



MILWAUKEE SYMPHONY ORCHESTRA, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

For the Years Ended August 31, 2017 and 2016

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MILWAUKEE SYMPHONY ORCHESTRA, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Milwaukee Symphony Orchestra, Inc.

We have audited the accompanying financial statements of Milwaukee Symphony Orchestra, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 entity'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 entity'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 Milwaukee Symphony Orchestra, Inc. as of August 31, 2017 and 2016, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, 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 audit 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 to 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 as a whole.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Milwaukee Symphony Orchestra, Inc. (the Orchestra) will continue as a going concern. As discussed in Note 2 to the financial statements, the Orchestra has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Sikich LLP

Brookfield, Wisconsin
November 29, 2017

FINANCIAL STATEMENTS

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENTS OF FINANCIAL POSITION

As of August 31,

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 211,248	\$ 203,301
Cash - restricted for capital projects	1,059,373	1,215,531
Total cash	<u>1,270,621</u>	<u>1,418,832</u>
Receivables:		
Accounts and other receivable	67,716	63,220
Instrument notes receivable	20,111	29,154
Contributions receivable, net	<u>22,372,934</u>	<u>2,588,652</u>
Total receivables, net	<u>22,460,761</u>	<u>2,681,026</u>
Prepaid expenses related to future performances	430,058	511,101
Property and equipment, net	1,679,433	245,601
Beneficial interest in net assets in perpetual trust	<u>20,880,158</u>	<u>19,631,480</u>
 TOTAL ASSETS	 <u><u>\$ 46,721,031</u></u>	 <u><u>\$ 24,488,040</u></u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	2017	2016
LIABILITIES		
Accounts payable and accrued expenses	\$ 828,784	\$ 700,016
Deferred revenue advanced season sales and fees, net of prepaid sales tax of \$95,469 and \$93,071 in 2017 and 2016, respectively	1,904,150	1,934,446
Capital lease payable	48,559	71,022
Notes payable to Milwaukee Symphony Orchestra Endowment Trust (Endowment):		
For general operations	1,950,000	1,950,000
For instrument loans to musicians	15,076	22,375
Accrued interest payable on notes payable to Endowment	531,605	501,965
Liability for pension benefits	4,989,921	6,160,667
Total liabilities	<u>10,268,095</u>	<u>11,340,491</u>
NET ASSETS		
Unrestricted (deficit)	(3,901,473)	(9,154,561)
Temporarily restricted	19,474,251	2,670,630
Permanently restricted	20,880,158	19,631,480
Total net assets	<u>36,452,936</u>	<u>13,147,549</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 46,721,031</u></u>	<u><u>\$ 24,488,040</u></u>

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Performance revenue, net of sales tax of \$166,282 (Schedule I)	\$ 3,984,086	\$ -	\$ -	\$ 3,984,086
Other revenues (Schedule II)	143,871	-	-	143,871
Contributions (Schedule III)	13,322,018	19,908,287	-	33,230,305
Special event revenues, net of costs of direct benefit to donors of \$41,207 (Schedule III)	315,053	-	-	315,053
In-kind contributions (Schedule III)	107,907	-	-	107,907
Government support (Schedule III)	89,733	-	-	89,733
Increase in the beneficial interest in net assets in perpetual trusts - distributions (Schedule III)	748,038	-	-	748,038
Total operating revenues	<u>18,710,706</u>	<u>19,908,287</u>	<u>-</u>	<u>38,618,993</u>
NET ASSETS RELEASED FROM RESTRICTION (SCHEDULE III)				
For operations	<u>3,104,666</u>	<u>(3,104,666)</u>	<u>-</u>	<u>-</u>
Total operating revenues and net assets released from restriction	<u>21,815,372</u>	<u>16,803,621</u>	<u>-</u>	<u>38,618,993</u>
EXPENSES				
Program services:				
Orchestra salaries and benefits	8,861,524	-	-	8,861,524
Production expenses (Schedule IV)	4,065,173	-	-	4,065,173
Total program expenses	<u>12,926,697</u>	<u>-</u>	<u>-</u>	<u>12,926,697</u>

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2017

(Continued)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General and administrative:				
Marketing	\$ 1,815,523	\$ -	\$ -	\$ 1,815,523
Other	1,740,337	-	-	1,740,337
Total general and administrative expenses	3,555,860	-	-	3,555,860
Development expenses	1,706,914	-	-	1,706,914
Total operating expenses	18,189,471	-	-	18,189,471
Operating revenues and net assets released from restriction in excess of operating expenses	3,625,901	16,803,621	-	20,429,522
OTHER CHANGES IN NET ASSETS				
Increase in the beneficial interest in net assets in perpetual trusts	-	-	1,248,678	1,248,678
Pension-related items other than net periodic pension costs	1,627,187	-	-	1,627,187
Change in net assets	5,253,088	16,803,621	1,248,678	23,305,387
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(9,154,561)	2,670,630	19,631,480	13,147,549
NET ASSETS (DEFICIT), END OF YEAR	\$ (3,901,473)	\$ 19,474,251	\$ 20,880,158	\$ 36,452,936

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Performance revenue, net of sales tax of \$174,814 (Schedule I)	\$ 3,568,802	\$ -	\$ -	\$ 3,568,802
Other revenues (Schedule II)	103,508	-	-	103,508
Contributions (Schedule III)	10,939,005	2,794,032	-	13,733,037
Special event revenues, net of costs of direct benefits to donors of \$25,239 (Schedule III)	224,808	-	-	224,808
In-kind contributions (Schedule III)	120,935	1,680	-	122,615
Government support (Schedule III)	124,357	-	-	124,357
Increase in the beneficial interest in net assets in perpetual trusts - distributions (Schedule III)	765,075	-	-	765,075
Total operating revenues	15,846,490	2,795,712	-	18,642,202
NET ASSETS RELEASED FROM RESTRICTION (SCHEDULE III)				
For operations	1,568,786	(1,568,786)	-	-
Total operating revenues and net assets released from restriction	17,415,276	1,226,926	-	18,642,202
EXPENSES				
Program services:				
Orchestra salaries and benefits	8,411,669	-	-	8,411,669
Production expenses (Schedule IV)	4,068,817	-	-	4,068,817
Total program expenses	12,480,486	-	-	12,480,486

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2016

(Continued)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General and administrative:				
Marketing	\$ 1,827,517	\$ -	\$ -	\$ 1,827,517
Other	1,598,598	-	-	1,598,598
Total general and administrative expenses	3,426,115	-	-	3,426,115
Development expenses	1,506,844	-	-	1,506,844
Total operating expenses	17,413,445	-	-	17,413,445
Operating revenues and net assets released from restriction in excess of operating expenses	1,831	1,226,926	-	1,228,757
OTHER CHANGES IN NET ASSETS				
Increase in the beneficial interest in net assets in perpetual trusts	-	-	415,580	415,580
Pension-related items other than net periodic pension costs	(244,345)	-	-	(244,345)
Change in net assets	(242,514)	1,226,926	415,580	1,399,992
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(8,912,047)	1,443,704	19,215,900	11,747,557
NET ASSETS (DEFICIT), END OF YEAR	\$ (9,154,561)	\$ 2,670,630	\$ 19,631,480	\$ 13,147,549

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended August 31,

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 23,305,387	\$ 1,399,992
Adjustments to reconcile change in net assets to netcash provided (used) by operating activities:		
Depreciation	84,344	80,676
Bad debt expense	59,687	34,039
Contributions restricted for long-term investment	(17,861,445)	(1,513,728)
Change in beneficial interest in net assets in perpetual trusts	(1,248,678)	(415,580)
Change in liability for pension benefits	(1,170,746)	423,526
Decrease (increase) in:		
Prepaid expenses related to future performances	81,043	(45,731)
Receivables other than notes	(3,548,505)	192,120
Increase (decrease) in:		
Accounts payable and accrued expenses	(159,025)	112,508
Deferred revenue advanced season sales and fees, net of prepaid sales tax	(30,296)	158,887
Net cash (used) provided by operating activities	<u>(488,234)</u>	<u>426,709</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments from musicians on instrument notes receivable	9,043	9,762
Purchase of fixed assets	(1,230,383)	(13,524)
Net cash (used) by investing activities	<u>(1,221,340)</u>	<u>(3,762)</u>

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended August 31,

(Continued)	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long term purposes	\$ 1,561,485	\$ 1,513,728
Repayments to Milwaukee Symphony Orchestra Endowment Trust for instrument loans to musicians	(7,299)	(7,594)
Due to Milwaukee Symphony Orchestra Endowment Trust	29,640	29,721
Repayments of bank line of credit	(1,775,000)	(2,420,000)
Proceeds from bank line of credit	1,775,000	1,650,000
Principal payments on capital leases	(22,463)	(22,344)
Net cash provided by financing activities	1,561,363	743,511
NET (DECREASE) INCREASE IN CASH	(148,211)	1,166,458
CASH, BEGINNING OF YEAR	1,418,832	252,374
CASH, END OF YEAR	\$ 1,270,621	\$ 1,418,832
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Purchase of fixed assets with accounts payable	\$ 287,793	\$ -
Assets acquired under capital leases	\$ -	\$ 93,366
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash	\$ 211,248	203,301
Cash - restricted for capital projects	1,059,373	1,215,531
	\$ 1,270,621	\$ 1,418,832
Cash payments for interest	\$ 12,429	\$ 11,438

See accompanying notes to financial statements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended August 31, 2017 and 2016

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Milwaukee Symphony Orchestra, Inc. (the Orchestra) is a not-for-profit corporation organized to maintain a symphony orchestra and to present orchestral performances in the City of Milwaukee and elsewhere in order to further the cultivation and appreciation of the art of music.

Method of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Orchestra maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

The financial statements focus on the organization as a whole, and net assets, revenues, grants, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Orchestra and changes therein are classified and reported as follows:

Unrestricted Net Assets

Undesignated - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Orchestra and/or the passage of time. The Orchestra's temporarily restricted net assets are restricted for specific concert performances, special projects or programs, and future fiscal years' operations.

Permanently Restricted Net Assets

Net assets subject to donor-imposed restrictions that they be maintained permanently by the Orchestra. Generally, the donors of these assets permit the Orchestra to use all, or part of, the income earned on the related investments for general or specific purposes. The Orchestra's permanently restricted net assets comprise of the Orchestra's beneficial interest in funds held in perpetual trusts (see Note 6).

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in temporarily restricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets in the period in which the restriction has been met.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 these estimates.

Subsequent Events

The Orchestra has evaluated subsequent events through November 29, 2017, the date on which the financial statements were available to be issued.

Cash

Cash includes bank depository account balances and money market funds not held by external investment managers.

The Orchestra maintains its cash at one financial institution which, at times, may exceed federally insured limits. At August 31, 2017 and 2016, the balance of deposits exceeded FDIC limits by approximately \$1,123,600 and \$1,179,000, respectively. There are no cash equivalents as of August 31, 2017 and 2016. The Orchestra has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

During 2017 and 2016, the Orchestra received payments on restricted pledges. The cash received by the Orchestra, which is restricted for capital projects, is held in a separate account from operating cash.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Other Receivables

Accounts and other receivables consist of ticket receivables, employee receivables, and related party receivables. Based on management's judgment and analysis of the credit worthiness of the donors, past collection experience, and other relevant factors, management has determined an allowance is not necessary for August 31, 2017 and 2016. However, actual write-offs may occur.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period pledged. Generally, contributions that impose restrictions that are met in the same fiscal year they are received are reported as unrestricted revenues. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unconditional promises to give that are due in future periods and are not permanently restricted generally increase temporarily restricted net assets. Unconditional promises to give related to the Orchestra's annual campaign that are available to support current period activities are reported as unrestricted net assets. Contributions of furniture, equipment, computer hardware, and software are reported as contribution revenue in the temporarily restricted net asset class and are released from restriction over the estimated useful life of the contributed asset. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance totaling \$35,000 as of August 31, 2017 and 2016 was made for doubtful contributions receivable based upon management's judgment and analysis of the credit worthiness of the donors, past collection experience, and other relevant factors. After all attempts to collect the receivable have failed, the receivable is written off against the allowance. However, actual write-offs may exceed the recorded allowance.

Furniture, Equipment, and Computer Hardware and Software

Fixed assets are stated at cost. The Orchestra capitalizes all assets greater than \$500. Depreciation is computed on a straight-line basis over the estimated useful lives.

Deferred Revenue

Revenues from advanced ticket sales and from fee-for-service performances are deferred and recognized as operating revenues in the fiscal year in which the related performances have occurred.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses Related to Future Performances

Expenditures related to future performances, including direct response advertising costs and expenses related to telemarketing, are deferred and charged to expense in the fiscal year in which the related performances occur (which generally is the succeeding year). Prepaid advertising costs related to future performances were approximately \$260,000 and \$270,000 in 2017 and 2016, respectively.

In-Kind Contributions and Contributed Services

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor restrictions specify how donated assets must be used. Donated services are recorded at their estimated fair value if the services received create or enhance nonfinancial assets or the services require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

In addition, the Orchestra receives services from a large number of volunteers who give significant time to the Orchestra for programs, fund-raising campaigns and management. No amount is reflected in the accompanying statement of activities for these types of donated services as they do not meet the recognition criteria described above.

Concentration of Business Risks

For the year ended August 31, 2017 and 2016, approximately 64% and 65%, respectively, of the Orchestra's labor force is under collective bargaining agreements, whose contract ends on August 31, 2018.

Advertising Cost

Advertising expense for the year ended August 31, 2017 and 2016 was \$820,627 and \$862,359 respectively.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific program or supporting service are charged to the program or supporting service. Accordingly, certain costs which apply to more than one functional category have been allocated based on estimates made by management.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Orchestra is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code as other than a private foundation, and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the code.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. This guidance is intended to reduce the diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, in November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This guidance provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. Both of these ASUs will be effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Orchestra has adopted the provisions of ASU 2016-15 and ASU 2016-18 in fiscal year 2017.

In August 2014, the financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosures of Uncertainties about the Entity’s Ability to Continue as a Going Concern*. This guidance is intended to reduce the diversity in timing and content of footnote disclosures by providing guidance about management’s responsibility to evaluate whether there is substantial doubt about the Organization’s ability to continue as a going concern and to provide related footnote disclosures. This ASU is effective for the annual period ending after December 15, 2016. The Orchestra has adopted the provisions of ASU 2014-15 in fiscal year 2017.

2. GOING CONCERN

Fiscal 2017 was significantly impacted by unrestricted and restricted contributions received during the fiscal year resulting in a significant reduction in the unrestricted net asset deficit. The unrestricted net assets deficit was approximately \$3,901,000 and \$9,155,000 as of August 31, 2017 and 2016, respectively. As of August 31, 2017, the Orchestra had no outstanding debt under its \$1,000,000 bank line of credit.

The Orchestra is in the process of implementing its strategic initiative to achieve a sustainable and more predictable business model, by substantially increasing earned revenue opportunities and endowment income, eliminating the need for a small number of large annual contributions to avoid deficits. However, the Orchestra has not yet fully implemented this plan. As a result, there continues to be substantial doubt about the Orchestra’s ability to continue as a going concern within one year after issuance of the financial statements, i.e., until November 29, 2018.

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INSTRUMENT NOTES RECEIVABLE

The Orchestra has notes with certain musicians for the purchase of instruments. The notes are due in various monthly installments with interest at various market rates. Funds for substantially all of the notes have been provided by the Endowment and are payable to the Endowment under terms similar to the notes receivable.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist primarily of pledges from private foundations, corporations, and individual donors. Net contributions receivable are summarized as follows:

	<u>2017</u>	<u>2016</u>
Total contributions receivable	\$ 23,474,248	\$ 2,635,967
Less: Allowance for doubtful contributions receivable	35,000	35,000
Net contributions receivable	23,439,248	2,600,967
Less: Adjustment to present value for future cash flows from contributions receivable	1,066,314	12,315
PRESENT VALUE OF NET CONTRIBUTIONS RECEIVABLE	<u><u>\$ 22,372,934</u></u>	<u><u>\$ 2,588,652</u></u>

The discount rate used to determine the present value of contributions receivable is a risk adjusted rate of 3.7%. The Orchestra wrote off uncollectible contributions of approximately \$60,000 and \$34,000 in 2017 and 2016, respectively.

Payments on contributions receivable as of August 31, 2017 are estimated to be received as follows:

2018	\$ 11,410,082
2019	3,533,333
2020	3,530,833
2021	3,800,000
2022	200,000
Thereafter	<u>1,000,000</u>
TOTAL CONTRIBUTIONS RECEIVABLE	<u><u>\$ 23,474,248</u></u>

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

5. PROPERTY AND EQUIPMENT

Major classes of fixed assets as of August 31 and estimated useful lives are as follows:

	2017	2016	Years
Furniture and equipment	\$ 156,364	\$ 154,046	5
Hardware and software	2,347,033	2,336,060	3-5
Leasehold improvements	65,200	65,200	10
Depreciable instruments	301,753	277,811	5-25
Nondepreciable instruments	4,626	4,626	
Construction in progress	1,480,943	-	
Total property and equipment	4,355,919	2,837,743	
Less: Accumulated depreciation	2,676,486	2,592,142	
NET PROPERTY AND EQUIPMENT	\$ 1,679,433	\$ 245,601	

Depreciation expense for 2017 and 2016 totaled approximately \$84,000 and \$81,000, respectively.

6. BENEFICIAL INTEREST IN NET ASSETS IN PERPETUAL TRUSTS

Foundation Trust

The Milwaukee Symphony Orchestra Foundation Trust (the Foundation) was established to hold and invest funds and to contribute the income for the benefit of the Orchestra while retaining the buying power of the principal. The board of trustees of the Foundation is independent of and separate from the board of directors of the Orchestra. The assets of the Foundation are invested in various securities.

The amount distributed to the Orchestra is based on the total return concept. Using this concept, the Foundation makes distributions based on a three-year average investment balance determined on a market value basis.

The specified distribution rate for 2017 and 2016 was 5% of this average. The amount distributed from the Foundation for 2017 and 2016 was \$682,201 and \$730,075, respectively, and is recorded as contribution revenue in the accompanying statement of activities.

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

6. BENEFICIAL INTEREST IN NET ASSETS IN PERPETUAL TRUSTS (Continued)

Endowment Trust

The Endowment was established for the sole purpose of providing support to the Orchestra. The board of trustees of Endowment is independent of and separate from the board of directors of the Orchestra. The assets of the Endowment are invested in various securities. In accordance with the Endowment Indenture, the unrestricted net assets available for distribution to the Orchestra are at the sole and absolute discretion of the trustees of the Endowment. The Endowment made a discretionary distribution to the Orchestra of \$65,837 and \$35,000 during 2017 and 2016, respectively.

The Foundation and Endowment hold financial instruments which are carried at fair value in accordance with GAAP which establishes a fair value hierarchy that prioritizes inputs and valuation techniques used to measure fair value (see Note 7.)

The Orchestra has recognized its interest in the Foundation and Endowment as permanently restricted net assets based on the net assets of the trusts plus the receivable from Milwaukee Symphony Orchestra, Inc., which has been reserved for on the Endowment assets, as follows:

	<u>2017</u>	<u>2016</u>
Foundation net assets	\$ 16,387,863	\$ 15,195,115
Endowment net assets	2,010,690	1,984,400
Add back amounts recorded on both the Orchestra and Endowment:		
Reserve on note and interest payable	<u>2,481,605</u>	<u>2,451,965</u>
PERMANENTLY RESTRICTED NET ASSETS	<u><u>\$ 20,880,158</u></u>	<u><u>\$ 19,631,480</u></u>

The Orchestra received advances from the Endowment to finance certain loans to musicians for the purchase of instruments. The loan agreements include a security interest in the instruments. The accompanying statements of financial position includes notes payable to the Endowment of \$15,076 and \$22,375 as of August 31, 2017 and 2016, respectively. The advances from the Endowment are collateralized by the notes receivable from the musicians. These loans to the musicians bear interest at an approximate market rate.

The Orchestra has outstanding \$1,950,000 as of August 31, 2017 and 2016 under a loan agreement with the Endowment designed to provide the Orchestra with the funds necessary to meet current operating cash requirements. The note bears interest at a rate of 1.52%. Interest is payable to the Endowment on a monthly basis. As of August 31, 2017 and 2016, the accrued interest payable to the Endowment totaled \$531,605 and \$501,965, respectively. The unpaid balance and all accrued interest is payable upon demand.

6. BENEFICIAL INTEREST IN NET ASSETS IN PERPETUAL TRUSTS (Continued)

Greater Milwaukee Foundation

The Orchestra is the sole income beneficiary of an agency endowment fund held by the Greater Milwaukee Foundation, a community foundation unrelated to the Orchestra. As of August 31, 2017 and 2016, the fair value of the net assets held by the Greater Milwaukee Foundation in the agency endowment fund has been reported by the Greater Milwaukee Foundation to be \$6,146,462 and \$5,694,030, respectively. Distribution of investment income to the Orchestra is made on a quarterly basis. The Orchestra's interest in the agency endowment fund at the Greater Milwaukee Foundation is not recognized on the Orchestra's financial statements because the board of directors of the Greater Milwaukee Foundation has variance power over substantially all of these assets. The amount distributed from the assets held by the Greater Milwaukee Foundation for which the Orchestra is the designated beneficiary for the years ended August 31, 2017 and 2016 was \$214,931 and \$196,977, respectively, and is reported as contribution revenue in the accompanying statements of activities.

7. FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the Orchestra to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quotes prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported.

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. FAIR VALUE MEASUREMENTS (Continued)

The Orchestra recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended August 31, 2017 and 2016.

Valuation Techniques

Following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended August 31, 2017 and 2016.

Beneficial Interest in Perpetual Trusts: Valued using the fair value of the assets held in the trust reported by the trustee as of August 31, 2017 and 2016. The Orchestra considers the measurement of its beneficial interest in the perpetual charitable trusts to be Level 3 measurements within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Orchestra will never receive those assets or have the ability to direct the trustee to redeem them.

Recurring Measurements

Assets measured at fair value on a recurring basis as of August 31, are as follows:

	2017			
	Level 1	Level 2	Level 3	Total
ASSETS				
Beneficial interest in perpetual trusts:				
Foundation trust	\$ -	\$ -	\$ 16,387,863	\$ 16,387,863
Endowment trust	-	-	2,010,690	2,010,690
TOTAL ASSETS AT FAIR VALUE	\$ -	\$ -	\$ 18,398,553	\$ 18,398,553

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. FAIR VALUE MEASUREMENTS (Continued)

	2016			
	Level 1	Level 2	Level 3	Total
ASSETS				
Beneficial interest in perpetual trusts:				
Foundation trust	\$ -	\$ -	\$ 15,195,115	\$ 15,195,115
Endowment trust	-	-	1,984,400	1,984,400
<hr/>				
TOTAL ASSETS AT FAIR VALUE	\$ -	\$ -	\$ 17,179,515	\$ 17,179,515

Unobservable (Level 3) Inputs

The activity for the beneficial interest in perpetual trusts, which is measured at fair value on a recurring basis using significant observable inputs (Level 3 inputs), is as follows:

	2017	2016
BALANCE, BEGINNING OF YEAR	\$ 17,179,515	\$ 16,793,656
Change in beneficial interest	1,219,038	385,859
<hr/>		
BALANCE, END OF YEAR	\$ 18,398,553	\$ 17,179,515

The change in value of the beneficial interest is included as a separate line in the statements of activities.

8. BANK LINE OF CREDIT

The Orchestra has a line of credit with a bank which has a capacity of the lesser of \$1,000,000 or the pledged securities (collateral value). The collateral value is calculated using the fair market value of all the securities held and pledged by the Endowment multiplied by the applicable percentage as listed in the agreement. The line of credit accrues interest at a rate of prime (4.25% at August 31, 2017) plus 1.00% with a floor of 5.00% and matures on March 1, 2018. There were no outstanding borrowings under the line of credit agreement as of August 31, 2017 and 2016.

MILWAUKEE SYMPHONY ORCHESTRA, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)

9. CAPITAL LEASE

The Orchestra has entered into a capital lease for recording equipment that expires July 2019. The agreement requires monthly payments of \$2,289, including principal and interest at 8.23%. The cost, accumulated depreciation and net book value of equipment under the capital lease were as follows at August 31:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 93,366	\$ 93,366
Less accumulated depreciation	(35,012)	(11,671)
TOTAL	<u>\$ 58,354</u>	<u>\$ 81,695</u>

The future minimum lease payments are as follows:

2018	\$ 27,472
2019	<u>25,182</u>
Total future minimum lease payments	52,654
Less amount representing interest	<u>4,095</u>
TOTAL CAPITAL LEASE OBLIGATIONS	<u>\$ 48,559</u>

10. IN-KIND CONTRIBUTIONS

In-kind contributions as of August 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Donated legal fees	\$ 52,203	\$ 49,540
In-kind gifts	55,704	73,075
TOTAL IN-KIND CONTRIBUTIONS AND CONTRIBUTED SERVICES	<u>\$ 107,907</u>	<u>\$ 122,615</u>

11. COMMITMENTS

Operating Lease Obligations

The Orchestra leases its office space for a period of thirteen years expiring in 2024 with an option to extend the lease term for four additional periods of five years. The lease agreement also requires the Orchestra to pay its proportionate share of real estate taxes, utilities, normal maintenance, and general liability insurance.

The Orchestra leases office equipment under two separate operating leases expiring through June 2020.

The following is a summary of the future minimum lease payments for operating leases having initial non-cancelable lease terms in excess of one year:

2018	\$ 170,857
2019	174,638
2020	168,260
2021	169,530
2022	172,921
Thereafter	<u>401,484</u>
TOTAL MINIMUM LEASE PAYMENTS	<u>\$ 1,257,690</u>

The rent expense under the office lease was approximately \$147,000 for 2017 and 2016, and rent expense under equipment leases was approximately \$10,000 for 2017 and 2016. The Orchestra also incurs rent expense for concert hall and music rentals. The rent expense incurred as a result of these types of activities was approximately \$500,000 and \$553,000 for 2017 and 2016, respectively.

Performance Commitment

The Orchestra has made commitments, for the 2018 through 2021 seasons through either informal arrangements or contracts with performers. As of August 31, 2017, such commitments aggregated approximately \$1,202,000 with approximately \$1,190,000 relating to the 2017-2018 season.

Labor Agreement Commitment

The Orchestra entered into a two-year agreement with the Milwaukee Musician's Association Local #8 for the period from September 1, 2016 to August 31, 2018. Based on the contract, 70 musicians are used to perform the calculations. Under the terms of this agreement, the Orchestra is committed to pay base wages of approximately \$4,560,000 for the 2017-2018.

11. COMMITMENTS (Continued)

Employment Agreement

The Orchestra has executed an employment agreement for the executive director to perform services including management of personnel, fund raising, growth, performance and operations as well as all other duties assigned by the Chair of the Board of Directors. The term of the contract runs for 6 years with an aggregated commitment of \$1,219,000 of which approximately \$962,000 is outstanding as of August 31, 2017 with approximately \$233,000 relating to the 2017-2018 season.

12. RETIREMENT PLANS

Pension Plans

The Orchestra has separate noncontributory defined benefit pension plans for musicians and administrative staff (Pension Plans). Both plans provide for monthly pension benefits per participant of \$52 for each year of service and 100% vesting after five years of service. The Orchestra's funding policy is to contribute annually the minimum amount required under the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets are invested in a group annuity contract which invests primarily in U.S. government securities, money market funds, and marketable equity securities.

The musicians' defined benefit pension plan is frozen; therefore, no new participants have been admitted to the plan, no additional years of service have been credited to any participant, no further benefits have been accrued, and each participant's accrued benefit is considered fully vested and non-forfeitable. All retirement benefits earned under the plan through August 31, 1996 are payable to participants upon retirement.

The administrative staff's defined pension plan is also frozen. While no new participants have been admitted to the plan and no further benefits have been accrued, for vesting purposes only, additional years of service are being credited to unvested participants until such time as the vesting requirements are met. All retirement benefits earned under the plan through August 31, 1999 are payable to participants upon retirement.

The Orchestra is obligated to make additional contributions for both the musicians' and the administrative staff's defined benefit pension plans in future years to meet ERISA funding requirements.

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

12. RETIREMENT PLANS (Continued)

Pension Plans (Continued)

The following table sets forth the plans' funded status as of August 31, the actuarial valuation date:

	<u>Measurement date August 31, 2017</u>		
	<u>Musicians</u>	<u>Staff</u>	<u>Total</u>
Actuarial present value of benefit obligations:			
Accumulated benefit obligation	\$ 12,116,864	\$ 2,198,389	\$ 14,315,253
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	12,975,496	2,287,164	15,262,660
Interest costs	432,016	77,772	509,788
Actuarial gain*	(474,542)	(71,210)	(545,752)
Benefits paid	(816,106)	(95,337)	(911,443)
Projected benefit obligation at end of year	<u>12,116,864</u>	<u>2,198,389</u>	<u>14,315,253</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	7,804,787	1,297,206	9,101,993
Actual return on plan assets	682,130	89,394	771,524
Employer contributions	296,232	67,026	363,258
Benefits paid	(816,106)	(95,337)	(911,443)
Fair value of plan assets at end of year	<u>7,967,043</u>	<u>1,358,289</u>	<u>9,325,332</u>
LIABILITY FOR PENSION BENEFITS	<u><u>\$ (4,149,821)</u></u>	<u><u>\$ (840,100)</u></u>	<u><u>\$ (4,989,921)</u></u>
Assumption used:			
Discount rate	3.64%	3.64%	

* The actuarial gain is a result of increasing the discount rate from 3.44% to 3.64%

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

12. RETIREMENT PLANS (Continued)

Pension Plans (Continued)

	Measurement date	
	August 31, 2017	
	Musicians	Staff
Net periodic pension cost comprised the following:		
Interest cost on projected benefit obligation	\$ 432,016	\$ 77,772
Return on plan assets	(459,039)	(82,137)
Amortization of net loss	760,880	90,207
NET PERIODIC PENSION COST	\$ 733,857	\$ 85,842
Assumption used:		
Discount rate	3.64 %	3.64 %
Expected long-term rate of return on assets	5.75 %	5.75 %

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

12. RETIREMENT PLANS (Continued)

Pension Plans (Continued)

	<u>Measurement date August 31, 2016</u>		
	<u>Musicians</u>	<u>Staff</u>	<u>Total</u>
Actuarial present value of benefit obligations:			
Accumulated benefit obligation	\$ 12,975,496	\$ 2,287,164	\$ 15,262,660
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	12,652,349	2,070,525	14,722,874
Interest costs	520,877	87,940	608,817
Actuarial loss*	595,577	214,169	809,746
Benefits paid	(793,307)	(85,470)	(878,777)
Projected benefit obligation at end of year	12,975,496	2,287,164	15,262,660
Change in plan assets:			
Fair value of plan assets at beginning of year	7,714,625	1,271,108	8,985,733
Actual return on plan assets	385,773	18,750	404,523
Employer contributions	497,696	92,818	590,514
Benefits paid	(793,307)	(85,470)	(878,777)
Fair value of plan assets at end of year	7,804,787	1,297,206	9,101,993
LIABILITY FOR PENSION BENEFITS	\$ (5,170,709)	\$ (989,958)	\$ (6,160,667)
Assumption used:			
Discount rate	3.44%	3.44%	

* The actuarial loss is a result of reducing the discount rate from 4.32% to 3.44%

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

12. RETIREMENT PLANS (Continued)

Pension Plans (Continued)

	Measurement date	
	August 31, 2016	
	Musicians	Staff
Net periodic pension cost comprised the following:		
Interest cost on projected benefit obligation	\$ 520,877	\$ 87,940
Return on plan assets	(536,526)	(93,042)
Amortization of net loss	704,399	86,047
NET PERIODIC PENSION COST	\$ 688,750	\$ 80,945
Assumption used:		
Discount rate	3.44 %	3.44 %
Expected long-term rate of return on assets	6.75 %	6.75 %

There were no net transition assets/obligations and prior service costs to be amortized for the Pension Plans in the current year.

The expected long-term rate of return on the Pension Plans' assets was 5.75% and 6.75% for the musician's plan and the staff's plan for 2017 and 2016, respectively. Current market factors such as inflation and interest rates, as well as peer data and historical returns, are considered when determining the long-term rate of return.

All of the Pension Plans' assets, which consists of a group annuity contract, are considered to be Level 2 investments in accordance with the fair value hierarchy. Level 2 assets are traded in less active dealer or broker markets in which valuations are obtained from third party pricing services for identical or similar assets.

The Orchestra employs a total return on investment approach whereby a mix of equities and fixed income investments are utilized to maximize the long-term rate of return on the Pension Plans' assets for a given level of risk. Risk tolerance is established through consideration of the Pension Plans' liabilities and funded status. The investment vehicle used is a group annuity contract, which has a portfolio containing a diversified blend of equity and fixed income investments. The Orchestra determines the asset allocation for the asset classes based upon periodic asset/liability reviews and capital market projections.

The Orchestra expects to make a minimum contribution to the musicians' plan of approximately \$246,000 and to the staff's plan of \$56,000 during 2018.

The following table sets forth the Pension Plans' estimated future benefit payments expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter:

MILWAUKEE SYMPHONY ORCHESTRA, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)

12. RETIREMENT PLANS (Continued)

Pension Plans (Continued)

Fiscal Year:	<u>Musicians</u>	<u>Staff</u>
2018	\$ 831,000	\$ 92,000
2019	880,000	99,000
2020	843,000	105,000
2021	872,000	115,000
2022	864,000	118,000
2023-2026	4,130,000	651,000

Defined Contribution Plan

The Orchestra has a defined contribution plan for all full-time administrative employees. Employees are eligible to participate in the plan upon attaining age 21, having worked 1,000 hours, and having completed one full year of employment. Employees may contribute up to 10% of their base compensation. The Orchestra did not make any contributions to the plan for the years ended August 31, 2017 and 2016.

Multi-Employer Pension Plan

The contract with the musicians' union also requires that contributions be made to the American Federation of Musicians and Employers' Pension Plan for services rendered by musicians after August 31, 1996. The American Federation of Musicians and Employers' Pension Plan is a multi-employer pension plan for musicians under union contracts. The plan is administered independently and contributions are determined in accordance with the provisions of the musicians' labor contract.

The Orchestra contributes to one union sponsored multiemployer defined benefit pension plans under the collective bargaining agreements that cover its collectively bargained employees. The risk of participating in these multiemployer plans differ from those of single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Orchestra chooses to stop participating in the multiemployer plan, then it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

12. RETIREMENT PLANS (Continued)

Multi-Employer Pension Plan (Continued)

Contributions are determined in accordance with the provisions of negotiated labor contracts and are based upon the number of hours worked by each eligible employee. During the year ended August 31, 2017 and 2016, the Orchestra contributed 7.63% of the musicians' salaries. Information from the plans' administrators is not available to permit the Orchestra to determine its share of unfunded vested benefits, if any. Management does not intend to take any action which would subject it to such a liability.

The Orchestra's participation in these plans for the years ended August 31, 2017 and 2016, is outlined in the table below. The EIN/Plan Number provides the EIN and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for the plan's year beginning during 2016 and 2015. The zone status is based on information that the Company obtained from the plans. Among other factors, plans in the red zone are less than 65% funded, plans in the yellow zone are between 65-80% funded, and plans in the green zone are more than 80% funded. The FIP/RP Status Pending/Implemented indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented. The last line lists the expiration dates of the collective bargaining agreements to which the plans are subject.

There have been no significant changes that affect the comparability of the 2017 and 2016 contributions.

EIN/Plan Number	American Federation of Musicians & Employers' Pension Fund 51-6120204 Plan #001
Pension Protection Act Zone Status	
March 31, 2017	Red
March 31, 2016	Red
FIP/RP Status Pending/Implemented	Yes*
Orchestra Contributions - 2017	\$412,381
Orchestra Contributions - 2016	\$390,952
Collective Bargaining Agreement Exp. Date	8/31/2018

12. RETIREMENT PLANS (Continued)

Multi-Employer Pension Plan (Continued)

* While the status is listed as red meaning the funded status is less than 65%, the actual funded percentage is greater than 80% however; the Plan is considered in critical status because the Plan's actuary determined that the Plan is projected to have an accumulated funding deficiency over the next five years due to a projected funding deficiency for the Plan year ending March 31, 2019. In an effort to improve the Plan's funding situation, the Plan's Board of Trustees adopted a rehabilitation plan on April 15, 2010, which was intended to help the Plan improve its funded status through various benefit reductions and employer contribution increases. In addition, on May 18, 2011, the Plan's Board of Trustees amended the rehabilitation plan to change the maximum term from four years to five years for which pension contributions may be established under any collective bargaining agreement entered into on or after May 1, 2010. The Plan's Board of Trustees amended the rehabilitation plan again on February 12, 2015, to provide that if a collective bargaining agreement expires while the Plan is still in critical status and the bargaining parties fail to adopt a contribution schedule within 180 days of that expiration, then the contribution schedule under the expired collective bargaining agreement is re-implemented. The duration of the rehabilitation plan is indefinite and the Plan is not expected to emerge from critical status during the 10 year rehabilitation plan period that began April 1, 2013. Under the rehabilitation plan, the Plan is not permitted to pay lump sum benefits while it is in critical status. The employer surcharge is equal to a percentage of the amount an employer is otherwise required to contribute to the Plan. For the Plan year beginning April 1, 2011, the surcharge was 10% and remains applicable for each year the Plan is in critical status.

13. RELATED-PARTY TRANSACTIONS

The Orchestra provides accounting and administrative services to the Endowment and Foundation. The accounting and administrative services are provided at no charge. These services are not considered material and are therefore excluded from the accompanying financial statements.

Members of the Orchestra's board of directors serve in management roles of corporations that provide goods and services to the Orchestra, causing these corporations to be related parties. The Orchestra received contributions of approximately \$395,000 and \$363,000 during 2017 and 2016, respectively, from these corporations and members of the board of directors.

Significant purchases of goods and services from related parties are reviewed to ensure such transactions are competitively priced as compared with other goods and services available in the market. During 2016, the Orchestra entered into a contract with a corporation whose member of management serves on the board of the Orchestra. The total contract cost of approximately \$81,000 was paid in full during 2016. During 2017, the Orchestra incurred costs of approximately \$51,000 for services from the corporation.

MILWAUKEE SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

13. RELATED PARTY TRANSACTIONS (Continued)

During 2017 and 2016, the Orchestra also received approximately \$52,000 and \$50,000, respectively, of legal services as in-kind donations from a member of the board.

The Orchestra entered into a joint venture, Milwaukee Arts Partners (MAP), with First Stage Children's Theater, John Michael Kohler Arts Center, Sharon Lynne Center for the Arts, and Milwaukee Repertory Theater during the year ended August 31, 2007. The primary focus of MAP is to manage and operate the ticketing software, Tessitura, used by all four entities. MAP was incorporated on August 31, 2006. All revenue and expenses incurred during the years ended August 31, 2017 and 2016 by the Orchestra, which were directly attributable to MAP, were recorded in MAP's financial statements and not recorded within MSO's financial statements. Accounts receivable from the joint venture was approximately \$20,000 as of August 31, 2017 and 2016.

14. NET ASSETS

As of August 31, 2017 and 2016 temporarily restricted net assets comprised of contributions that are held for restrictions for use in future periods.

Fund	Years		
	Restricted	2017	2016
ACE	2018	\$ -	\$ 21,000
Capital campaign	2018-2020	19,582,265	1,716,063
Concert sponsorship	2018	32,000	327,000
Education	2018	30,000	30,000
General operating	2018	89,900	81,605
Gift in-kind	2018	-	840
Government	2018	7,000	25,000
Milwaukee Symphony Orchestra			
League	2018	49,000	12,324
Special projects	2018	300,400	1,113
United Performing Arts Fund	2018	450,000	468,000
Less: pledge receivable discount		(1,066,314)	(12,315)
TOTAL		\$ 19,474,251	\$ 2,670,630

SUPPLEMENTARY INFORMATION

MILWAUKEE SYMPHONY ORCHESTRA, INC.

SCHEDULES OF TICKET REVENUES

For the Years Ended August 31,

Schedule I

	2017	2016
Classical concerts	\$ 1,564,993	\$ 1,803,054
Pops concerts	1,093,491	1,027,667
High school/youth concerts	91,760	103,211
Opera	197,224	120,000
Tour concerts	405,037	302,000
Fee for service	316,729	1,000
Other concerts	481,134	386,684
	<hr/>	<hr/>
Gross ticket revenues	4,150,368	3,743,616
Less: Sales tax	(166,282)	(174,814)
	<hr/>	<hr/>
NET TICKET REVENUES	\$ 3,984,086	\$ 3,568,802
	<hr/> <hr/>	<hr/> <hr/>

MILWAUKEE SYMPHONY ORCHESTRA, INC.

SCHEDULES OF OTHER REVENUES

For the Years Ended August 31,

Schedule II

	<u>2017</u>	<u>2016</u>
ACE	\$ 90,340	\$ 86,772
Media activities	39	233
Other activities	15,760	10,015
Miscellaneous income	37,732	6,488
TOTAL OTHER REVENUES	\$ 143,871	\$ 103,508

MILWAUKEE SYMPHONY ORCHESTRA, INC.

SCHEDULES OF UNRESTRICTED CONTRIBUTIONS, DEBT REDUCTION
CONTRIBUTIONS, OTHER REVENUES, AND NET ASSETS RELEASED FROM
RESTRICTIONS

For the Years Ended August 31,

Schedule III

	2017	2016
Unrestricted contributions, including net assets released from restriction for operations:		
United Performing Arts Fund	\$ 2,469,368	\$ 2,424,859
Annual campaign	13,783,092	9,945,567
In-kind contributions	109,861	122,615
Special events Milwaukee Symphony Orchestra		
League support	70,190	61,445
Greater Milwaukee Foundation - operating support	77,080	74,240
Other unrestricted revenues, including net assets released from restriction for operations:		
Milwaukee County grants	72,233	81,857
Special events revenue	315,053	224,808
Wisconsin Arts Board	17,500	17,500
Wisconsin Department of Tourism	25,000	25,000
Increase in the beneficial interest in net assets in perpetual trusts - distributions	748,038	765,075
Total unrestricted contributions and other unrestricted revenues, including net assets released from restriction of operations	17,687,415	13,742,966
Ticketing revenue (Schedule I)	3,984,086	3,568,802
Other revenues (Schedule II)	143,871	103,508
TOTAL OPERATING REVENUES AND NET ASSETS RELEASED FROM RESTRICTION	\$ 21,815,372	\$ 17,415,276

MILWAUKEE SYMPHONY ORCHESTRA, INC.

SCHEDULES OF PRODUCTION EXPENSES

For the Years Ended August 31,

Schedule IV

	2017	2016
Concert expenses:		
Classical concerts	\$ 1,295,084	\$ 1,398,482
Pops concerts	568,599	620,973
Educational and outreach events	348,204	345,942
Tour concerts	193,743	66,085
In kind gifts and services	2,500	1,825
Other events	115,409	103,163
	<u>2,523,539</u>	<u>2,536,470</u>
Media activities	51,694	68,487
Other (including production staff wage)	1,489,940	1,463,860
	<u>1,541,634</u>	<u>1,532,347</u>
TOTAL PRODUCTION EXPENSES	<u><u>\$ 4,065,173</u></u>	<u><u>\$ 4,068,817</u></u>