

Marin Shakespeare Company

Financial Statements

For the year ended October 31, 2019

with

Report of Independent Auditors



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Report of Independent Auditors

To the Board of Directors
Marin Shakespeare Company

We have audited the accompanying financial statements of the Marin Shakespeare Company, which comprise the statements of financial position as of October 31, 2019, 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; 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. 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 the Marin Shakespeare Company as of October 31, 2019, 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 financial statements of the Marin Shakespeare Company as of and for the year ended October 31, 2018, and in our report dated February 15, 2019, we expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

WMB², LLP

WMB², LLP
Larkspur, California
July 31, 2020

MARIN SHAKESPEARE COMPANY
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2019 AND 2018

	Assets	
	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 802,081	\$ 429,768
Receivables:		
Accounts receivable	94,910	49,778
Pledges receivable	138,384	127,883
Prepaid expenses	<u>17,451</u>	<u>13,555</u>
Total current assets	<u>1,052,826</u>	<u>620,984</u>
Property and equipment		
Property, and equipment, net of accumulated depreciation of \$232,046 and \$180,278 in 2019 and 2018	2,480,006	2,449,323
Other noncurrent assets		
Investments held by Marin Community Foundation	1,998,046	1,562,454
Pledges receivable, long term	6,342	106,039
Deposits	<u>22,588</u>	<u>26,328</u>
Total noncurrent assets	<u>4,506,982</u>	<u>4,144,144</u>
Total assets	<u><u>\$ 5,559,808</u></u>	<u><u>\$ 4,765,128</u></u>
	Liabilities and Net assets	
Current liabilities		
Accounts payable and accrued expenses	\$ 18,818	\$ 13,533
Deferred revenue	<u>125,928</u>	<u>8,660</u>
Total current liabilities	<u>144,746</u>	<u>22,193</u>
Total liabilities	<u>144,746</u>	<u>22,193</u>
Net assets		
Without donor restrictions	3,911,777	3,958,347
With donor restrictions	<u>1,503,285</u>	<u>784,588</u>
Total net assets	<u>5,415,062</u>	<u>4,742,935</u>
Total liabilities and net assets	<u><u>\$ 5,559,808</u></u>	<u><u>\$ 4,765,128</u></u>

See accompanying notes.

MARIN SHAKESPEARE COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2019
AND COMPARATIVE TOTALS FOR 2018

	Without donor restrictions	With donor restrictions	2019 Totals	2018 Totals only
Support and revenue				
Contributions	\$ 136,257	\$ 527,513	\$ 663,770	\$ 994,287
Foundation grants	33,200	159,000	192,200	103,500
Government grants	-	222,020	222,020	154,991
Government contracts	545,488	-	545,488	430,436
In-kind contributions	112,000	-	112,000	112,000
Special events, net	41,001	-	41,001	46,893
Program income	257,419	-	257,419	133,409
Concession sales, net	20,977	-	20,977	5,002
Tuition	80,698	-	80,698	85,494
Rental income	16,131	-	16,131	11,816
Other income	12,295	-	12,295	7,924
Net investment return	40,544	20,984	61,528	4,111
Net assets released from restrictions	399,538	(399,538)	-	-
Total support and other revenue	1,695,548	529,979	2,225,527	2,089,863
Expenses				
Program services	1,224,805	-	1,224,805	941,359
Management and general	220,640	-	220,640	161,264
Fundraising	107,955	-	107,955	200,667
Total expenses	1,553,400	-	1,553,400	1,303,290
Change in net assets	142,148	529,979	672,127	786,573
Transfer to donor restrictions	(188,718)	188,718	-	-
Net assets, beginning of year	3,958,347	784,588	4,742,935	3,956,362
Net assets, end of year	<u>\$ 3,911,777</u>	<u>\$ 1,503,285</u>	<u>\$ 5,415,062</u>	<u>\$ 4,742,935</u>

See accompanying notes.

MARIN SHAKESPEARE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
AND COMPARATIVE TOTALS FOR 2018

	Program	Supporting Services			
	Total				
	Program	Management		2019	2018
	Services	and General	Fundraising	Totals	Totals only
Salaries	\$ 664,944	\$ 117,144	\$ 33,333	\$ 815,421	\$ 625,345
Payroll taxes	61,458	10,735	2,533	74,726	61,967
Employee benefits	67,378	11,736	2,575	81,689	62,993
Bank fees	-	13,644	-	13,644	9,945
Depreciation and amortization	44,331	7,437	-	51,768	51,044
Dues and subscriptions	1,358	450	-	1,808	1,549
Education and seminars	-	7,903	-	7,903	830
Fees and licenses	-	1,445	-	1,445	1,293
Donated goods and services	58,000	-	12,000	70,000	70,000
Donated use of facilities	42,000	-	-	42,000	42,000
Insurance	9,436	2,938	-	12,374	7,263
Marketing and advertising	42,504	-	1,864	44,368	39,929
Miscellaneous expenses	3,621	-	283	3,904	368
Occupancy	32,287	16,014	-	48,301	69,663
Office expenses	-	9,414	462	9,876	11,305
Performance expenses	53,636	-	-	53,636	23,856
Postage and shipping	12,702	171	1,096	13,969	5,545
Professional fees	83,914	19,496	51,876	155,286	181,809
Travel	47,236	2,113	1,933	51,282	36,586
	<u>\$ 1,224,805</u>	<u>\$ 220,640</u>	<u>\$ 107,955</u>	<u>\$ 1,553,400</u>	<u>\$ 1,303,290</u>

See accompanying notes.

MARIN SHAKESPEARE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 672,127	\$ 786,573
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	51,768	51,044
Unrealized (gain) loss on investments	(39,859)	7,667
(Increase) decrease in assets:		
Receivables	44,064	(231,438)
Prepaid expenses	(3,896)	(7,625)
Deposits	3,740	4,506
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,285	(46,681)
Deferred revenue	117,268	8,660
Cash provided by operating activities	850,497	572,706
Cash flows from investing activities		
Change in investments held by Marin Community Foundation	(395,733)	(352,661)
Purchases of property and equipment	(82,451)	(144,294)
Cash used for investing activities	(478,184)	(496,955)
Increase in cash and cash equivalents	372,313	75,751
Cash and cash equivalents, beginning of year	429,768	354,017
Cash and cash equivalents, end of year	<u>\$ 802,081</u>	<u>\$ 429,768</u>

See accompanying notes.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 1 – Description of organization

The Marin Shakespeare Company (MSC) is a non-profit California corporation. With Shakespeare as their endless inspiration, Marin Shakespeare Company's 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

MSC prepared the accompanying financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under the accrual basis of accounting, contributions are recognized when promised, revenues are recognized when earned and expenses are recognized when incurred.

Net assets

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 – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 2 – Summary of significant accounting policies (continued)

Net assets (continued)

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Fair value

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.

Cash and cash equivalents

Cash and cash equivalents consist principally of amounts on deposit with commercial banks. MSC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables

Accounts receivable, all due within one year, consist principally of amounts due from various cost-reimbursement government grants and contracts.

Pledges receivable consist of unconditional donor promises to give.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 2 – Summary of significant accounting policies (continued)

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, it provides for an allowance for the receivable. When attempts to collect a specific receivable are unsuccessful, MSC considers the account uncollectible and writes it off against the allowance. As of October 31, 2019 and 2018, management of MSC concluded that an allowance for uncollectible accounts was not material to the financial position of MSC.

Property and equipment

Property and equipment consist of land, building and improvements, leasehold improvements and equipment. MSC records purchased property and equipment at cost. MSC records donated property and equipment at fair value. MSC computes depreciation on property and equipment using the straight-line method over estimated useful lives ranging from five years for equipment to thirty-nine years for real property. MSC generally capitalizes expenditures of \$1,000 or more. Repairs and maintenance are charged to expense as incurred.

Deferred revenue

Advance payments from grants and contracts are classified as deferred revenue and recognized as revenue once earned.

Revenue

Government grants and contracts are conditional cost-reimbursement contracts at correctional facilities. MSC does not recognize support from these contracts until it fulfills the conditions, generally by expending costs and performing services to accomplish the requirements of the contracts.

MSC earns revenue from its various programs. MSC recognizes program revenue when the related program occurs. A significant portion of program revenue is earned during the performance season through ticket sales. Tuition income for its standards-based in-school and summer programs are recognized when the school or summer session ends. Payments received prior to the events are included in deferred revenue.

For rental income, MSC recognizes revenue when the event takes place.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 2 – Summary of significant accounting policies (continued)

Contributed goods and services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services are recognized when received if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Special events

Special events revenue, net of direct donor benefit costs, is recognized when the fundraising event takes place.

Advertising expenses

The costs of advertising are expensed as incurred. Advertising expenses for the years ended October 31, 2019 and 2018 totaled \$44,368 and \$39,929, respectively.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although management of MSC based these estimates on their knowledge of current events and actions they may undertake in the future, they may ultimately differ from actual results.

Income taxes

The Internal Revenue Service (IRS) and the California Franchise Tax Board (FTB) approved MSC as exempt from federal income tax under the Internal Revenue Code (IRC) Section 501(c)(3) and from California bank and corporation taxes under the California Revenue and Taxation Code Section 23701(d).

In addition, the IRS approved MSC to receive contributions that qualify for the charitable contribution deduction under the IRC Section 509(a)(1) and as a publicly supported organization as described in the IRC. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of MSC concluded that no activities of MSC jeopardized its exemption from income taxes or its classification as a "public charity", or subjected MSC to taxes on unrelated business income. Consequently, MSC did not provide for any income taxes.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 2 – Summary of significant accounting policies (continued)

Income taxes (continued)

MSC follows accounting principles generally accepted in the United States relating to the accounting for uncertainty in income taxes. Management believes that MSC has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

MSC files informational tax returns with the IRS and the FTB. Tax years 2016 to 2019 are open for examination by the IRS and years 2015 to 2019 by the FTB. MSC expects no change to its tax provisions during the year ending October 31, 2020.

Prior year totals

The columns on the accompanying financial statements captioned "Totals only" represent 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 U.S. GAAP. Accordingly, read such information in conjunction with the financial statements as of and for the year ended October 31, 2018, from which MSC derived the summarized information. MSC reclassified prior year amounts to conform to the current year presentation.

Allocation of functional expenses

MSC summarizes the costs of providing various programs and other activities on a functional basis herein. Accordingly, MSC allocated certain costs between program and supporting services based on estimates of time and usage.

Note 3 – Pledges receivable

Long-term pledges receivable are shown at present value using a discount rate of 2.5%. The discount on the pledges was \$158 and \$5,845 at October 31, 2019 and 2018, respectively.

Pledges receivable consist of the following at October 31, 2019:

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 3 – Pledges receivable (continued)

	<u>2019</u>	<u>2018</u>
Gross pledges receivable	\$ 144,884	\$ 239,767
Less: Discount to Net Present Value	<u>(158)</u>	<u>(5,845)</u>
Net pledges receivable	<u>\$ 144,726</u>	<u>\$ 233,922</u>
Amounts due in:		
Less than one year	\$ 138,384	\$ 127,883
One to five years	<u>6,342</u>	<u>106,039</u>
	<u>\$ 144,726</u>	<u>\$ 233,922</u>

Note 4 – Property and equipment

As of October 31, 2019 and 2018, property and equipment, net of accumulated depreciation, total as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,000,000	\$ 1,000,000
Building and improvements	1,320,866	1,320,866
Leasehold improvements	207,664	168,183
Equipment	<u>183,522</u>	<u>140,552</u>
Total property and equipment	2,712,052	2,629,601
Accumulated depreciation	<u>(232,046)</u>	<u>(180,278)</u>
Property and equipment, net	<u>\$ 2,480,006</u>	<u>\$ 2,449,323</u>

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 4 – Property and equipment (continued)

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.

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

Note 5 – 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. The purpose of the funds are to accept and hold contributions to provide support to or for the benefit of MSC. Both of these funds consist 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 return.

The PIF of the community foundation is subject to variance power under the Fund Agreements dated April 7, 2014 and July 13, 2017. 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

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 5 – Investments held by Marin Community Foundation (continued)

As of October 31, 2019 and 2018, investments held by MCF total as follows:

	<u>2019</u>	<u>2018</u>
Contract value		
PIFs - Future Fund	\$ 1,131,148	\$ 1,074,931
PIFs - Capital Projects Fund	<u>866,898</u>	<u>487,523</u>
	<u>\$ 1,998,046</u>	<u>\$ 1,562,454</u>

Note 6 – 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, 2019 and 2018, the fund held assets of \$160,505 and \$155,085, respectively.

The Fund contributed \$7,008 and \$6,687 to MSC during the years ended October 31, 2019 and 2018, respectively.

Note 7 – Endowment funds

MSC's endowment includes a board designated endowment fund that was created in April 2014 and a donor designated endowment fund that was created in July 2017. The primary purpose of the funds is to solicit and receive contributions, the income from which shall be used to provide support for the benefit of MSC's activities in pursuit of its mission and to defray certain operating and capital campaign expenses. The contributions and income derived from both funds are kept separately by The Marin Community Foundation. Board designated endowment funds are subject to redesignation at any time, including redesignation as other than endowment funds.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 7 – Endowment funds (continued)

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

MSC is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, therefore, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for expenditure and any purpose restrictions have been met. MSC's board has interpreted SPMIFA as requiring the maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

As a result of this interpretation, MSC would consider the fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. MSC has interpreted SPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The fund is not currently underwater.

In accordance with SPMIFA, MSC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the funds
2. The purposes of MSC and the endowment funds
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of MSC
7. The investment policy of MSC

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 funds while seeking to maintain the purchasing power of the endowment assets. The investment policy of MSC is to preserve and protect assets of the organization while earning an appropriate rate of return of each category of assets.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 7 – Endowment funds (continued)

The goals that will govern MSC's investment activities are, in order of priority:

1. Safety and preservation of principal
2. Liquidity of investments sufficient to meet cash flow requirements
3. To maximize return on investments while meeting objectives 1 and 2 above

In addition, the endowment assets held by the community foundation are subject to the investment policy of the community foundation.

As of October 31, 2019, endowment funds total as follows:

	Net assets without donor restrictions	Net assets with donor restrictions	Totals
Donor restricted	\$ -	\$ 866,898	\$ 866,898
Board designated	1,131,148	-	1,131,148
	<u>\$ 1,131,148</u>	<u>\$ 866,898</u>	<u>\$ 1,998,046</u>

The composition of endowment net assets and the changes in endowment net assets as of October 31, 2019, are as follows:

Endowment net assets, October 31, 2018	\$ 1,074,931	\$ 487,523	\$ 1,562,454
Contributions	15,689	358,360	374,049
Investment return, net	<u>40,528</u>	<u>21,015</u>	<u>61,543</u>
Endowment net assets, October 31, 2019	<u>\$ 1,131,148</u>	<u>\$ 866,898</u>	<u>\$ 1,998,046</u>

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 7 – Endowment funds (continued)

As of October 31, 2018, endowment funds total as follows:

	Net assets without donor restrictions	Net assets with donor restrictions	Totals
Donor restricted	\$ -	\$ 487,523	\$ 487,523
Board designated	1,074,931	-	1,074,931
	<u>\$ 1,074,931</u>	<u>\$ 487,523</u>	<u>\$ 1,562,454</u>

The composition of endowment net assets and the changes in endowment net assets as of October 31, 2018, are as follows:

Endowment net assets, October 31, 2017	\$ 967,460	\$ 250,000	\$ 1,217,460
Contributions	102,500	387,937	490,437
Investment return, net	4,971	(414)	4,557
Appropriations for expenditure	-	(150,000)	(150,000)
Endowment net assets, October 31, 2018	<u>\$ 1,074,931</u>	<u>\$ 487,523</u>	<u>\$ 1,562,454</u>

Note 8 – Net investment return

During the years ended year ended October 31, 2019 and 2018, net investment return from all sources reconcile as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 33,254	\$ 20,604
Unrealized appreciation (depreciation) on investments carried at other than fair value	39,859	(7,667)
Investment management and administrative fees	<u>(11,585)</u>	<u>(8,826)</u>
	<u>\$ 61,528</u>	<u>\$ 4,111</u>

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 9 – Net assets with donor restrictions

During the year ended year ended October 31, 2019, net assets with donor restrictions reconcile as follows:

	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
<u>Purpose restricted</u>				
Capital campaign	\$ 872,179	540,497	(124,575)	1,288,101
Education programs	<u>101,127</u>	<u>389,020</u>	<u>(274,963)</u>	<u>215,184</u>
Total	<u>\$ 973,306</u>	<u>\$ 929,517</u>	<u>\$ (399,538)</u>	<u>\$ 1,503,285</u>

During the year ended year ended October 31, 2018, net assets with donor restrictions reconcile as follows:

	<u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>2018</u>
<u>Purpose restricted</u>				
Capital campaign	\$ 281,961	691,151	(289,651)	683,461
Education programs	<u>41,333</u>	<u>132,851</u>	<u>(73,057)</u>	<u>101,127</u>
	323,294	824,002	(362,708)	784,588
<u>Transfer to donor restrictions</u>	<u>-</u>	<u>188,718</u>	<u>-</u>	<u>188,718</u>
Total	<u>\$ 323,294</u>	<u>\$ 1,012,720</u>	<u>\$ (362,708)</u>	<u>\$ 973,306</u>

MSC is conducting a capital campaign with the goal of raising \$6.5 million dollars. Cash and promises to give raised through the capital campaign are restricted for the improvement of the amphitheater and for the renovation of the Fourth Street building. Those restrictions are considered to expire when related expenses are incurred.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 10 – Special events

MSC holds one promotional event annually, tours to the Ashland Oregon Shakespeare Festival.

Special events for the years ended October 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Support and revenue	\$ 112,428	\$ 133,405
Direct donor-benefit costs	<u>71,427</u>	<u>86,512</u>
Special events, net	<u>\$ 41,001</u>	<u>\$ 46,893</u>

Note 11 – Contributed goods and services

For the years ended October 31, 2019 and 2018 contributed goods and services totaled \$70,000 (\$26,000 contributed goods and \$44,000 contributed services). Contributed 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 years ending October 31, 2019 and 2018 totaled \$42,000.

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 2019 and 2018, MSC was able to provide instruction without remuneration (scholarship funding) with a value of \$126,293 and \$117,792, respectively.

Note 13 – Commitments and contingencies

MSC leases the Forest Meadows Amphitheater at Dominican University of San Rafael under an 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.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 13 – Commitments and contingencies (continued)

As of October 31, 2019, 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.

Occupancy expense for performances and instruction at the Forest Meadows Amphitheater and short term venues for the years ended October 31, 2019 and 2018 was \$20,320 and \$22,530 respectively.

MSC also leases office space at the Managing Director's home under an operating lease that terminates when the Managing Director terminates employment with MSC or MSC ceases operations at premises. The Managing Director's employment contract ends June 30, 2022. The Managing Director's annual salary is set at \$100,000 for the first year with potential adjustments for the remaining period of the contract. As of October 31, 2019, there have been no adjustments.

Occupancy expense for office space at the Managing Director's home for the years ended October 31, 2019 and 2018 was \$9,000 and \$5,000, respectively.

Future minimum rental payments due under the operating leases are as follows for the years ended October 31:

2020	\$ 25,500
2021	25,500
2022	22,500
2023	16,500
2024	16,500
Thereafter	<u>264,000</u>
	<u><u>\$ 370,500</u></u>

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.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 13 – Commitments and contingencies (continued)

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, 2019 and 2018 was \$19,364 and 24,105, respectively.

Note 14 – 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 \$112,031 and \$98,621 during the years ended October 31, 2019 and 2018, respectively. No payable or receivables are outstanding from any of the related parties as of October 31, 2019 and 2018.

Note 15 – Liquidity and availability of financial assets

The following reflects MSC's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts available include donor restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside as an endowment, board designated funds that could be drawn upon if the Board of Directors approves that action. Also, included are donor restricted funds for capital campaign.

	<u>2019</u>	<u>2018</u>
Financial assets, at year-end:		
Cash and cash equivalents	\$ 802,081	\$ 429,768
Receivables	233,294	177,661
Investments	<u>1,998,046</u>	<u>1,562,454</u>
	3,033,421	2,169,883

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 15 – Liquidity and availability of financial assets (continued)

Less those unavailable for general expenditures within one year, due to:		
Deferred revenue	125,928	8,660
Board designated to maintain as an endowment	1,131,148	1,074,931
Donor restricted for capital campaign	866,898	487,523
	<u>2,123,974</u>	<u>1,571,114</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 909,447</u>	<u>\$ 598,769</u>

As part of its liquidity management, MSC invests cash in excess of daily requirements in short-term and long-term investments.

Note 16 – Risks and concentrations

Financial instruments that potentially subject MSC to credit risk consist principally of cash and cash equivalents and 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.

Investments are subject to credit, interest rate and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Interest rate risk is the risk that interest rates in the market will change relative to the interest rates earned on MSC investments. Market risk is the inherent change in the fair value of an investment due to changes in conditions. MSC manages risk to its investments by periodically reviewing investments for compliance with their investment policy and investment returns for comparability to the general market and specific investment class returns.

Receivables are subject to collection risk. Collection risk is the probability that the financial condition or other circumstances of a contractor/grantor may change, reducing or eliminating the subsequent collection of receivables.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 16 – Risks and concentrations (continued)

MSC has received support that may be subject to audit or review by the grantor agencies. Management believes that MSC has complied with all aspects of grant and contract provisions and disallowed costs, if any, would be insignificant to its financial position.

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, 2019, contributions received from one donor totaled 15% of total support and revenue and government grants and contracts totaled 34% of support and revenue. During the year ended October 31, 2018, government grants and contracts totaled 29% of support and revenue.

At October 31, 2019 and 2018, two donors and a government agency accounted for 62% and 59% of total accounts receivable.

Note 17 – Adoption of new accounting standards

Effective November 1, 2019, MSC adopted the following pronouncements:

FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not for Profit Entities*. The new pronouncement changed the presentation of certain information in the financial statements and footnote disclosures.

FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The new pronouncement establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. MSC has implemented Topic 606, Subtopic 825-10 and Topic 958 and has adjusted, if applicable, the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented. The implementation had no impact on the previously reported net assets.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 17 – Adoption of new accounting standards (continued)

FASB ASU 2016-01, *Financial Instruments (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*. This amendment requires, among other things, equity investments to be measured at fair value with changes in fair value recognized in net income.

FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions made*. The new pronouncement assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. MSC has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with implementation of ASU 2018-08.

Note 18 – Transfer to donor restrictions

During the year ended October 31, 2019, MSC noted that net assets with donor restrictions as of October 31, 2018 was understated due to a mathematical error. MSC corrected the error during the year ended October 31, 2019, by reclassifying \$188,718 from net assets without donor restrictions to net assets with donor restrictions.

Note 19 – Subsequent events

MSC evaluated subsequent events for recognition and disclosure through July 31, 2020, the date which these financial statements were available to be issued. On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

MSC's operations are heavily dependent on private and public donations from individuals, foundations, and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation is expected to depress both public and private donations as well as government funding during fiscal year 2020.

Marin Shakespeare Company
Notes to Financial Statements
October 31, 2019

Note 19 – Subsequent events (continued)

As such, this may hinder MSC's ability to advance its mission. It may also lead MSC to seek debt forbearance. As such, MSC's financial condition and liquidity may be negatively impacted for the fiscal year 2020.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on MSC's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, MSC is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.