

Marin Shakespeare Company

Financial Statements

As of and for the year ended

October 31, 2018

with

Independent Auditors' Report



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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, 2018, 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.

Auditors' 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

WMB², LLP

WMB², LLP
Larkspur, CA
February 15, 2019

Marin Shakespeare Company
Statements of Financial Position
As of October 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 429,768 | \$ 354,017 |
| Accounts receivable | 49,778 | 52,262 |
| Pledges receivable, net of \$5,845 discount | 233,922 | - |
| Prepaid expenses | <u>13,555</u> | <u>5,930</u> |
| Total current assets | 727,023 | 412,209 |
| Fixed assets | | |
| Property and equipment, at cost | | |
| Land | 1,000,000 | 1,000,000 |
| Building and improvements | 1,320,866 | 1,320,866 |
| Vehicles | 15,143 | 75,035 |
| Administrative equipment | 11,758 | 10,357 |
| Program equipment | 75,027 | 71,402 |
| Leasehold improvements - Forest Meadows | 168,182 | 23,888 |
| Accumulated depreciation | (149,378) | (160,921) |
| Intangibles, at cost | | |
| Software | 38,625 | 38,625 |
| Accumulated amortization | <u>(30,900)</u> | <u>(23,175)</u> |
| Total fixed assets, net | 2,449,323 | 2,356,077 |
| Other assets | | |
| Deposits | 26,328 | 30,834 |
| Investments held by Marin Community Foundation | <u>1,562,454</u> | <u>1,217,460</u> |
| Total other assets | <u>1,588,782</u> | <u>1,248,294</u> |
| Total assets | <u><u>\$ 4,765,128</u></u> | <u><u>\$ 4,016,580</u></u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 13,533 | \$ 60,218 |
| Grant advances | <u>8,660</u> | <u>-</u> |
| Total liabilities | 22,193 | 60,218 |
| Net assets | | |
| Unrestricted | 3,958,347 | 3,633,068 |
| Temporarily restricted | <u>784,588</u> | <u>323,294</u> |
| Total net assets | <u>4,742,935</u> | <u>3,956,362</u> |
| Total liabilities and net assets | <u><u>\$ 4,765,128</u></u> | <u><u>\$ 4,016,580</u></u> |

See accompanying notes.

Marin Shakespeare Company
Statements of Activities and Changes in Net Assets
For the year ended October 31, 2018 with
Comparative totals only for the year ended October 31, 2017

| | Unrestricted | Temporarily restricted | Totals 2018 | Totals only 2017 |
|---------------------------------------|-------------------------|---------------------------|-------------------------|-------------------------|
| Support and revenue | | | | |
| Contributions | \$ 123,170 | - | \$ 123,170 | \$ 457,598 |
| Foundation grants | 103,500 | - | 103,500 | 110,200 |
| Government grants | 74,510 | - | 74,510 | 51,030 |
| Government contracts | 510,917 | - | 510,917 | 440,895 |
| Fundraising, net | 46,893 | 760,945 | 807,838 | 37,132 |
| In-kind contributions | 112,000 | - | 112,000 | 138,000 |
| Program income | 149,745 | - | 149,745 | 213,157 |
| Tuition | 85,494 | - | 85,494 | 102,870 |
| Investment income, net | 4,111 | - | 4,111 | 130,763 |
| Other income | 19,740 | - | 19,740 | 10,087 |
| Net assets released from restrictions | 299,651 | (299,651) | - | - |
| Total support and revenue | 1,529,731 | 461,294 | 1,991,025 | 1,691,732 |
| Expenses | | | | |
| Program services | 952,693 | - | 952,693 | 917,406 |
| Management and general | 161,264 | - | 161,264 | 148,567 |
| Fundraising and development | 90,496 | - | 90,496 | 132,310 |
| Total expenses | 1,204,452 | - | 1,204,452 | 1,198,283 |
| Change in net assets | 325,279 | 461,294 | 786,573 | 493,449 |
| Net assets, beginning of year | 3,633,068 | 323,294 | 3,956,362 | 3,462,913 |
| Net assets, end of year | <u>\$ 3,958,347</u> | <u>\$ 784,588</u> | <u>\$ 4,742,935</u> | <u>\$ 3,956,362</u> |

See accompanying notes.

Marin Shakespeare Company
Statements of Functional Expenses
For the year ended October 31, 2018 with
Comparative totals only for the year ended October 31, 2017

| | Program services | Management and general | Fundraising and development | Total 2018 | Totals only 2017 |
|---------------------------------|---------------------|---------------------------|--------------------------------|---------------------|---------------------|
| Salaries and wages | \$ 517,573 | \$ 53,886 | \$ 53,886 | \$ 625,345 | \$ 465,506 |
| Employee benefits | 56,687 | 3,153 | 3,153 | 62,993 | 49,395 |
| Payroll taxes | 51,287 | 5,340 | 5,340 | 61,967 | 48,724 |
| Contractors fees | 21,391 | 50,246 | - | 71,637 | 243,357 |
| Donated facilities and services | 42,000 | - | - | 42,000 | 104,500 |
| Marketing and advertising | 34,860 | - | 8,715 | 43,575 | 39,052 |
| Performance expenses | 59,074 | - | - | 59,074 | 49,508 |
| Donated products and supplies | 58,000 | - | 12,000 | 70,000 | 33,500 |
| Building expenses | 33,797 | - | - | 33,797 | 22,909 |
| Occupancy - rent | - | 5,000 | - | 5,000 | 27,790 |
| Depreciation and amortization | 42,099 | 8,945 | - | 51,044 | 44,090 |
| Postage and shipping | - | 2,772 | 2,772 | 5,545 | 10,335 |
| Bank service charges | - | 9,945 | - | 9,945 | 9,845 |
| Meals and entertainment | 3,295 | 412 | 412 | 4,119 | 5,412 |
| Supplies | - | 9,044 | 2,261 | 11,305 | 7,778 |
| Insurance | 2,689 | 4,574 | - | 7,263 | 10,557 |
| Travel | 29,221 | 1,623 | 1,623 | 32,467 | 9,971 |
| Telephone | 334 | 2,668 | 334 | 3,336 | 3,546 |
| Fees and licenses | - | 1,293 | - | 1,293 | 4,435 |
| Education and seminars | - | 830 | - | 830 | 113 |
| Dues and subscriptions | 387 | 1,162 | - | 1,549 | 1,749 |
| Miscellaneous | - | 370 | - | 370 | 6,214 |
| Total expenses | <u>\$ 952,693</u> | <u>\$ 161,264</u> | <u>\$ 90,496</u> | <u>\$ 1,204,452</u> | <u>\$ 1,198,283</u> |

See accompanying notes.

Marin Shakespeare Company
Statements of Cash Flows
For the year ended October 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|--------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 786,573 | \$ 493,449 |
| Adjustments to reconcile change in net assets to cash provided by operating activities: | | |
| Depreciation and amortization | 51,044 | 44,090 |
| Gain on sale of municipal bonds | - | (26,879) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 2,484 | 1,002,897 |
| Pledges receivable | (233,922) | - |
| Prepaid expenses | (7,625) | 4,816 |
| Deposits | 4,506 | (26,425) |
| Accounts payable and accrued liabilities | (46,681) | 54,773 |
| Grant advances | <u>8,660</u> | <u>-</u> |
| Cash provided by operating activities | 565,039 | 1,546,721 |
| Cash used by investing activities | | |
| Purchases of property and equipment | - | (2,286,269) |
| Outlays for leasehold improvements | (144,294) | (7,433) |
| Proceeds from sale of securities | - | 1,962,521 |
| Gains reinvested | - | 26,879 |
| Proceeds from investment | - | (988,539) |
| Increase in investments held at MCF | <u>(344,994)</u> | <u>(313,858)</u> |
| Cash used by investing activities | <u>(489,288)</u> | <u>(1,606,699)</u> |
| Net change in cash and cash equivalents | 75,751 | (59,978) |
| Cash and cash equivalents, beginning of year | <u>354,017</u> | <u>413,995</u> |
| Cash and cash equivalents, end of year | <u>\$ 429,768</u> | <u>\$ 354,017</u> |

Non cash transactions: Fully depreciated vehicles of \$54,866 were removed from the books during the year ended October 31, 2018.

See accompanying notes.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 1 – Description of organization

With Shakespeare as their endless inspiration, Marin Shakespeare Company's (MSC), mission is to serve as a vibrant catalyst for cultural engagement, education and social justice to benefit 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 Investments. MSC maintains its cash balances at two major financial institutions. The balances at times may exceed federally insured limits. MSC maintains its investments at a local 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.

Accounts receivable are subject to credit risk. Collection risk is the probability that the financial condition or other circumstances of a donor or contractor may change, reducing or eliminating the subsequent collection of accounts receivable.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 2 – Summary of significant accounting policies (continued)

Risks and concentrations (continued)

MSC programs are funded significantly by government grants and contracts. The contracts are subject to annual renewal. A significant reduction in the level of contract support, if this were to occur without replacement from other revenues and support, could adversely affect the extent of MSC's programs.

During the year ended October 31, 2018, government grants and contracts totaled 29% of support and revenue.

During the year ended October 31, 2017, contributions received from one donor totaled approximately 17% of total support and revenue and government grants and contracts totaled 27% of support and revenue.

Receivables

Receivables, all due within one year, consist principally of amounts due from various cost-reimbursement government contracts or government grants.

Allowance for uncollectible receivables

MSC uses the allowance method to account for uncollectible receivables. Under this method, MSC reviews all receivables for any problems with collectability. If MSC feels that there may be a problem with collections, an allowance is provided for the receivable. When attempts to collect a specific receivable are unsuccessful, the account is considered uncollectible and is written off against the allowance. At October 31, 2018 and 2017, MSC concluded that an allowance for doubtful accounts was not material to its financial position.

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 \$43,319 and \$36,365 for the years ended October 31, 2018 and 2017, respectively. Intangibles are carried at cost, less related accumulated amortization. Amortization is computed using the straight-line method over the shorter of the life of the lease or the estimated useful lives of the assets. Amortization expense was \$7,725 for the years ended October 31, 2018 and 2017.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 2 – Summary of significant accounting policies (continued)

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.

If a net asset is both received and released from restriction in the same period, MSC may opt not to reflect this activity on the schedule of temporarily restricted net assets. MSC did not hold permanently restricted net assets at any time during the years ended October 31, 2018 and 2017.

Grant advances

Grant advances consist of amounts advanced or drawn down under cost reimbursement grants that exceed costs incurred.

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, 2018 and 2017, 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 and government grants for contract services at correctional facilities. Revenues from contract work is invoiced and recognized after service has been rendered, revenues from standards-based instruction are recorded and recognized upon receipt.

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 for the product or service if it was sold in an arm's length transaction.

Advertising costs

Costs incurred for producing and communicating advertising are expensed when incurred. For the year ended October 31, 2018 and 2017, such costs totaled \$19,143 and \$18,546, respectively.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 2 – Summary of significant accounting policies (continued)

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 estimate of labor costs as determined by management.

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 2014 and beyond remain subject to examination by the Internal Revenue Service.

MSC's California informational tax returns for tax years 2013 and beyond remain subject to examination by state tax authorities. MSC expects no change to its tax provision during the year ending October 31, 2019.

Subsequent events

Management of MSC evaluated subsequent events for recognition and disclosure through February 15, 2019, the date which these financial statements were available to be issued, and concluded that no material subsequent events have occurred since October 31, 2018 that required recognition or disclosure in these financial statements.

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.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 2 – Summary of significant accounting policies (continued)

Comparative totals

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, 2017, from which MSC derived the summarized information.

Note 3 – Cash and cash equivalents

MSC combines operating cash and restricted cash on the Statement of Financial position. Cash that is restricted for capital improvements totals \$156,925. The balance of \$272,843 is available for general operations.

Note 4 – Pledges receivable

Unconditional promises to give are recorded at fair value using a discount rate of 2.5%. No allowance for uncollectible pledges receivable has been recognized.

Pledges receivable at October 31 are:

| | |
|-------|------------------|
| 2019 | \$124,765 |
| 2020 | 102,815 |
| 2021 | <u>6,342</u> |
| Total | <u>\$233,922</u> |

Note 5 – Property and equipment

During the year ended October 31, 2017, MSC purchased and placed into service a building located on Fourth Street in downtown San Rafael. The building is intended to house a theater as well as storage for the props and costumes, however, this will require renovation and time.

Currently the building is being utilized for storage and classrooms and is occasionally rented out to third parties. The allocation of the purchase price to land and building for purposes of depreciation was 45:55 as this was the value assessed by the County of Marin.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 5 – Property and equipment (continued)

Renovation costs on the Forest Meadows Amphitheatre are being capitalized as leasehold improvements and amortization of the asset will begin upon use.

Note 6 – Investments held by Marin Community Foundation

The Investments held by Marin Community Foundation (MCF) are held in two separate funds, The Future Fund and The Capital Projects Fund. Both of these funds 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, 2018 and 2017, Investments held by MCF totaled as follows:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|--------------------|--------------------|
| Contract value | | |
| PIFs – Future Fund | \$1,074,931 | \$ 967,460 |
| PIFs – Capital Projects Fund | <u>487,523</u> | <u>250,000</u> |
| Total PIFs | <u>\$1,562,454</u> | <u>\$1,217,460</u> |

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 7 – The Brebner Artistic Endowment Fund

MSC is the sole beneficiary of the Brebner Artistic Endowment Fund, a trust established in 2001. The purpose of the Fund is to provide support to or for artistic excellence as defined by the Marin Shakespeare Company. The trustees, Marin Community Foundation, have sole discretion as to the management, investment and distribution of the Fund's assets.

Since MSC does not have direct control over the assets in the fund and has not been designated as remainder man, the Fund's assets are not included in these financial statements. As of October 31, 2018 and 2017, the fund held assets of \$155,085 and \$163,314, respectively.

The Fund contributed \$6,687 and \$6,946 to MSC during the years ended October 31, 2018 and 2017, respectively.

Note 8 – 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, 2018, 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.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 8 – Endowment funds (continued)

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.

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, 2018, endowment funds totaled as follows:

| | <u>Unrestricted</u> | Temporarily <u>restricted</u> | Permanently <u>restricted</u> | <u>Totals</u> |
|------------------|---------------------|----------------------------------|----------------------------------|---------------------|
| Board designated | \$ <u>1,074,931</u> | <u>\$487,523</u> | <u>\$ —</u> | <u>\$ 1,562,454</u> |

During the year ended October 31 2018, endowment funds reconciled as follows:

| | <u>Unrestricted</u> | Temporarily <u>restricted</u> | Permanently <u>restricted</u> | <u>Totals</u> |
|--|---------------------|----------------------------------|----------------------------------|---------------------|
| Beginning of year | \$ 967,460 | \$ 250,000 | \$ — | \$ 1,217,460 |
| Board designations | 102,500 | 387,937 | — | 490,437 |
| Dividends and interest | 17,743 | 2,836 | — | 20,579 |
| Realized gain | — | — | — | — |
| Unrealized depreciation | (5,932) | (1,736) | — | (7,668) |
| Authorized expenditures | — | (150,000) | — | — |
| Investment management and administrative fees | (<u>6,840</u>) | (<u>1,514</u>) | <u>—</u> | (<u>8,354</u>) |
| End of year | \$ <u>1,074,931</u> | <u>\$ 487,523</u> | <u>\$ —</u> | <u>\$ 1,562,454</u> |

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 8 – Endowment funds (continued)

As of October 31, 2017, endowment funds totaled as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Totals</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board designated | <u>\$ 967,460</u> | <u>\$250,000</u> | <u>\$ —</u> | <u>\$ 1,217,460</u> |

During the year ended October 31 2017, endowment funds reconciled as follows:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Totals</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Beginning of year | \$ 903,602 | \$ — | \$ — | \$ 903,602 |
| Board designations | — | 250,000 | — | 250,000 |
| Dividends and interest | 12,415 | — | — | 12,415 |
| Realized gain | — | — | — | — |
| Unrealized appreciation | 57,512 | — | — | 57,512 |
| Authorized expenditures | — | — | — | — |
| Investment management and administrative fees | (6,069) | — | — | (6,069) |
| End of year | <u>\$ 967,460</u> | <u>\$ 250,000</u> | <u>\$ —</u> | <u>\$ 1,217,460</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, 2018.

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.

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 8 – Endowment funds (continued)

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 9 – Net investment income

During the years ended October 31, 2018 and 2017, net investment income from all sources totaled as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|------------------|
| Dividends and interest | \$ 20,604 | \$ 37,933 |
| Unrealized appreciation (depreciation) on investments carried at other than fair value | (7,667) | 73,300 |
| Realized gain on sale of municipal bonds | – | 26,879 |
| Investment management and administrative fees | <u>(8,826)</u> | <u>(7,349)</u> |
| Net investment income | <u>\$ 4,111</u> | <u>\$130,763</u> |

Marin Shakespeare Company
Notes to the Financial Statements
October 31, 2018

Note 10 – Temporarily restricted net assets

As of October 31, 2018 the balance consists of the following:

| | October 31 2017 | 2018 Additions | 2018 Releases | October 31 2018 |
|---|--------------------|-------------------|------------------|--------------------|
| <u>Program Restrictions</u> | | | | |
| Education Programs | \$ 41,333 | \$ - | \$ (10,000) | \$ 31,333 |
| Capital Campaign | 281,961 | 760,945 | (289,651) | 753,255 |
| Total temporarily restricted net assets | \$ 323,294 | \$ 760,945 | \$ (299,651) | \$ 784,588 |

As of October 31, 2017 the balance consists of the following:

| | October 31 2016 | 2017 Additions | 2017 Releases | October 31 2017 |
|---|--------------------|-------------------|------------------|--------------------|
| <u>Program Restrictions</u> | | | | |
| Education Programs | \$ 31,333 | \$ 10,000 | \$ - | \$ 41,333 |
| Capital Campaign | 1,136,475 | 320,716 | (1,175,230) | 281,961 |
| Total temporarily restricted net assets | \$ 1,167,808 | \$ 330,716 | \$ (1,175,230) | \$ 323,294 |

Note 11 – Commitments and contingencies

MSC leases the Forest Meadows Amphitheater at Dominican University of San Rafael under an annual operating lease that expires December 31, 2040. The lease provides a fixed rent of \$16,500 for the first three years with potential adjustment for the remaining period of the contract. As of October 31, 2018, there have been no increases or adjustments. 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. A security deposit is refunded at the end of each performance season. Other short term leased venues utilized throughout the year include Marin Art & Garden Center and the Marin Tennis Club.

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Note 11 – Commitments and contingencies (continued)

Minimum future rental payments due during October 31:

| | |
|-------|-----------------|
| 2019 | \$16,500 |
| 2020 | 16,500 |
| 2021 | 16,500 |
| 2022 | 16,500 |
| 2023 | <u>16,500</u> |
| Total | <u>\$82,500</u> |

Occupancy expense for performances and instruction for the years ended October 31, 2018 and 2017 was \$22,530 and \$22,790 respectively. Occupancy expense for office space for the years ended October 31, 2018 and 2017 was \$5,000. The office space is located in the managing director's home.

MSC is a member of the Actors' Equity Association (AEA), an association of non-profit regional theatres. AEA represents its members in both a collective bargaining and an administrative capacity. Since MSC often employs production staff that are AEA members, they are required by AEA to maintain a deposit account that holds an annually stipulated bond.

These funds are held as insurance for guaranteed payment to production staff as provided by contract. Management of MSC believes they are in compliance with the current bond requirement of AEA.

The balance held on deposit by AEA for the year ended October 31, 2018 was \$24,105.

MSC is conducting a capital campaign with the goal of raising \$4 million dollars for the improvement of the amphitheater and for the renovation of the Fourth Street building. Costs associated with the campaign are being expensed as incurred. Costs associated with improvements to the Dominican site and Fourth Street are being capitalized and will be amortized or depreciated upon completion.

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Note 12 – Scholarships

Through the generosity of donors, MSC is able to offer financial assistance to individuals, prisons and schools that are unable to otherwise afford the cost of the drama instruction workshops. For the years ended October 31, 2018 and 2017, MSC was able to provide instruction without remuneration (scholarship funding) with a value of \$625,070 and \$578,460, respectively.

Note 13 – Fundraising events

MSC holds one promotional event annually, tours to the Ashland Oregon Shakespeare Festival. The income derived from this special event is presented net of direct donor benefit expenses. A summary of the activity during the year is as follows:

| | <u>2018</u> | <u>2017</u> |
|------------------|------------------|------------------|
| Income | \$ 133,405 | \$ 129,609 |
| Expenses | <u>(86,512)</u> | <u>(92,477)</u> |
| Net event income | <u>\$ 46,893</u> | <u>\$ 37,132</u> |

The balance of fundraising events for 2018 came from the capital campaign drive. Summary of the activity is as follows:

| | |
|---------------------|-------------------|
| Income | \$ 871,117 |
| Expenses | <u>(110,172)</u> |
| Net campaign income | <u>\$ 760,945</u> |

Note 14 – Contributed goods and services

The organization received donated goods and services during the years ended October 31, 2018 and 2017 with a fair market value of \$70,000 and \$92,000, respectively. Professional services included advertising, sanitation, dry cleaning, electrical and architecture. The majority of these services were for the benefit of the programs. In addition, the value of donated facilities for performances and actors for the year ended October 31, 2018 and 2017 was \$42,000 and \$46,000, respectively.

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Note 15 – Related parties

The Managing Director has several family members that are affiliated with the organization. Her husband, Robert Currier, is employed as the acting artistic director, both of her sons, Nathaniel and Jackson Currier and her daughter-in-law, Luisa, are employed by the organization in several different capacities. All are paid positions and compensation is commensurate with the local prevailing rates. Remuneration received by Robert, Nathaniel, Jackson and Luisa totaled \$98,621 and \$96,368 during the years ended October 31, 2018 and 2017, respectively. No payables or receivables are outstanding from any of the related parties as of October 31, 2018 or 2017.