisconsin income taxes.

UPAF follows the guidance for accounting for uncertainties in income taxes which increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainties in income taxes for tax positions taken or expected to be taken. It makes recognition and measurement more consistent as well as offering clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes.

UPAF's federal tax exempt income tax returns are subject to examination generally for three years after they are filed and its state income tax returns generally for four years after they are filed. Penalties and interest, if and when assessed by income taxing authorities, are included in administrative expenses. UPAF had no interest and penalties related to income taxes for the years ended August 31, 2017 and 2016.

Recently issued accounting standards: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the fiscal year ending August 31, 2020. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 1 – Nature of activities and summary of significant accounting policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the fiscal year ending August 31, 2021. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent events: UPAF has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 27, 2017, the date on which the financial statements were available to be issued.

NOTE 2 – Contributions receivable

Outstanding contributions receivable are expected to be realized as follows at August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 4,020,847	\$ 4,232,020
One to ten years	500,000	600,000
	<u>4,520,847</u>	<u>4,832,020</u>
Less: discount to present value	(67,052)	(92,430)
Less: allowance for uncollectible pledges	<u>(352,848)</u>	<u>(323,300)</u>
Net contributions receivable	<u>\$ 4,100,947</u>	<u>\$ 4,416,290</u>
Current portion of contributions receivable	<u>3,667,999</u>	<u>3,908,720</u>
Long-term portion of contributions receivable	<u>\$ 432,948</u>	<u>\$ 507,570</u>

Estimated cash flows from pledges receivable have been discounted to present value as of August 31, 2017 and 2016 using a discount rate of 5% which was based on the expected rate of return on UPAF's investments.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 3 – Investments

Investments are reported at fair value and are summarized by type of investment as of August 31, 2017 and 2016 as follows:

	<u>2017</u>		
	<u>Cost or Gift Value</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Bond mutual funds	\$ 1,091,429	\$ 1,123,030	\$ 31,601
Equity mutual funds	2,610,635	2,969,826	359,191
Total investments	<u>\$ 3,702,064</u>	<u>\$ 4,092,856</u>	<u>\$ 390,792</u>
	<u>2016</u>		
	<u>Cost or Gift Value</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Bond mutual funds	\$ 975,508	\$ 1,017,862	\$ 42,354
Equity mutual funds	2,831,382	3,027,513	196,131
Total investments	<u>\$ 3,806,890</u>	<u>\$ 4,045,375</u>	<u>\$ 238,485</u>

Investments are classified in the accompanying Statements of Financial Position as of August 31, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Current assets		
Temporarily restricted	\$ 30,561	\$ 18,654
Unrestricted	1,869,472	1,300,588
	<u>1,900,033</u>	<u>1,319,242</u>
Noncurrent assets		
Board designated, 21st Century Fund	2,192,823	2,726,133
Total investments	<u>\$ 4,092,856</u>	<u>\$ 4,045,375</u>

Unrestricted return on investments as reported in the Statements of Activities for the years ended August 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 28,380	\$ 25,178
Net realized gains on investments, including mutual fund distributions	169,462	255,954
Net unrealized appreciation on investments	152,307	(128,056)
Total unrestricted return of investments	<u>\$ 350,149</u>	<u>\$ 153,076</u>

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 4 – Endowment funds

UPAF's endowment funds consist of two separate funds established to support the mission of UPAF and its member organizations and affiliates. Both endowment funds have been designated by the Board of Directors to function as endowments and the net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Beneficial interest in the assets held at the Greater Milwaukee Foundation Endowment Fund (GMFEF) - In 1976, the GMFEF was established for the sole benefit of UPAF and is currently held in pooled funds managed by the Greater Milwaukee Foundation (Foundation). A trust agreement pertaining to the management of the GMFEF permits quarterly distributions from the GMFEF according to the distribution policy that is available for current operations. Under certain circumstances, additional distributions from the GMFEF's principal and accumulated earnings to UPAF can be requested or given to member organizations at the discretion of the UPAF Board of Directors with final approval from the Foundation trustees. GMFEF investments consist of equity and bond mutual funds which are all recorded at fair value.

The GMFEF was established by UPAF's Board of Directors using prior restricted donations to provide support for UPAF's mission. These funds are the legal assets of the Foundation with the restriction that the Foundation make distributions to UPAF as needed. The agreement governing these assets includes a variance power allowing the Board of Trustees of the Foundation to modify any restrictions or conditions on the distributions of funds from the GMFEF.

21st Century Fund - In 1999, a board-designated 21st Century Fund was also established to ensure continued success of UPAF by providing a reserve for future critical needs. The 21st Century Fund is owned and managed by UPAF and investments are comprised of money market accounts, equity and fixed income mutual funds, which are all recorded at fair value.

UPAF's current policy is that any bequests and other non-campaign related contributions received by UPAF which are not restricted by the donor as "endowment", or otherwise restricted, will be allocated to the 21st Century Fund. Other funds may be added to the 21st Century Fund at the discretion of the UPAF Board of Directors. Accumulated investment returns on the investments managed by UPAF are retained and also allocated to the 21st Century Fund.

The UPAF Board of Directors has adopted the Wisconsin Uniform Prudent Management of Institutional Funds Act (WUPMIFA). Among other things, WUPMIFA requires that in making decisions to appropriate or accumulate monies in both endowment funds, UPAF shall act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider the following factors: (1) the duration and preservation of the endowment funds; (2) the mission of UPAF and the purposes of the endowment funds; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the institution; and (7) the investment policy of UPAF. UPAF's cash flow and investment policies, described in detail below, comply in a manner consistent with the standard of prudence prescribed by WUPMIFA.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2017 and 2016

NOTE 4 – Endowment funds (continued)

Distributions from the GMFEF are made quarterly in accordance with the distribution policy which is based on an annual distribution amount that is calculated to be 4.5% or less of the average market value of the fund over the prior 20 quarters. With the approval of the UPAF Board of Directors and the Foundation trustees, appropriated amounts in excess of the distribution policy amount may be made. Distributions from the 21st Century Fund can only be appropriated upon the approval of the UPAF Board of Directors as needed.

UPAF follows the investment policies and objectives governed by the Foundation for the GMFEF funds which are to preserve principal and to maintain the purchasing power as well as to provide additional real growth through investment return. For the 21st Century Fund, UPAF has adopted an investment policy with the objective to achieve investment returns that are viewed in a long-term context, on a three to five year annualized basis. The investment policy is to maximize total return that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make distributions, recognizing that rates of return are volatile and that achievement will occur over time with an acceptable level of risk. Assets are invested in a well-diversified asset mix, which includes equity and debt securities with no more than 60% exposure to either group.

Investment risk is measured in terms of the total endowment funds; investment assets and allocation between asset classes and strategies are reviewed by management to not expose the funds to unacceptable levels of risk.

The endowment net asset composition by type of fund as of August 31, 2017 and 2016 consists of the following:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in GMFEF	\$ -	\$ 1,044,060	\$ -	\$ 1,044,060
Board-designated funds	2,192,823	-	-	2,192,823
Total endowment funds	<u>\$ 2,192,823</u>	<u>\$ 1,044,060</u>	<u>\$ -</u>	<u>\$ 3,236,883</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in GMFEF	\$ -	\$ 1,041,503	\$ -	\$ 1,041,503
Board-designated funds	2,726,133	-	-	2,726,133
Total endowment funds	<u>\$ 2,726,133</u>	<u>\$ 1,041,503</u>	<u>\$ -</u>	<u>\$ 3,767,636</u>

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 4 – Endowment funds (continued)

The changes in the endowment net assets for the years ended August 31, 2017 and 2016 are as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, September 1, 2016	\$ 2,726,133	\$ 1,041,503	\$ -	\$ 3,767,636
Investment return				
Interest income	24,921	7,057	-	31,978
Net realized and unrealized appreciation	321,769	105,525	-	427,294
Administrative fees	-	(12,668)	-	(12,668)
Total investment return	346,690	99,914	-	446,604
Appropriations for expenditure	(880,000)	(97,357)	-	(977,357)
Endowment investments, August 31, 2017	<u>\$ 2,192,823</u>	<u>\$ 1,044,060</u>	<u>\$ -</u>	<u>\$ 3,236,883</u>
	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, September 1, 2015	\$ 2,826,177	\$ 1,028,586	\$ -	\$ 3,854,763
Investment return				
Interest income	22,937	21,500	-	44,437
Net realized and unrealized appreciation	127,898	39,494	-	167,392
Administrative fees	-	(11,518)	-	(11,518)
Total investment return	150,835	49,476	-	200,311
Appropriations for expenditure	(250,879)	(36,559)	-	(287,438)
Endowment investments, August 31, 2016	<u>\$ 2,726,133</u>	<u>\$ 1,041,503</u>	<u>\$ -</u>	<u>\$ 3,767,636</u>

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 5 – Fair value measurements

UPAF reports its fair value measures using a three-level hierarchy that prioritizes the inputs 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy that determines fair value are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that UPAF 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 methodologies used for investments reported at fair value:

Mutual funds: Valued at the daily closing price as reported by the funds. Mutual funds held by UPAF are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are actively traded and are required to publish their daily net asset value (NAV) and to transact at that price.

Beneficial interests in assets held by a community foundation: Valued at UPAF's share of the fair value of the underlying trust assets held by the Foundation and that interest is adjusted for its share of the changes in net assets. Because there are no observable market transactions for assets similar to the beneficial interest in the trust and because the trust cannot be redeemed, level 3 is assigned.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2017 and 2016

NOTE 5 – Fair value measurements (continued)

The preceding valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although UPAF 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.

The following tables provide by level, within the fair value hierarchy, UPAF's investment assets as of August 31, 2017 and 2016:

	August 31, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments, at fair value				
Bond mutual funds	\$ 1,123,030	\$ -	\$ -	\$ 1,123,030
Equity mutual funds				
Mid-cap funds	1,691,680	-	-	1,691,680
Large-cap funds	648,189	-	-	648,189
International	629,957	-	-	629,957
Beneficial interest in assets held at the Foundation	-	-	1,044,060	1,044,060
Total investments	<u>\$ 4,092,856</u>	<u>\$ -</u>	<u>\$ 1,044,060</u>	<u>\$ 5,136,916</u>

	August 31, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
Investments, at fair value				
Bond mutual funds	\$ 1,017,862	\$ -	\$ -	\$ 1,017,862
Equity mutual funds				
Mid-cap funds	1,929,667	-	-	1,929,667
Large-cap funds	730,191	-	-	730,191
International	367,655	-	-	367,655
Beneficial interest in assets held at the Foundation	-	-	1,041,503	1,041,503
Total investments	<u>\$ 4,045,375</u>	<u>\$ -</u>	<u>\$ 1,041,503</u>	<u>\$ 5,086,878</u>

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 5 – Fair value measurements (continued)

The following table sets forth a summary of changes in the fair value of UPAF's Level 3 investment assets for the years ended August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beneficial interest in assets held at the Foundation, beginning of year	\$ 1,041,503	\$ 1,028,586
Interest income	7,057	21,500
Net realized and unrealized appreciation (depreciation)	105,525	39,494
Administrative fees	(12,668)	(11,518)
Appropriations for expenditure	<u>(97,357)</u>	<u>(36,559)</u>
Beneficial interest in assets held at the Foundation, end of year	<u>\$ 1,044,060</u>	<u>\$ 1,041,503</u>

NOTE 6 – Property and equipment

The major categories of property and equipment are summarized as follows at August 31:

	<u>Depreciable Lives</u>	<u>2017</u>	<u>2016</u>
Computer equipment and software	3 - 5 years	\$ 100,367	\$ 97,232
Less: accumulated depreciation		<u>88,296</u>	<u>80,570</u>
Net property and equipment		<u>\$ 12,071</u>	<u>\$ 16,662</u>

Depreciation expense for the years ended August 31, 2017 and 2016 totaled \$7,726 and \$7,413, respectively.

NOTE 7 – Related parties

Members of the Board of Directors of UPAF typically make contributions to the various campaigns of UPAF. UPAF received pledges from members of the Board of Directors and the total amount that remains a receivable at August 31, 2017 and 2016 is \$38,800 and \$65,050 respectively. The Board of Directors may also be employees of organizations with which UPAF conducts business. All business transactions involving the Board of Directors and other related parties occur at arm's length and the applicable Board members abstain from voting on any business transactions that involve potential conflicts of interest. During the years ended August 31, 2017 and 2016, there were no members of the Board of Directors who were employed by an organization with which UPAF conducted any business.

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 8 – Operating lease

Beginning January 1, 2013, UPAF entered into a long-term noncancelable operating lease for new office space that expires on June 30, 2020. The building lease contains renewal options for two additional five-year periods. Lease expense on UPAF’s office space is recognized on the straight-line basis over the term of the lease. The difference between the expense amount recorded and the cumulative actual lease payments paid is recognized as a liability on the Statements of Financial Position. Rent expense on the office space operating lease was \$77,558 for both of the years ended August 31, 2017 and 2016. The future minimum annual rental commitments under this operating lease as of August 31, 2017 are as follows:

<u>Years Ending August 31,</u>	
2018	\$ 84,417
2019	86,105
2020	<u>43,914</u>
Total minimum lease payments	<u><u>\$ 214,436</u></u>

NOTE 9 – Temporarily restricted net assets

Temporarily restricted net assets available to support the mission of UPAF and its member organizations and affiliates are composed of the following at August 31:

	<u>2017</u>	<u>2016</u>
Contributions received and restricted to use for future years (held in investments)	\$ 30,561	\$ 18,654
Contributions restricted for UPAF programs:		
Bright Minds Arts Education	498,000	480,000
UPAF Connect (Awareness)	151,383	103,386
Contributions receivable restricted to time	<u>550,897</u>	<u>608,370</u>
Total contributions restricted	1,230,841	1,210,410
Greater Milwaukee Foundation Endowment Fund	<u>1,044,060</u>	<u>1,041,503</u>
Total temporarily restricted net assets	<u><u>\$ 2,274,901</u></u>	<u><u>\$ 2,251,913</u></u>

UNITED PERFORMING ARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
August 31, 2017 and 2016

NOTE 10 – Retirement plan

UPAF has a 403(b) defined contribution retirement savings plan covering all eligible employees. UPAF makes discretionary contributions to the plan in amounts determined annually. For the years ended August 31, 2017 and 2016, eligible employees received contributions from UPAF of 3% of their gross earnings and up to an additional 2% match for eligible employees that contributed up to 2% of their salary into the plan. Retirement plan expense for the years ended August 31, 2017 and 2016 was \$42,094 and \$36,378 respectively.

NOTE 11 – Prior period adjustments – correction of errors

During the year ended August 31, 2017, management determined that the accounting for allocations to member organizations and affiliates awarded in prior years were not reported as an expense in the proper fiscal year. The Organization is not obligated to make the allocations to member organizations and affiliates until the board of directors have approved the non-donor designated allocation amounts based on its criteria and; therefore, these allocation costs should be reported during the years that the allocations are awarded. Previously, the allocations for the subsequent year were recorded as a payable at the end of the year in which the campaign funds were obtained. The Organization is now reporting the allocation amounts in the proper periods for which the obligation to the member organizations and affiliates was approved and applicable. In addition, certain pledges are earmarked for UPAF sponsored programs for arts education and awareness and therefore these contributions are now reported a restricted contributions. The effect of the proper reporting was to restate and increase the beginning net assets as of September 1, 2015 by \$7,942,183 from \$5,948,266 to \$13,890,449. The prior year allocation payable was changed to donor designations payable with the payable balance changed to \$1,572,827 and advance payments to member groups are reported at \$1,197,182 as of August 31, 2016. The effect of the restatement was to decrease the change in net assets from (\$199,159) to (\$519,169) for the year ended August 31, 2016.

SUPPLEMENTARY INFORMATION

UNITED PERFORMING ARTS FUND, INC.

ALLOCATIONS TO MEMBER ORGANIZATIONS AND AFFILIATES
For the Years Ended August 31, 2017 and 2016

	2017 Allocations	Restated 2016 Allocations
Member organizations:		
Bel Canto Chorus of Milwaukee, Inc.	\$ 66,315	\$ 65,853
Danceworks, Inc.	170,998	192,375
First Stage Milwaukee, Inc.	966,019	960,652
Florentine Opera Company, Inc.	895,632	810,323
Milwaukee Ballet Company, Inc.	964,363	883,220
Milwaukee Chamber Theatre, Ltd.	172,307	169,607
Milwaukee Children's Choir	78,526	89,229
Milwaukee Public Theatre, Inc.	73,321	79,822
Milwaukee Repertory Theater, Inc.	1,713,476	1,708,572
Milwaukee Symphony Orchestra, Inc.	2,550,369	2,549,859
Milwaukee Youth Symphony Orchestra, Inc.	433,073	402,222
Next Act Theatre, Inc.	148,292	167,174
Present Music, Inc.	147,079	163,830
Renaissance Theaterworks, Inc.	138,016	147,796
Skylight Music Theatre Corporation	588,232	601,015
Total allocations to member organizations	<u>9,106,018</u>	<u>8,991,549</u>
Affiliates	<u>138,982</u>	<u>183,451</u>
Total allocations to member organizations and affiliates	<u>\$ 9,245,000</u>	<u>\$ 9,175,000</u>
Donor designations directed to member organizations	\$ 1,622,827	\$ 1,232,817
Donor designations directed to UPAF programs	583,386	480,000
UPAF allocations	<u>7,038,787</u>	<u>7,462,183</u>
	<u>\$ 9,245,000</u>	<u>\$ 9,175,000</u>

UNITED PERFORMING ARTS FUND, INC.

SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended August 31, 2017

	Program Services			Supporting Activities		Total
	Allocations and Other Member Support	Community Engagement	Awareness	Administrative	Fundraising	
Allocations to member organizations and affiliates	\$ 7,622,173	\$ -	\$ -	\$ -	\$ -	\$ 7,622,173
Other support from UPAF reserves	250,000	-	-	-	-	250,000
Salaries and other personnel costs	166,344	35,460	815,983	280,407	559,620	1,857,814
Direct program expenses	181,983	-	-	-	-	181,983
Insurance	1,263	15,112	7,243	2,925	4,713	31,256
Printing and publications	-	4,640	1,793	-	316	6,749
Rent	6,547	10,099	37,548	15,165	24,434	93,793
Equipment rental and maintenance	751	31,287	4,310	1,741	2,804	40,893
Office supplies	378	609	4,076	876	3,319	9,258
Postage and shipping	1,505	798	8,629	3,485	5,615	20,032
Telephone	515	273	2,956	1,194	1,924	6,862
Hardware and software support	-	-	23,865	24,323	48,188	96,376
Telefunding	-	-	56,748	-	56,748	113,496
Promotion and advertising	-	4,536	112,777	-	28,194	145,507
Events and donor benefits	-	-	74,737	246	4,897	79,880
Meals, travel and food	-	9,117	9,181	5,780	4,269	28,347
Fees and permits	-	21,105	-	125	-	21,230
Merchandise	-	10,894	-	-	-	10,894
Dues, memberships and conferences	-	-	7,057	-	7,057	14,114
Professional services	-	14,003	3,341	20,625	3,341	41,310
Bank, credit card and broker commission fees	-	-	-	38,168	38,168	76,336
Depreciation	-	-	-	7,726	-	7,726
Contributed services:						
Media coverage	-	-	-	-	422,638	422,638
Special event	-	-	-	-	48,629	48,629
Miscellaneous	-	1,920	130	-	130	2,180
Total expenses	\$ 8,231,459	\$ 159,853	\$ 1,170,374	\$ 402,786	\$ 1,265,004	\$11,229,476

UNITED PERFORMING ARTS FUND, INC.

SCHEDULE OF FUNCTIONAL EXPENSES (RESTATED)
Year Ended August 31, 2016

	Program Services			Supporting Activities		Total
	Allocations and Other Member Support	Community Engagement	Awareness	Administrative	Fundraising	
Allocations to member organizations and affiliates	\$ 7,942,183	\$ -	\$ -	\$ -	\$ -	\$ 7,942,183
Salaries and other personnel costs	155,898	58,294	791,022	285,954	508,907	1,800,075
Direct program expenses	250,879	-	-	-	-	250,879
Insurance	1,320	15,607	7,608	2,923	4,590	32,048
Printing and publications	-	2,277	33,267	-	5,871	41,415
Rent	6,624	12,898	38,164	14,666	23,024	95,376
Equipment rental and maintenance	668	36,262	3,850	1,479	2,323	44,582
Office supplies	396	765	4,342	877	3,437	9,817
Postage and shipping	1,530	3,939	8,815	3,387	5,318	22,989
Telephone	563	416	3,245	1,247	1,958	7,429
Hardware and software support	-	-	25,736	14,425	40,161	80,322
Telefunding	-	-	69,413	-	69,413	138,826
Promotion and advertising	-	1,398	82,916	-	20,729	105,043
Events and donor benefits	-	-	69,350	279	3,345	72,974
Meals, travel and food	-	6,388	9,414	1,983	3,889	21,674
Fees and permits	-	17,495	-	115	-	17,610
Merchandise	-	17,518	-	-	-	17,518
Dues, memberships and conferences	-	-	6,339	-	6,339	12,678
Professional services	-	10,000	4,313	19,450	4,313	38,076
Bank, credit card and broker commission fees	-	-	-	34,659	43,322	77,981
Depreciation	-	-	-	7,413	-	7,413
Contributed services:						
Media coverage	-	-	-	-	128,943	128,943
Special event	-	-	-	-	178,988	178,988
Creative advertising and public relations	-	-	-	-	343,330	343,330
Miscellaneous	-	1,878	787	-	787	3,452
Total expenses	\$ 8,360,061	\$ 185,135	\$ 1,158,581	\$ 388,857	\$ 1,398,987	\$11,491,621