

Marin Shakespeare Company

Financial Statements

As of and for the year ended

October 31, 2016

with

Independent Auditors' Report

CERTIFIED PUBLIC
ACCOUNTANTS

DONALD WILSON
ALAN MARKLE
CHARLES STUCKEY
DAVID HARDESTY
DAVID BOTT
DAVID BAILEY
MICHAEL SMITH
SHIRLEY CHEN-BLUM

Independent Auditors' Report

Board of Directors
Marin Shakespeare Company
San Rafael, CA

We have audited the accompanying financial statements of Marin Shakespeare Company (a nonprofit organization), which comprise the statement of financial position as of October 31, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Marin Shakespeare Company as of October 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Marin Shakespeare Company's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wilson Markle Stuckey Hardesty & Bott

Wilson Markle Stuckey Hardesty & Bott, LLP

Larkspur, CA

December 30, 2016

Marin Shakespeare CompanyStatements of Financial Position
As of October 31, 2016 and 2015

	2016	2015
Current assets		
Cash and cash equivalents	\$ 413,995	\$ 62,373
Investment	973,982	-
Receivables	1,055,159	13,480
Prepaid expenses	10,746	9,166
Total current assets	2,453,882	85,019
Fixed assets		
Property and equipment, at cost		
Vehicles	75,035	75,035
Administrative equipment	9,807	9,103
Program equipment	65,949	61,448
Capital project - fourth street	40,610	-
Accumulated depreciation	(124,566)	(116,437)
Intangibles, at cost		
Software	38,625	38,625
Leasehold improvements	16,455	30,064
Accumulated amortization	(15,450)	(7,725)
Total fixed assets	106,465	90,113
Other assets		
Deposits	4,409	15,685
Future Fund at Marin Community Foundation	903,602	1,129,070
Total other assets	908,011	1,144,755
Total assets	<u>\$ 3,468,358</u>	<u>\$ 1,319,887</u>
Liabilities		
Accounts payable and accrued liabilities	<u>\$ 5,445</u>	<u>\$ 8,321</u>
Total liabilities	5,445	8,321
Net assets		
Unrestricted	2,295,105	1,272,733
Temporarily restricted	<u>1,167,808</u>	<u>38,833</u>
Total net assets	<u>3,462,913</u>	<u>1,311,566</u>
Total liabilities and net assets	<u>\$ 3,468,358</u>	<u>\$ 1,319,887</u>

See accompanying notes.

Marin Shakespeare Company
Statements of Activities and Changes in Net Assets
For the year ended October 31, 2016 with
Comparative totals only for the year ended October 31, 2015

	Unrestricted	Temporarily restricted	Totals 2016	Totals only 2015
Support and revenue				
Contributions	\$ 1,127,379	1,136,475	\$ 2,263,854	\$ 165,260
Foundation grants	62,680	47,000	109,680	137,452
Government grants and contracts	146,579	-	146,579	80,436
Promotional events, net	43,515	-	43,515	43,749
In-kind contributions	101,000	-	101,000	106,000
Program income	212,128	-	212,128	201,317
Tuition	81,358	-	81,358	73,801
Investment income, net	42,171	-	42,171	(4,653)
Other income	9,852	-	9,852	10,333
Net assets released from restrictions	54,500	(54,500)	-	-
Total support and revenue	1,881,162	1,128,975	3,010,137	813,695
Expenses				
Program services	641,538	-	641,538	663,576
Management and general	86,351	-	86,351	88,302
Fundraising and development	130,901	-	130,901	62,655
Total expenses	858,790	-	858,790	814,534
Change in net assets	1,022,372	1,128,975	2,151,347	(839)
Net assets, beginning of year	1,272,733	38,833	1,311,566	1,312,405
Net assets, end of year	<u>\$ 2,295,105</u>	<u>\$ 1,167,808</u>	<u>\$ 3,462,913</u>	<u>\$ 1,311,566</u>

See accompanying notes.

Marin Shakespeare Company
Statements of Functional Expenses
For the year ended October 31, 2016 with
Comparative totals only for the year ended October 31, 2015

	Program services	Management and general	Fundraising and development	Total 2016	Totals only 2015
Salaries and wages	\$ 254,339	\$ 30,454	\$ 78,287	\$ 363,081	\$ 333,391
Employee benefits	32,742	3,318	1,307	37,367	70,287
Payroll taxes	27,975	6,515	3,832	38,323	33,351
Contractors fees	61,631	7,500	44,900	114,031	87,478
Donated facilities and services	80,000	-	-	80,000	70,500
Marketing and advertising	33,426	-	-	33,426	40,096
Performance expenses	48,232	-	-	48,232	37,763
Donated products and supplies	19,000	1,000	1,000	21,000	35,500
Occupancy - rent	26,664	5,000	-	31,664	31,692
Depreciation and amortization	38,865	6,052	1,000	45,917	15,302
Postage and shipping	9,225	750	250	10,225	14,691
Bank service charges	-	8,541	-	8,541	7,598
Meals and entertainment	-	2,322	-	2,322	6,711
Supplies	700	5,978	-	6,678	6,386
Insurance	3,023	1,959	-	4,982	4,618
Telephone	1,702	775	325	2,802	3,818
Fees and licenses	1,249	565	-	1,814	3,783
Education and seminars	-	3,822	-	3,822	3,465
Dues and subscriptions	-	1,799	-	1,799	1,244
Royalties	2,764	-	-	2,764	6,860
Total expenses	<u>\$ 641,538</u>	<u>\$ 86,351</u>	<u>\$ 130,901</u>	<u>\$ 858,790</u>	<u>\$ 814,534</u>

See accompanying notes.

Marin Shakespeare Company
Statements of Cash Flows
For the year ended October 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 2,151,347	\$ (839)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	45,917	15,302
Contributions of municipal bonds	(1,000,569)	-
Loss on retirement of assets	-	3,852
Loss on sale of municipal bonds	(484)	-
Changes in operating assets and liabilities		
Receivables	(1,041,679)	286
Prepaid expenses	(1,580)	2,209
Deposits	11,276	10,192
Accounts payable and accrued liabilities	<u>(2,876)</u>	<u>8,321</u>
Cash provided by operating activities	161,352	39,323
Cash (used) provided by investing activities		
Purchases of property and equipment	(5,205)	(18,746)
Outlays for leasehold improvements	13,609	-
Retirement of leasehold improvements	(30,063)	-
Outlays for fourth street acquisition	(40,610)	-
Purchase of software	-	(38,625)
Proceeds from sale of securities	15,484	-
Gains reinvested	-	-
Proceeds from investment	<u>11,587</u>	<u>103,436</u>
Cash (used) provided by investing activities	(35,198)	46,065
Cash provided (used) by financing activities		
Decrease (increase) in Future fund at MCF	<u>225,468</u>	<u>(25,276)</u>
Cash provided (used) by financing activities	<u>225,468</u>	<u>(25,276)</u>
Net change in cash and cash equivalents	351,622	60,112
Cash and cash equivalents, beginning of year	<u>62,373</u>	<u>2,260</u>
Cash and cash equivalents, end of year	<u>\$ 413,995</u>	<u>\$ 62,373</u>

Non-cash transactions: Property and equipment with an original cost of \$18,799 was retired during the year ended October 31, 2015.

Leasehold improvements with an original cost of \$30,063 were retired during the year ended October 31, 2016.

See accompanying notes.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 1 – Description of organization

The mission of Marin Shakespeare Company (MSC) is to achieve excellence in the staging and study of Shakespearean plays, to celebrate Shakespeare, and to serve as a cultural and educational resource for the people of Marin County, the San Francisco Bay area and beyond.

MSC presents a three-play summer main stage season at the Forest Meadows Amphitheatre on the campus of Dominican University in San Rafael. Classes in acting and other theatre skills are offered to students ages five to adult year-round. Classes include Shakespeare's Stories for five to seven year olds, the Young Company for eight to twelve year olds, the Teen Touring Company, which provides free performances of a Shakespeare play at schools and senior centers, various summer performance programs for teenagers, and the summer professional actor training Intern Program. MSC provides performing arts education in public and private schools, and correctional facilities and typically presents various special events throughout the year.

Note 2 – Summary of significant accounting policies

Basis of accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Cash and cash equivalents

MSC considers all highly liquid debt instruments including time deposits and certificates of deposit with original maturities of three months or less to be cash equivalents.

Risks and concentrations

Financial instruments that potentially subject MSC to credit risk consist principally of cash on deposit and the Future Fund. MSC maintains its cash balances at one major financial institution. The balances at times may exceed federally insured limits. MSC maintains the Future Fund at a community foundation. Management believes that MSC is not exposed to any significant credit risk with respect to these accounts.

Long term investments are subject to credit and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Market risk is the inherent change in the value of an investment due to changes in conditions.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 2 – Summary of significant accounting policies (continued)

Risks and concentrations (continued)

During the year ended October 31, 2016, contributions received from one donor totaled approximately 52% of total support and revenue. No significant concentrations of support and revenue occurred during the year ended October 31, 2015.

Fair value measurements

MSC uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority.

MSC uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, MSC measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. MSC only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

MSC values all contributions at fair value when promised.

Fixed assets

Property and equipment are carried at cost, less related accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Purchases of property and equipment costing over \$1,000 are capitalized. Depreciation expense was \$8,129 and \$7,577 for the years ended October 31, 2016 and 2015, respectively. Intangibles are carried at cost, less related accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the assets. Amortization expense was \$37,788 and \$7,725 for the years ended October 31, 2016 and 2015, respectively.

Net assets

MSC records support from grants and contributions as unrestricted, temporarily restricted, or permanently restricted net assets, depending on donor or payer imposed restrictions. MSC reports restricted support as restricted revenue and as an increase in temporarily restricted net assets. When a restriction expires based on a stipulated time or accomplishment, MSC reclassifies temporarily restricted net assets as unrestricted net assets and reports it as net assets released from restrictions. MSC did not hold permanently restricted net assets at any time during the years ended October 31, 2016 and 2015.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 2 – Summary of significant accounting policies (continued)

Revenue recognition

Unconditional promises to give cash and other assets are recognized at fair value in the period the promise is made. MSC records revenues when earned and expenses when the related obligations are incurred. A significant portion of annual revenue is earned during the performance season through ticket sales. During each of years ended October 31, 2016 and 2015, MSC presented three plays during the summer season. MSC also receives income in the form of tuition for its standards-based in-school and summer programs.

In-kind donations

Donations of products, production services and facilities that would otherwise be paid for by MSC are included as a contribution to program income and are deducted as program expenses based on the estimated fair market value of the donations. These contributions are valued using Level 2 technique; the fair value is based upon what the donor would charge for the product or service if it was sold in an arm's length transaction. For the year ended October 31, 2016 such donations totaled \$101,000.

Advertising costs

Costs incurred for producing and communicating advertising are expensed when incurred. For the year ended October 31, 2016 such costs totaled \$16,146.

Functional expenses

Expenses have been charged to program or supporting service classifications based on direct expenditures incurred. Any expenditure not directly chargeable is allocated among program or service classifications based on related usage.

Income taxes

MSC has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from California bank and corporation taxes under Section 23701(d) of the California Revenue and Taxation Code. Therefore, no provision for federal or California income tax is reflected in the financial statements.

MSC has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law.

MSC files informational tax returns in the United States federal jurisdiction and the state of California. The MSC's federal informational tax returns for tax years 2012 and beyond remain subject to examination by the Internal Revenue Service.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 2 – Summary of significant accounting policies (continued)

Income taxes (continued)

MSC's California informational tax returns for tax years 2011 and beyond remain subject to examination by state tax authorities. MSC expects no change to its tax provision during the year ending October 31, 2017.

Subsequent events

Management of MSC evaluated subsequent events for recognition and disclosure through December 30, 2016, the date which these financial statements were available to be issued. MSC is actively engaged in the purchase of real estate in the city of San Rafael. MSC hopes to move its office and storage to a location outside of the director's home; an offer of \$2,066,562 has been made and accepted on commercial property that is centrally located in the downtown area and the transaction is expected to close in January 2017.

Use of estimates

MSC prepares its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures herein. Actual results could differ from those estimated.

Reclassification

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the financial statements for the year ended October 31, 2015, from which MSC derived the summarized information.

Note 3 – Investment

MSC received a contribution of municipal bonds during the year ended October 31, 2016. These bonds are being held at a national brokerage institution located in the state of Washington and are stated at fair market value (level one). Maturity dates range from two to twenty-one years.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 4 – Receivables

Receivables are recorded at fair value due to their temporary nature.

Receivables at October 31, 2016 consist of:

Accounts receivable	\$ 14,157
Refunds receivable	31,002
Grants receivable	10,000
Pledges receivable	<u>1,000,000</u>
Total receivables	<u>\$ 1,055,159</u>

Note 5 – Future Fund at Marin Community Foundation

The Future Fund consists entirely of units of a pooled investment fund (PIF) of a community foundation. MSC records the PIF at its contract value. Contract value represents the amount MSC would realize upon sale, transfer, exchange or liquidation of the investment when transacted with the investment custodian. Contract value of the units of the PIF is the MSC share of the fair value of the underlying investments, determined by the community foundation, net of certain custodial and administrative fees. MSC records interest, dividends, gains, losses and changes in contract value (unrealized appreciation and depreciation), net of custodial and administrative fees, as net investment income.

The PIF of the community foundation is subject to variance power under a Fund Agreement dated April 4, 2014. The Board of Trustees of The Marin Community Foundation shall have the power to modify any restriction or the condition on the distribution of funds for any specified charitable purposes or to a specific organization, if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the needs of the community served by the Foundation.

As of October 31, 2016, Future Fund totaled as follows:

Contract value	
PIFs	\$903,602

The community foundation that holds the PIF invests the funds of MSC in its "Expendable Pool." The Expendable Pool policy index consists of the Enhanced Cash (60%), Equity (30%), and Fixed Income (10%).

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 6 – Net investment income

During the year ended October 31, 2016, net investment income from all sources totaled as follows:

Dividends and interest	\$ 49,405
Unrealized appreciation on investments carried at other than fair value	1,626
Realized loss on sale of municipal bonds	(484)
Investment management and administrative fees	<u>(8,376)</u>
Net investment income	<u>\$ 42,171</u>

Note 7 – Endowment funds

MSC follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds" and the related state of California version of the UPMIFA (CA-UPMIFA).

Endowment funds subject to FASB ASC 958-205 include all the endowment funds described below. As of October 31, 2016, no endowment funds are subject to the CA-UPMIFA.

The endowment funds of MSC consist of one individual fund held by a community foundation. The endowment funds of MSC include only funds designated by the Board of Directors to function as endowments. As required by US-GAAP, MSC classifies and records net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, based on the existence or absence of donor-imposed restrictions.

The Board of Directors of MSC has interpreted the CA-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. Because of this interpretation, MSC classifies as permanently restricted net assets the original value of gifts contributed to the permanent endowment, the original value of subsequent gifts to the permanent endowment and 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.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 7 – Endowment funds (continued)

The remaining portion of the donor-restricted endowment fund that MSC does not classify as permanently restricted net assets MSC classifies as temporarily restricted net assets until the Board of Directors of MSC appropriates those amounts for expenditure by MSC in a manner consistent with the standard of prudence prescribed by CA-UPMIFA. In accordance with CA-UPMIFA, MSC considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds and incorporating the limitation under California state law of appropriations to seven percent of the fair value of the endowment funds

As of October 31, 2016, endowment funds totaled as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Board designated	<u>\$ 903,602</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 903,602</u>

During the year ended October 31 2016, endowment funds reconciled as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Beginning of year	\$ 1,129,070	\$ —	\$ —	\$ 1,103,794
Board designations	—	—	—	—
Dividends and interest	19,685	—	—	19,685
Realized gain	—	—	—	—
Unrealized appreciation	13,212	—	—	13,212
Authorized expenditures	(250,000)	—	—	(250,000)
Investment management and administrative fees	(8,365)	—	—	(8,365)
End of year	<u>\$ 903,602</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 903,602</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or CA-UPMIFA requires MSC to retain as a fund of perpetual duration. In accordance with US-GAAP, MSC records deficiencies of this nature in unrestricted net assets. Deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for programs that the Board of Directors deems prudent. There were no such deficiencies as of October 31, 2016.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2016

Note 7 – Endowment funds (continued)

MSC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that MSC must hold in perpetuity or for donor-specified periods as well as board-designated funds.

The investment policy of MSC provides for diversification, preservation of capital and risk aversion. The long-term financial goal for MSC investments is to provide a relatively stable stream of spendable revenue that increases over time at least as fast as the general rate of inflation, as measured by the Consumer Price Index. The long-term investment objective for MSC investments is to maximize long-term real (i.e., after inflation) total returns (i.e., yield plus capital appreciation) while moderating fundamental investment risks.

In addition, the endowment assets held by the community foundation are subject to the investment policy of the community foundation. The spending policy of MSC incorporates CA-UPMIFA and consists of a spending rate, approved by the board of directors annually, to the average fair value of endowment assets over the past three years. The spending rate should provide, to the extent practical, a steady stream of income from year to year, consistent with the need to preserve the endowment fund and taking into account the factors incorporated in CA-UPMIFA. Furthermore, the endowment assets held by the community foundation are subject to the “Spending Rule” of the community foundation. Unrestricted (board designated) endowment funds are subject to re-designation at any time, including re-designation as other than endowment funds.

Note 8 – Leasehold improvements

In 2008, MSC retained an architect to draft a conceptual plan for the renovation of its Dominican University venue in coordination with the plans for the construction of an adjacent athletic facility. This joint project has been rejected by the University, thus the entirety of the conceptual plan has been expensed during the year ended October 31, 2016.

MSC has entered into a twenty-four year lease with Dominican University that provides a fixed rent of \$16,500 for the first three years with negotiation pending for the remaining period of the contract. Leasehold improvements are allowed, but will not be reimbursed by the University. The contract also stipulates that early termination of the contract caused by the University will provide MSC with recourse as to the reimbursement for improvements that it has made that are not removable.