

**WISCONSIN CONSERVATORY OF MUSIC, INC.**

FINANCIAL STATEMENTS

August 31, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Wisconsin Conservatory of Music, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Wisconsin Conservatory of Music, Inc., which comprise the statements of financial position as of August 31, 2018 and 2017, 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 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 Wisconsin Conservatory of Music, Inc. as of August 31, 2018 and 2017, 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.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Waukesha, Wisconsin  
January 24, 2019

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**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 150,902	\$ 254,524
Accounts receivable	23,716	66,476
Unconditional promises to give	1,793,786	1,518,566
Prepaid expenses	43,407	23,366
	<u>2,011,811</u>	<u>1,862,932</u>
Property and equipment - net	3,017,488	2,860,974
<b>OTHER ASSETS</b>		
Cash restricted for endowment	2,120	1,050
Investments	3,831,342	898,399
Unconditional promises to give - long-term	151,355	299,979
Cash surrender value of life insurance	-	6,297
	<u>-</u>	<u>6,297</u>
<b>Total assets</b>	<u><u>\$ 9,014,116</u></u>	<u><u>\$ 5,929,631</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 24,016	\$ 48,139
Accrued payroll	16,422	14,332
Line of credit	-	423,362
Deferred revenue	253,391	244,659
	<u>293,829</u>	<u>730,492</u>
<b>NET ASSETS</b>		
Unrestricted	7,081,540	3,485,566
Temporarily restricted	748,036	830,396
Permanently restricted	890,711	883,177
	<u>8,720,287</u>	<u>5,199,139</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 9,014,116</u></u>	<u><u>\$ 5,929,631</u></u>

See accompanying notes.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years ended August 31, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>								
Contributions	\$ 3,940,380	\$ 407,919	\$ 3,500	\$ 4,351,799	\$ 1,790,636	\$ 1,085,146	\$ 4,272	\$ 2,880,054
Tuition and fees	1,074,490	-	-	1,074,490	973,251	-	-	973,251
Contracts and program fees	1,088,264	-	-	1,088,264	871,093	-	-	871,093
Investment return	137,063	39,338	4,034	180,435	17,695	46,101	17,632	81,428
Other income	1,191	-	-	1,191	11,240	-	-	11,240
<b>Total support and revenue</b>	<b>6,241,388</b>	<b>447,257</b>	<b>7,534</b>	<b>6,696,179</b>	<b>3,663,915</b>	<b>1,131,247</b>	<b>21,904</b>	<b>4,817,066</b>
<b>EXPENSES AND LOSSES</b>								
Program services								
Education	1,746,472	-	-	1,746,472	1,502,752	-	-	1,502,752
Conservatory Connections	816,377	-	-	816,377	502,767	-	-	502,767
<b>Total program services</b>	<b>2,562,849</b>	<b>-</b>	<b>-</b>	<b>2,562,849</b>	<b>2,005,519</b>	<b>-</b>	<b>-</b>	<b>2,005,519</b>
Supporting activities								
Management and general	321,012	-	-	321,012	334,589	-	-	334,589
Fundraising	291,170	-	-	291,170	292,365	-	-	292,365
<b>Total expenses</b>	<b>3,175,031 *</b>	<b>-</b>	<b>-</b>	<b>3,175,031</b>	<b>2,632,473 *</b>	<b>-</b>	<b>-</b>	<b>2,632,473</b>
Reclassification of seed endowment	-	-	-	-	-	(8,756)	8,756	-
Net assets released from restriction	529,617	(529,617)	-	-	632,798	(632,798)	-	-
<b>Change in net assets</b>	<b>3,595,974</b>	<b>(82,360)</b>	<b>7,534</b>	<b>3,521,148</b>	<b>1,664,240</b>	<b>489,693</b>	<b>30,660</b>	<b>2,184,593</b>
Net assets - beginning of year	3,485,566	830,396	883,177	5,199,139	1,821,326	340,703	852,517	3,014,546
<b>Net assets - end of year</b>	<b>\$ 7,081,540</b>	<b>\$ 748,036</b>	<b>\$ 890,711</b>	<b>\$ 8,720,287</b>	<b>\$ 3,485,566</b>	<b>\$ 830,396</b>	<b>\$ 883,177</b>	<b>\$ 5,199,139</b>

\* Total expenses include depreciation expense of \$163,095

\* Total expenses include depreciation expense of \$151,590

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years ended August 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,521,148	\$ 2,184,593
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	163,095	151,590
Donated instruments	-	(292,600)
Contributions restricted for long-term purposes	(3,500)	(4,272)
Investment income restricted for long-term purposes	(1,374)	(4,007)
Realized and unrealized gain on investments	(141,311)	(62,700)
Change in fair value of unconditional promises to give	(9,665)	15,987
Cash surrender value of life insurance	6,297	(555)
(Increase) decrease in assets		
Accounts receivable	42,760	(9,306)
Unconditional promises to give	(116,931)	(1,711,142)
Prepaid expenses	(20,041)	(1,262)
Increase (decrease) in liabilities		
Accounts payable	(24,123)	34,464
Accrued payroll	2,090	4,767
Deferred revenue	8,732	68,635
<b>Net cash flows from operating activities</b>	<b>3,427,177</b>	<b>374,192</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(319,609)	(14,300)
Purchases of investments	(2,791,632)	(22,381)
Proceeds from sales of investments	-	34,584
<b>Net cash flows from investing activities</b>	<b>(3,111,241)</b>	<b>(2,097)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments on line of credit	(626,000)	(1,450,638)
Draws on line of credit	202,638	1,268,000
Investment income restricted for investment in permanent endowment	1,374	4,007
Proceeds from contributions restricted for investment in permanent endowment	3,500	4,322
<b>Net cash flows from financing activities</b>	<b>(418,488)</b>	<b>(174,309)</b>
Change in cash	(102,552)	197,786
Cash - beginning of year	255,574	57,788
<b>Cash - end of year</b>	<b>\$ 153,022</b>	<b>\$ 255,574</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 4,200	\$ 17,101
Noncash investing and financing transactions		
Donated instruments	-	292,600

See accompanying notes.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2018 and 2017

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Wisconsin Conservatory of Music, Inc. (Conservatory) is a non-profit corporation that was organized to provide music education and performance opportunities for students of all ages and abilities through private and group instruction, community outreach programs, continuing professional education for performing and teaching musicians, and concert and recital performances for the general community.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Conservatory is required to report information regarding its financial position and activities according to three classes of net assets:

*Unrestricted net assets*—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

*Temporarily restricted net assets*—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

*Permanently restricted net assets*—Net assets that have been restricted by donors to be maintained by the Conservatory in perpetuity.

**Accounts Receivable**

The Conservatory considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful amounts is presented. If accounts become uncollectible, they will be charged to operations when that determination is made.

**Promises to Give**

Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Property and Equipment**

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. All acquisitions of property and equipment and all expenditures for repairs, maintenance, and improvements that materially prolong the useful lives of assets are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

**Investments**

The Conservatory carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2018 and 2017

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments (continued)**

Investment securities, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

**Deferred Revenue**

Tuition payments for future periods and payments for future services and rentals to be provided by the Conservatory are classified as deferred revenue. This revenue will be recognized in the period that the service takes place.

**Contributions**

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Donated Facilities, Goods, and Services**

Donated facilities, goods, and services are recorded at fair market value at the date of donation. Donated services are recognized in the financial statements at their fair value if the services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or the services enhance or create an asset.

**Income Tax Status**

The Conservatory is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Conservatory 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)(2).

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.



**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2018 and 2017

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Expense Allocation (continued)**

The following program services are included in the accompanying financial statements:

*Education* – individual lessons, group classes, camps and ensembles at one of our four locations.

*Conservatory Connections* – service contracts providing music education to schools and community centers.

The following supporting activities are included in the accompanying financial statements:

*Management and general* – includes accounting and production of financial reports, development and oversight of annual budget, supervision of all departments, maintenance of personnel records, and representation of the Conservatory within the community.

*Fundraising* – includes cultivation of new donors, fundraising events, membership solicitations, planned giving activities, and media and public relations activities.

**Advertising Costs**

Advertising costs are expensed as they are incurred. Advertising expense for the years ended August 31, 2018 and 2017 was \$34,383 and \$18,517.

**Presentation of Sales Tax**

The State of Wisconsin and Milwaukee County impose a combined sales tax of 5.6% on sales to nonexempt customers. The Conservatory collects that sales tax from customers and remits the entire amount to the State. The Conservatory's accounting policy is to exclude the tax collected and remitted from revenue and expenses.

**Estimates**

The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Date of Management's Review**

Management has evaluated subsequent events through January 24, 2019, the date which the financial statements were available to be issued.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
August 31, 2018 and 2017

**NOTE 2 – PROMISES TO GIVE**

Unconditional promises to give at August 31, 2018 and 2017 consist of the following:

	2018	2017
Receivable in less than one year	\$ 1,793,786	\$ 1,518,566
Receivable in one to five years	158,047	315,976
Total unconditional promises to give	1,951,833	1,834,542
Less discount to present value	(6,692)	(15,997)
Unconditional promises to give - net	\$ 1,945,141	\$ 1,818,545

Promises to give receivable in one to five years at August 31, 2018 and 2017 are discounted at 2%.

**NOTE 3 – INVESTMENTS**

Investments at August 31, 2018 and 2017 consisted of the following:

	2018	2017
Bank money market accounts	\$ 95,659	\$ 28,047
Mutual funds	3,735,683	870,352
Investments	\$ 3,831,342	\$ 898,399

Investment return for the years ended August 31, 2018 and 2017 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Interest and dividends	\$ 26,381	\$ 22,474	\$ 1,762	\$ 50,617
Realized and unrealized gains	117,232	21,417	2,662	141,311
Investment fees	(6,550)	(4,553)	(390)	(11,493)
Investment return - 2018	\$ 137,063	\$ 39,338	\$ 4,034	\$ 180,435

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Interest and dividends	\$ 5,963	\$ 15,060	\$ 5,900	\$ 26,923
Realized and unrealized gains	13,625	35,450	13,625	62,700
Change in value of life insurance	-	555	-	555
Investment fees	(1,893)	(4,964)	(1,893)	(8,750)
Investment return - 2017	\$ 17,695	\$ 46,101	\$ 17,632	\$ 81,428

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
August 31, 2018 and 2017

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment at August 31, 2018 and 2017 consisted of the following:

	2018	2017
Land	\$ 232,675	\$ 232,675
Building and improvements	3,805,019	3,551,582
Furniture and equipment	1,575,629	1,509,456
Music library	201,484	201,484
Property and equipment	5,814,807	5,495,197
Less accumulated depreciation	2,797,319	2,634,223
Property and equipment - net	\$ 3,017,488	\$ 2,860,974

**NOTE 5 – FAIR VALUE MEASUREMENTS**

Fair values of assets measured on a recurring basis at August 31, 2018 and 2017 are as follows:

	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	\$ 3,735,683	\$ 3,735,683	\$ -	\$ -
Unconditional promises to give	1,945,141	-	-	1,945,141
August 31, 2018	\$ 5,680,824	\$ 3,735,683	\$ -	\$ 1,945,141
Mutual funds	\$ 870,352	\$ 870,352	\$ -	\$ -
Unconditional promises to give	1,818,545	-	-	1,818,545
August 31, 2017	\$ 2,688,897	\$ 870,352	\$ -	\$ 1,818,545

Fair values for mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods because the Conservatory elected that measure in accordance with *The Fair Value Option for Financial Assets and Financial Liabilities*.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
August 31, 2018 and 2017

NOTE 5 – FAIR VALUE MEASUREMENTS (continued)

Fair values for unconditional promises to give are determined by calculating the present value of the future receipts expected to be received using the average industry borrowing rate and an allowance for uncollectible promises. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques and historical discount rates. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's ability to fulfill the pledge. These considerations are incorporated into a fair value measurement computed using present value techniques.

At August 31, 2018 and 2017, assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consisted of the following:

	2018	2017
Beginning balance	\$ 1,818,545	\$ 123,390
New promises received	1,660,669	1,866,850
Collections	(1,543,738)	(155,708)
Change in fair value	9,665	(15,987)
Ending balance	\$ 1,945,141	\$ 1,818,545

The change in fair value of unconditional promises to give is included in the change in net assets within contributions on the statements of activities.

NOTE 6 – NET ASSETS

Temporarily restricted net assets at August 31, 2018 and 2017 are available for the following purposes:

	2018	2017
Conservatory Connections	\$ 7,845	\$ 43,850
Scholarships and financial aid	88,964	114,912
Velocity campaign	79,370	276,603
Performance underwriting	73,363	83,142
Subsequent years' operations	13,629	6,297
Jazz Institute	231,413	305,592
Special projects	253,452	-
Temporarily restricted net assets	\$ 748,036	\$ 830,396

Permanently restricted net assets at August 31, 2018 and 2017 consist of contributions subject to donor-imposed restrictions requiring that the principal be invested in perpetuity.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2018 and 2017

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NOTE 7 – ENDOWMENT

The Conservatory's endowment consists of the Pieper Endowment Fund held in money market and mutual funds and the Scholarship Fund, which consists of 18 individual funds held in money market and mutual funds and cash. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Conservatory has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Conservatory classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservatory in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Conservatory considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Conservatory, and (7) the Conservatory's investment policies.

*Investment Return Objectives, Risk Parameters, and Strategies.* The Conservatory has adopted investment policies for endowment assets that are directed toward long-term performance and total return, rather than specific income goals. Endowment assets include those assets of donor-restricted funds that the Conservatory must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to provide for growth of capital and produce returns to fund operations, while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the Conservatory relies on a total return strategy in which investment returns are achieved through both realized and unrealized gains/loss and interest and dividends. The Conservatory targets a diversified asset allocation that places an emphasis on equity growth and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

*Spending Policy.* The Conservatory has a policy of allowing for appropriation for distribution each year an amount equal to 4.5% of the average of the previous three years' ending market value. Over time, the Conservatory expects its endowment assets to maintain sufficient cash reserves to provide liquidity and to meet needs without loss of capital value of assets. In the Pieper Endowment Fund, the Conservatory may draw up to half of the earnings and half of the appreciation in the prior year. Any undistributed income in excess of amounts required to satisfy the spending rule shall be accumulated and added to the principal. In establishing this policy, the Conservatory expects to achieve the objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
August 31, 2018 and 2017

NOTE 7 – ENDOWMENT (continued)

Changes in endowment net assets for the years ended August 31, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - August 31, 2016	\$ (32,279)	\$ 28,714	\$ 852,517	\$ 848,952
Contributions	-	-	4,272	4,272
Interest and dividends net of fees	4,006	10,096	4,007	18,109
Net appreciation	13,625	35,450	13,625	62,700
Amounts appropriated for expenditure	(10,560)	(24,024)	-	(34,584)
Reclassification	-	(8,756)	8,756	-
Endowment net assets - August 31, 2017	(25,208)	41,480	883,177	899,449
Contributions	-	-	3,500	3,500
Interest and dividends net of fees	8,571	17,923	1,374	27,868
Net appreciation	16,637	21,415	2,660	40,712
Amounts appropriated for expenditure	-	(23,821)	-	(23,821)
Endowment net assets - August 31, 2018	<u>\$ -</u>	<u>\$ 56,997</u>	<u>\$ 890,711</u>	<u>\$ 947,708</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds fall below the level that the donor requires the Conservatory to retain as a fund of perpetual duration. Deficiencies of this nature related to the Pieper Endowment Fund as of August 31, 2017 that are reported in unrestricted net assets were \$25,208. As of August 31, 2018 the Pieper Endowment Fund is fully funded.

NOTE 8 – LINE OF CREDIT

The Conservatory has a line of credit with a bank wherein the lender will provide amounts up to \$750,000, maturing on February 15, 2019. Any unpaid principal balance bears interest at a variable rate equal to the British Bankers Association LIBOR rate plus 3.25% (4.50% at August 31, 2018). Interest expense for the years ended August 31, 2018 and 2017 was \$4,200 and \$17,101. The line of credit is collateralized by the Conservatory's building.

NOTE 9 – CONCENTRATION

The Conservatory received approximately 50% and 25% of its support from one donor during the years ended August 31, 2018 and 2017. The recognized contribution from that donor was part of a legacy gift.

**WISCONSIN CONSERVATORY OF MUSIC, INC.**  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2018 and 2017

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NOTE 10 – OPERATING LEASES

The Conservatory leases studio space and office equipment under lease agreements that expire in November 2021 and September 2022, requiring monthly payments of \$3,130 and \$494. The Conservatory also leases studio space under a month-to-month lease. Rent expense for the years ended August 31, 2018 and 2017 was \$92,677 and \$90,279.

Future minimum lease payments for the years ending August 31 are as follows:

2019	\$	44,889
2020		46,837
2021		48,883
2022		16,795
2023		494

NOTE 11 – ESTATE GIFT

The Conservatory during the year ended August 31, 2017 was named as a 20% beneficiary in an estate. Promises to give at August 31, 2018 and 2017, includes \$1,600,000 and \$1,200,000 from this estate. As of August 31, 2018, the Conservatory received a total of \$4,600,000 from this estate. The Conservatory will receive their portion of any remaining estate distributions as the estate assets are liquidated which, due to timing of notification and receipt, is approximately \$840,000 and will be recognized as revenue during the year ended August 31, 2019.