

GRAND TETON MUSIC FESTIVAL, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

GRAND TETON MUSIC FESTIVAL, INC.
DECEMBER 31, 2018 AND 2017
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Grand Teton Music Festival, Inc.
Jackson, Wyoming

Report on the Financial Statements

We have audited the accompanying financial statements of **Grand Teton Music Festival, Inc.** (a nonprofit organization), which comprise the statements of financial position as of December 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 Festival'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 Festival'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 **Grand Teton Music Festival, Inc.** as of December 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.

Emphasis of Matter – Accounting Standards Update

As discussed in Note 1 to the financial statements, in 2018, the Festival adopted Accounting Standards Update No. 2016-4, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Landmark PLC

**LANDMARK PLC
CERTIFIED PUBLIC ACCOUNTANTS**

Fort Smith, Arkansas
July 5, 2019

GRAND TETON MUSIC FESTIVAL, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 783,300	\$ 821,552
Accounts and pledges receivable	294,509	446,348
Prepaid expenses	9,299	18,258
	1,087,108	1,286,158
PROPERTY AND EQUIPMENT, NET	8,042,638	8,101,537
OTHER ASSETS		
Investments	10,504,436	11,572,303
	\$ 19,634,182	\$ 20,959,998
TOTAL ASSETS	\$ 19,634,182	\$ 20,959,998
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 24,467	\$ 61,708
Accrued scholarships	22,568	-
	47,035	61,708
NET ASSETS		
Without donor restrictions		
Undesignated	4,686,903	5,462,616
Housing property, net	2,998,845	3,080,907
Board designated	7,429,543	7,209,110
	15,115,291	15,752,633
With donor restrictions	4,471,856	5,145,657
	19,587,147	20,898,290
TOTAL LIABILITIES AND NET ASSETS	\$ 19,634,182	\$ 20,959,998

See Independent Auditor's Report and Notes to Financial Statements.

GRAND TETON MUSIC FESTIVAL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUES, GAINS AND OTHER SUPPORT			
Contributions and grants	\$ 1,310,965	\$ 514,263	\$ 1,825,228
Ticket sales	510,882	-	510,882
Gala revenue	382,446	-	382,446
Gala costs - direct benefits to donors	(32,456)	-	(32,456)
Other Festival revenue	173,721	-	173,721
Rental revenue	228,070	-	228,070
Interest revenue	351,099	-	351,099
Net realized and unrealized gains (losses) on investments	(722,033)	-	(722,033)
	<u>2,202,694</u>	<u>514,263</u>	<u>2,716,957</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of donor restrictions	<u>1,188,064</u>	<u>(1,188,064)</u>	<u>-</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>3,390,758</u>	<u>(673,801)</u>	<u>2,716,957</u>
EXPENSES			
Festival expenses	3,512,969	-	3,512,969
Housing expenses	214,718	-	214,718
Management and general	106,990	-	106,990
Fundraising	193,423	-	193,423
TOTAL EXPENSES	<u>4,028,100</u>	<u>-</u>	<u>4,028,100</u>
CHANGE IN NET ASSETS	(637,342)	(673,801)	(1,311,143)
NET ASSETS, BEGINNING OF YEAR	<u>15,752,633</u>	<u>5,145,657</u>	<u>20,898,290</u>
NET ASSETS, END OF YEAR	<u>\$ 15,115,291</u>	<u>\$ 4,471,856</u>	<u>\$ 19,587,147</u>

See Independent Auditor's Report and Notes to Financial Statements.

GRAND TETON MUSIC FESTIVAL, INC. AND AFFILIATE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUES, GAINS AND OTHER SUPPORT			
Contributions and grants	\$ 1,096,764	\$ 2,015,710	\$ 3,112,474
Ticket sales	422,825	2,755	425,580
Gala revenue	812,139	-	812,139
Gala costs - direct benefits to donors	(124,564)	-	(124,564)
Other Festival revenue	321,518	-	321,518
Rental revenue	250,021	-	250,021
Interest revenue	284,825	-	284,825
Net realized and unrealized gains (losses) on investments	832,089	-	832,089
	<u>3,895,617</u>	<u>2,018,465</u>	<u>5,914,082</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of donor restrictions	1,028,500	(1,028,500)	-
Expiration of time and purpose restriction on pledge receivable due to uncollectibility	38,862	(38,862)	-
	<u>1,067,362</u>	<u>(1,067,362)</u>	<u>-</u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>4,962,979</u>	<u>951,103</u>	<u>5,914,082</u>
EXPENSES			
Transfer to non-affiliate	2,313,446	-	2,313,446
Festival expenses	3,421,763	-	3,421,763
Housing expenses	358,110	-	358,110
Management and general	112,302	-	112,302
Fundraising	224,743	-	224,743
	<u>6,430,364</u>	<u>-</u>	<u>6,430,364</u>
TOTAL EXPENSES	<u>6,430,364</u>	<u>-</u>	<u>6,430,364</u>
CHANGE IN NET ASSETS	(1,467,385)	951,103	(516,282)
NET ASSETS, BEGINNING OF YEAR	<u>17,220,018</u>	<u>4,194,554</u>	<u>21,414,572</u>
NET ASSETS, END OF YEAR	<u>\$ 15,752,633</u>	<u>\$ 5,145,657</u>	<u>\$ 20,898,290</u>

See Independent Auditor's Report and Notes to Financial Statements.

GRAND TETON MUSIC FESTIVAL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	<u>\$ (1,311,143)</u>	<u>\$ (516,282)</u>
Adjustments to reconcile change in net assets to net cash from (used for) operating activities:		
Depreciation	306,770	362,909
Net unrealized (gains) losses on investments	721,826	(200,767)
Net realized (gains) losses on investments	207	(631,322)
Uncollectible accounts	-	12,300
Non-cash transfer to non-affiliate	-	1,872,279
Change in:		
Accounts and pledges receivable	151,839	76,310
Prepaid expenses	8,959	20,496
Accounts payable	(37,241)	15,251
Accrued scholarships	<u>22,568</u>	<u>-</u>
 Total adjustments	 <u>1,174,928</u>	 <u>1,527,456</u>
 Net Cash From (Used For) Operating Activities	 <u>(136,215)</u>	 <u>1,011,174</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(247,871)	(43,028)
Purchases of investments	(763,874)	(4,231,466)
Proceeds from sales of investments	<u>1,109,708</u>	<u>3,623,859</u>
 Net Cash From (Used For) Investing Activities	 <u>97,963</u>	 <u>(650,635)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 <u>(38,252)</u>	 <u>360,539</u>
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>821,552</u>	 <u>461,013</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 783,300</u></u>	 <u><u>\$ 821,552</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

GRAND TETON MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Grand Teton Music Festival, Inc. (the Festival) is a Wyoming non-profit corporation established to provide exhilarating musical experiences for the enjoyment, education, and personal enrichment for the residents of and visitors to Jackson Hole, Wyoming.

In August 2011, the Festival established GTMF Support Facilities, Inc. (Facilities) as a Wyoming non-profit corporation. The purpose of Facilities was to be a supporting organization for the Festival and support the Festival's mission. Facilities was to administer funds to support housing already owned and to fund the future acquisition of musician housing as outlined in the *Home on the Range* campaign. Effective January 1, 2013, certain assets and liabilities of the Festival were assumed by Facilities in conjunction with its stated mission. Facilities was converted to a private foundation by the Internal Revenue Service effective September 1, 2017 and was no longer associated with the Festival at that point. The remaining assets of Facilities were transferred to the Festival or to the Walk Family Jackson Hole Housing Fund (the resulting private foundation after the IRS conversion) in accordance with the settlement agreement. See Note 12 for further detail.

During the year ended December 31, 2017, the Festival established GTMF Housing, LLC (Housing) as a limited liability company of which the Festival is the sole member. The purpose of Housing is to own and manage certain real estate of the Festival.

Basis of Accounting and Presentation

The financial statements include the accounts of the Festival and Housing, which is a single member LLC of the Festival. These entities are collectively referred to as the Organization or Festival in these financial statements. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

The Festival's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Generally, revenues, gains and other support are recognized in the period in which they are earned. Expenses and losses are recognized in the period in which they are incurred.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows. Net assets without donor restrictions consist of assets that are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

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Recent Accounting Pronouncements

During the year ended December 31, 2018, the Festival adopted Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this ASU include: presentation of two classes of net assets versus the previously required three; recognition of capital assets for construction as a net asset without donor restrictions when associated long-lived assets is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The ASU also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation required by the newly adopted ASU No. 2016-14 in the current year financial statements.

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 reported amounts of revenues and expenses during the reporting period. In these financial statements, the estimated collection timeline of pledges receivable and the related discount to contributions involved extensive reliance on management's estimates. Actual results could differ from those estimates.

Net Assets and Contribution Revenue

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

Gifts of cash and other assets are recorded as revenue with donor restrictions if they are received with donor stipulations that will limit the use of the donated assets. Contributions are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

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The financial statements of the Festival reflect in-kind donations as revenues in the period received as assets, expenses, or decreases of liabilities, depending on the type of benefit received. Donations are measured at estimated fair market values. Donations received with donor restrictions for future periods are reported as an increase in net assets with donor restrictions.

Gifts of land, buildings, and equipment are presented as support and revenue without restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Festival reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed services which increase non-financial assets such as property or inventory, as well as services contributed by individuals with specialized skills which would have otherwise been purchased, are reported as support without donor restriction. Other contributed services that enhance the Festival's programs, but are not so essential that they would otherwise be purchased, are not recorded as support. The Board of Directors and friends of the Festival provide volunteer services. The values of these services generally do not meet the recognition criteria.

The Festival recognizes contributions received and made, including pledges receivable, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues with donor restrictions and are reclassified as net assets released from restrictions in the same year. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met.

Cash Equivalents

For purposes of the Statements of Cash Flows, the Festival considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Festival had no cash equivalents.

Accounts and Pledges Receivable

Accounts and pledges receivable and unconditional promises to give that are to be received in less than one year are recorded at face value because of their short maturity. The pledges recorded in 2018 and 2017 were not discounted as they are anticipated to be received in less than one year. The discount rates utilized are based on the risk-free rate plus an estimated discount for collectability.

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Property and Equipment

With the exception of donated assets, property and equipment is stated at cost, including any internal labor and associated costs the Festival incurs in constructing its own assets. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from two to thirty-nine years. Donated assets are recorded at the fair market value of the asset on the date of donation. Property and equipment additions exceeding \$1,000 are capitalized. The cost basis of fully depreciated property and equipment still in use by the Festival at December 31, 2018 and 2017 amounted to approximately \$2,726,000 and \$2,520,000, respectively.

Long-Lived Assets

Financial Accounting Standards Board (FASB) Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Festival's reported earnings, financial condition or cash flows.

Investment Valuation and Income Recognition

Investments received by contributions are valued at market value on the date of receipt. Investments are reported at fair value in the Statements of Financial Position, with realized and unrealized gains and losses being reflected in the Statements of Activities. 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. See Note 6 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Investment and Spending Policies

The Festival maintains permanently restricted endowments. These endowments are governed by the Festival's investment and endowment policies. See Note 5 for policy information.

Income Taxes and Uncertain Tax Positions

The Festival and Facilities qualify as organizations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar state statute and are not subject to tax at the entity level for Federal and state income tax purposes. Through August 31, 2017, Facilities is classified as a Type 1 supporting organization under 509(a)(3) of the Internal Revenue Code. Effective September 1, 2017, Facilities was converted to a private foundation by the Internal Revenue Service. See Note 12 for further detail.

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The Festival accounts for uncertain tax positions in accordance with the provisions of FASB Codification Topic *Income Taxes*. FASB Codification Topic *Income Taxes* clarifies the accounting for uncertainty in income taxes and requires the Festival to recognize in their financial statements the impact of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained under audit, based on the technical merits of the position. Management has assessed the tax positions of the Festival and determined that no positions exist that require adjustment or disclosure under the provisions of FASB Codification Topic *Income Taxes*.

The Festival files informational “Return of Organization Exempt from Income Tax” (Form 990) in the U.S. Federal jurisdiction. Form 990 for Facilities has been filed in the U.S. Federal jurisdiction through August 31, 2017.

Advertising

The Festival follows the policy of charging advertising costs, including “in-kind” donations, to expense as incurred.

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditor’s Report.

NOTE 2: FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

The Festival uses financial institutions in which it maintains cash balances, which at times may exceed federally insured limits. The Festival has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The Festival had no uninsured bank balances at December 31, 2018.

See Notes 4, 5, and 6 for other financial instruments with risk of accounting loss.

NOTE 3: PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized below:

	2018	2017
Land	\$ 93,085	\$ 93,085
Music Hall buildings and improvements	8,302,415	8,258,858
Après Vous condos	3,935,403	3,935,403
Music equipment	799,756	794,303
Office equipment and furnishings	171,304	223,454
Leasehold improvements	158,970	-
Hall furniture and fixtures	<u>237,659</u>	<u>257,540</u>
	13,698,592	13,562,643
Less accumulated depreciation	<u>5,655,954</u>	<u>5,461,106</u>
	<u>\$ 8,042,638</u>	<u>\$ 8,101,537</u>

GRAND TETON MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4: INVESTMENTS

Investments are stated at fair value. Fair value and unrealized appreciation (depreciation) at December 31, 2018 and 2017 are summarized below.

December 31, 2018	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Fixed income	\$ 5,368,535	\$ 5,320,219	\$ (48,316)
Mutual funds	3,199,719	4,324,057	1,124,338
Exchange traded funds	516,767	469,700	(47,067)
Short-term asset management fund	247,638	247,638	-
Equities	102,840	102,840	-
Accrued interest	<u>39,982</u>	<u>39,982</u>	<u>-</u>
	<u>\$ 9,475,481</u>	<u>\$ 10,504,436</u>	<u>\$ 1,028,955</u>
 December 31, 2017			
Fixed income	\$ 5,787,211	\$ 5,859,978	\$ 72,767
Mutual funds	3,029,356	4,675,658	1,646,302
Exchange traded funds	506,834	538,546	31,712
Short-term asset management fund	454,284	454,284	-
Equities	2,104	2,104	-
Accrued interest	<u>41,733</u>	<u>41,733</u>	<u>-</u>
	<u>\$ 9,821,522</u>	<u>\$ 11,572,303</u>	<u>\$ 1,750,781</u>

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31, 2018 and 2017.

	2018	2017
Interest and income	\$ 351,099	\$ 284,825
Net realized gains (losses) on investments	(207)	631,322
Net unrealized gains (losses) on investments	<u>(721,826)</u>	<u>200,767</u>
Total investment return	<u>\$ (370,934)</u>	<u>\$ 1,116,914</u>

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NOTE 5: INVESTED FUNDS AND RESTRICTED NET ASSETS

The Festival's invested funds are \$10,504,436 and \$11,572,303, respectively, at December 31, 2018 and 2017 (as described above in Note 4) and are comprised of two components – donor restricted investments and board designated investments.

To achieve its investment objectives, the Festival has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. The Festival adopted an updated policy in August 2016, which increased the fixed income target allocations by 5% and decreased the equities target allocation by 5% compared to the previous policy. Funds are invested in a well-diversified asset mix, which include objectives of mutual funds and equities ranging 40-60% with a target of 55% and fixed income investments ranging 40-60% with a target of 45%, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% of the moving average over the last twelve quarters, while growing the fund if possible. Accordingly, the Festival expects its funds, over time, to produce investment returns that will equal or exceed the sum of spending plus inflation. Actual returns in any given year may vary from that expectation.

Investment risk is measured in terms of the total invested funds. Investment assets and allocation between asset classes and strategies are managed so as not to expose the fund to unacceptable levels of risk. The State of Wyoming has adopted the Uniform Prudent Management of Institutional Funds Act, which governs charitable institutions endowment practices.

Net Assets with Donor Restrictions

As of December 31, 2018 and 2017, the Festival has one donor restricted endowment fund, The Maurice Walk Endowment Fund (MWEF), with a balance of \$2,577,274 at the end of each year. With respect to the MWEF, the Festival's investment policy states that "In 1981 Maurice Walk started the Maurice Walk Endowment Fund (MWEF) with a donor restricted gift of \$500,000. In 2014, the Board permanently fixed the principal of the MWEF at \$2,577,274. The principal is restricted and can never be spent down, however, future investment gains from the MWEF are without donor restriction and available for Festival use and any future losses reduce the funds without donor restrictions only."

At December 31, 2018 and 2017, the Walk Hall maintenance reserve fund with amounts of \$512,019 and \$535,919, respectively, is to be used for future maintenance and operating costs of Walk Hall and is included in Invested Funds.

A major gift of \$1,250,000 was received from an anonymous donor in 2017. The gift is restricted for specific time and use purposes to be utilized during 2018 through 2022 as defined in the gift agreement. The amount of \$1,250,000 was placed in a separate and distinct account when received. During the year ended December 31, 2018, \$390,000 was released from restriction. Additionally, scholarships were awarded in 2018 to recipients based on the criteria established by this restricted gift. At December 31, 2018, scholarships of \$22,568 had been awarded that had not yet been paid to the higher education organization where the recipient is or will be attending. At December

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31, 2018 and 2017, the Organization was in substantial compliance with the terms of the gift agreement.

Additionally, net assets with donor restrictions include funds that are received in advance for ticket sales and upcoming season and future project sponsorships. Additionally, the accounts and pledges receivable of the Festival are donor restricted for time and/or purpose.

Net assets with donor restrictions are summarized below:

	2018	2017
Maurice Walk endowment fund	\$ 2,577,274	\$ 2,577,274
Walk Hall maintenance reserve fund	512,019	535,919
Major gift award received for use in future years	860,000	1,250,000
Funds received for ticket sales in upcoming seasons and future project sponsorships	234,463	258,958
Accounts and pledges receivable – time and/or purpose	288,100	472,838
Grant funds – time and/or purpose	<u>-</u>	<u>50,668</u>
	<u>\$ 4,471,856</u>	<u>\$ 5,145,657</u>

During the years ended December 31, 2018 and 2017, the net assets released from restrictions were due to the satisfaction of donor restrictions from time expirations, due to expenses incurred for Walk Hall maintenance, due to concerts and activities that took place during the 2018 and 2017 seasons, and for the expenses incurred for the housing owned by Facilities (prior to August 31, 2017). These expenses included depreciation, maintenance, taxes, scholarships given, and other recurring expenses on the Après Vous and Snow King condos.

Board Designated Net Assets

The remaining invested funds of the Festival were \$7,415,143 and \$7,209,110, respectively, at December 31, 2018 and 2017, which are considered to be Board designated funds to be utilized under Board direction for the future needs of the Festival.

See below for the capital, instrument, operating and maintenance reserve funds the Board has set aside. The Housing maintenance reserve is not included in the invested funds balance but in the Housing checking account.

	2018	2017
Capital reserve (Festival)	\$ 50,000	\$ 24,000
Instrument reserve (Festival)	36,000	18,000
Operating reserve (Festival)	93,935	198,000
Maintenance reserve (Housing)	<u>14,400</u>	<u>-</u>
	<u>\$ 194,335</u>	<u>\$ 240,000</u>

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NOTE 6: FAIR VALUE MEASUREMENTS

FASB Codification Topic *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level of input that is significant to the fair value measurement of the investment.

The asset's 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 Level 1 category requires that inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in an active market that the Festival has the ability to access. For the years ended December 31, 2018 and 2017, all investments of the Festival were considered to be Level 1 and were valued at quoted market prices in active markets. Investments recorded in the Statements of Financial Position are based on the inputs to valuation techniques as follows:

Mutual Funds, Exchange Traded Funds, Bond Funds, Short-Term Asset Management Funds, Equity Funds and Equities (as applicable): Valued at the closing price reported on the active market on which the individual securities are traded.

Fixed Income: Valued at fair value by discounting the related cash flows based on current yields of similar instruments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Festival 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.

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The following table presents the Festival hierarchy for the investments measured at fair value on a recurring basis as of December 31, 2018 and 2017:

December 31, 2018	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Fixed income	\$ 5,320,219	\$ -	\$ -
Mutual funds	4,324,057	-	-
Exchange traded funds	469,700	-	-
Short-term asset management funds	247,638	-	-
Equities	102,840	-	-
Accrued interest	<u>39,982</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,504,436</u>	<u>\$ -</u>	<u>\$ -</u>

The equities amount above includes approximately \$100,000 in stocks that were donated to the Festival immediately prior to December 31, 2018. These shares were sold and converted to cash and reinvested on January 10, 2019.

December 31, 2017	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Fixed income	\$ 5,859,976	\$ -	\$ -
Mutual funds	4,675,658	-	-
Exchange traded funds	538,546	-	-
Short-term asset management funds	454,286	-	-
Equities	2,104	-	-
Accrued Interest	<u>41,733</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,572,303</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7: LEASES

The Festival leases office space under a year-to-year contract. Rental expense under the lease agreement totaled \$77,871 and \$81,203, respectively, for the years ended December 31, 2018 and 2017.

During the year ended December 31, 2018, the Festival leased a new office space under a five-year contract. The minimum lease payments under the lease are as follows:

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Year ending December 31,		
2019	\$	78,960
2020		78,960
2021		78,960
2022		78,960
2023		<u>19,740</u>
	<u>\$</u>	<u>335,580</u>

NOTE 8: EMPLOYEE BENEFIT PLAN

The Festival has a 403(b) Plan that allows all full time employees, except for seasonal employees, as defined in the plan agreement to enter the plan. The plan includes a matching feature that matches salary deferrals 100% up to 5% of the employees' pay. Matching contributions as well as employee deferrals are 100% vested immediately. The Festival may also elect to make discretionary matching contributions. The Festival contributed \$27,455 and \$26,047, respectively, to the plan for the years ended December 31, 2018 and 2017.

NOTE 9: INTENTIONS TO GIVE

The Festival has received indications of intentions to give in the form of bequests which are revocable during the donors' lifetime. Due to their uncertain nature, the Festival has not recognized an asset or contribution revenue for these intentions to give. For the years ended December 31, 2018 and 2017, the Festival has been made aware of potential bequests in the amount of approximately \$1,000,000 and \$1,165,000, respectively.

Subsequent to the year ended December 31, 2018, the Organization became aware that they are the beneficiary of a Living Trust under the terms of a proposed settlement which is anticipated to be agreed-upon in a settlement hearing during June 2019. Under the terms of the proposed settlement, the Organization would receive a 10% remainder interest in a trust whose current value is approximately \$25,000,000. Distributions to another beneficiary may be made in accordance with the trust agreement during that beneficiary's lifetime. Therefore, the Organization is not certain how much will ultimately be received from this Living Trust and no amounts have been recorded in the financial statements as of December 31, 2018.

NOTE 10: ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable represent contributions pledged and unconditional promises to give that have not been collected. The pledges are from various individuals, foundations, and business entities and by their nature represent an intent to contribute at a later date. A specific allowance for uncollectible pledges was not deemed necessary at December 31, 2018 and 2017. The pledges receivable at December 31, 2018 and 2017 are to be utilized for support of the program of the Festival. The pledges recorded in 2018 and 2017 were not discounted as they are anticipated to be received in less than one year. At December 31, 2018, pledges receivable amounted to \$294,509 and are to be collected during the year ending December 31, 2019.

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See Note 9 for detail of intentions to donate which are not recorded in pledges receivable.

NOTE 11: LINE OF CREDIT

During the year ended December 31, 2016, the Festival opened a margin loan agreement with its investment custodian, Charles Schwab, in the amount of \$300,000 and that margin loan arrangement remains available to the Festival, if needed. At December 31, 2018 and 2017, there were no outstanding balances.

NOTE 12: SETTLEMENT AND TRANSFERS

On July 30, 2015, Facilities and the Festival became involved in litigation filed by related parties in Wyoming State Court. On June 14, 2016, these related parties (the Marguerite A. Walk Private Foundation Corporation and the Maurice Walk Fine Arts Foundation – the “Plaintiffs”) filed an action in the United States Court for the District of Wyoming, seeking declaratory relief against Festival and Facilities (the “Defendants”). Plaintiffs asked the court to declare that both Defendants were bound by an alleged agreement with Plaintiffs. Festival and Facilities believed the allegations of the complaint to be without merit and vigorously contested them.

As a result of mediation conducted in 2017, the parties to the lawsuits agreed to a settlement. As part of the settlement, the Festival retained ownership of the Après Vous condos and the Plaintiffs obtained ownership of the Snow King units and will make them available to musicians during the Festival season in accordance with the terms stated in the mediation settlement. Also a result of the mediation settlement, Plaintiffs will not pay the remaining pledge receivable previously recorded by Facilities. As such, this pledge was written off as uncollectible during the ended December 31, 2016. During the year ended December 31, 2017, the Federal and State lawsuits were dismissed with prejudice.

Effective September 1, 2017, Facilities was reclassified as a private foundation by the Internal Revenue Service under the direction of the Plaintiffs and Facilities was separated from the Festival. The private foundation entity will be called the Walk Family Jackson Hole Housing Fund (WFJHHF).

Certain assets, including cash and the ownership of the Après Vous condos, that were retained by the Festival under the settlement agreement were transferred to the Festival during the year ended December 31, 2017. Transfers recorded from Facilities to the Festival during the year ended December 31, 2017 were \$3,316,428. This amount included non-cash transfers of \$3,108,543 in housing assets, net of depreciation, and cash transfers of approximately \$208,000.

Certain assets, including cash and the ownership of the Snow King units, were transferred to WFJHHF during the year ended December 31, 2017. Transfers recorded from Facilities to WFJHHF during the year ended December 31, 2017 were \$2,313,446. This amount included non-cash transfers of \$1,872,279 for the Snow King land and condos, net of depreciation, and cash transfers of approximately \$441,000.

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NOTE 13: LIQUIDITY AND AVAILABILITY OF RESOURCES

The Festival's financial assets available within one year of the Statement of Financial Position date for general expenditures are as follows:

Financial assets at December 31, 2018:

Cash and cash equivalents	\$ 783,300
Accounts and pledges receivable	266,579
Investments	10,504,436
Less:	
Maurice Walk endowment fund	2,577,274
Walk Hall maintenance reserve fund	512,019
Major gift award received for use in future years	860,000
Scholarship commitments	22,568
Board designated reserves	<u>194,335</u>
Total financial assets available within one year	<u>\$ 7,388,119</u>

As part of the Festival's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Festival manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

NOTE 14: FUNCTIONAL ALLOCATION OF EXPENSES

The Festival allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated based on the salaries and wages expensed for the program during the year. The Festival's program expenses are the expenses incurred that are directly allocated to the Festival's mission of providing music to residents and visitors of Jackson Hole, Wyoming and the expenses incurred that are directly allocated to Housing's mission of providing housing for the musicians.

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During the year ended December 31, 2018, functional expenses were incurred for:

	FESTIVAL	HOUSING	MANAGEMENT & GENERAL	FUNDRAISING	TOTAL
Advertising and promotion	\$ 413,150	\$ -	\$ -	\$ 45,906	\$ 459,056
Conferences, conventions and meetings	6,466	-	718	-	7,184
Depreciation	211,226	82,062	13,482	-	306,770
Education and outreach	70,657	-	4,156	8,313	83,126
Employee benefits	36,005	-	2,118	4,236	42,359
Festival hall and musician condos	75,562	-	-	-	75,562
Information technology	2,873	-	2,873	-	5,746
Insurance	43,718	1,488	15,011	-	60,217
Music program	123,572	-	-	-	123,572
Musician fees for services	1,335,492	-	-	-	1,335,492
Occupancy	110,199	68,471	6,482	12,965	198,117
Office expenses	79,637	-	4,685	9,369	93,691
Payroll taxes	47,556	-	2,797	5,595	55,948
Pension plan contributions	23,336	-	1,373	2,746	27,455
Professional fees	54,522	13,531	3,207	6,414	77,674
Repairs and maintenance	27,519	49,166	-	-	76,685
Salaries and wages	638,369	-	37,551	75,102	751,022
Travel	213,110	-	12,537	22,777	248,424
	<u>\$ 3,512,969</u>	<u>\$ 214,718</u>	<u>\$ 106,990</u>	<u>\$ 193,423</u>	<u>\$ 4,028,100</u>

During the year ended December 31, 2017, functional expenses were incurred for:

	FESTIVAL	HOUSING	MANAGEMENT & GENERAL	FUNDRAISING	TOTAL
Advertising and promotion	\$ 372,265	\$ -	\$ -	\$ 41,363	\$ 413,628
Conferences, conventions and meetings	5,817	-	646	-	6,463
Depreciation	213,398	148,332	13,621	-	375,351
Education and outreach	34,258	-	2,015	4,030	40,303
Employee benefits	48,957	-	2,880	5,760	57,597
Festival hall and musician condos	56,992	-	-	-	56,992
Information technology	3,551	-	3,551	-	7,102
Insurance	45,906	6,943	15,132	-	67,981
Music program	80,350	-	-	-	80,350
Musician fees for services	1,270,130	-	-	-	1,270,130
Occupancy	99,748	165,547	5,868	11,735	282,898
Office expenses	65,102	-	8,710	7,659	81,471
Payroll taxes	50,255	-	2,956	5,912	59,123
Pension plan contributions	22,139	-	1,302	2,605	26,046
Professional fees	211,018	9,859	12,413	24,826	258,116
Repairs and maintenance	14,145	27,429	-	-	41,574
Salaries and wages	625,966	-	40,708	73,643	740,317
Travel	201,766	-	2,500	47,210	251,476
	<u>\$ 3,421,763</u>	<u>\$ 358,110</u>	<u>\$ 112,302</u>	<u>\$ 224,743</u>	<u>\$ 4,116,918</u>
Transfer to non-affiliate (see Note 12)					<u>2,313,446</u>
					<u>\$ 6,430,364</u>