**ORLANDO SHAKESPEARE THEATER, INC.**
**Financial Statements**
**Year Ended May 31, 2016**
**With Independent Auditors' Report**

**Orlando Shakespeare Theater, Inc.**
**May 31, 2016**

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AUDIT TAX ADVISORY

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orlando Shakespeare Theater, Inc.
Orlando, Florida

We have audited the accompanying financial statements of Orlando Shakespeare Theater, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities, 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Orlando Shakespeare Theater, Inc. as of May 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.

WithumSmith+Brown, PC

November 4, 2016

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# Orlando Shakespeare Theater, Inc.
## Statement of Financial Position
## May 31, 2016

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 840,103 |
| Investments | 864,100 |
| Accounts receivable | 192,391 |
| Inventory | 15,572 |
| Prepaid expenses | 146,813 |
| Other assets | 34 |
| Interest in building lease, net | 1,924,717 |
| Property and equipment, net | 1,922,028 |
| Cash and cash equivalents designated by the Board of Directors for long-term purposes | 99,601 |
| Total assets | $ 6,005,359 |
| **Liabilities and Net Assets** | |
| Liabilities | |
| Accounts payable and accrued expenses | $ 28,132 |
| Deferred support and revenue | 674,915 |
| Total liabilities | 703,047 |
| Net assets | |
| Unrestricted | 2,532,246 |
| Temporarily restricted | 2,170,066 |
| Permanently restricted | 600,000 |
| Total net assets | 5,302,312 |
| Total liabilities and net assets | $ 6,005,359 |

# Orlando Shakespeare Theater, Inc.
## Statement of Activities
## Year Ended May 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Support and revenue | | | | |
| Support | | | | |
| United Arts of Central Florida | | | | |
| Designated gifts | $ 363,160 | $ - | $ - | $ 363,160 |
| Allocation | 149,700 | - | - | 149,700 |
| Total United Arts of Central Florida | 512,860 | - | - | 512,860 |
| Donated materials and services | 268,159 | - | - | 268,159 |
| Fundraising | 327,217 | - | - | 327,217 |
| Corporations, foundations, and individuals | 357,278 | - | - | 357,278 |
| Corporate sponsorships | 162,300 | - | - | 162,300 |
| University of Central Florida | 165,000 | - | - | 165,000 |
| Government support | 224,667 | - | - | 224,667 |
| Net assets released from restrictions | 158,337 | (158,337) | - | - |
| Total support | 2,175,818 | (158,337) | - | 2,017,481 |
| Revenue | | | | |
| Theater admissions | 1,219,993 | - | - | 1,219,993 |
| Rental income | 219,666 | - | - | 219,666 |
| Education income | 93,765 | - | - | 93,765 |
| Interest and investment income | 442 | 1,070 | - | 1,512 |
| Other production income | 525 | - | - | 525 |
| Total revenue | 1,534,391 | 1,070 | - | 1,535,461 |
| Total support and revenue | 3,710,209 | (157,267) | - | 3,552,942 |
| Expenses | | | | |
| Program services | 2,951,392 | - | - | 2,951,392 |
| Supporting services | | | | |
| General and administrative | 384,080 | - | - | 384,080 |
| Fundraising | 281,549 | - | - | 281,549 |
| Total expenses before depreciation and amortization | 3,617,021 | - | - | 3,617,021 |
| Change in net assets before depreciation and amortization | 93,188 | (157,267) | - | (64,079) |
| Depreciation and amortization | (305,640) | - | - | (305,640) |
| Change in net assets | (212,452) | (157,267) | - | (369,719) |
| Net assets | | | | |
| Beginning of year | 2,744,698 | 2,327,333 | 600,000 | 5,672,031 |
| End of year | $ 2,532,246 | $ 2,170,066 | $ 600,000 | $ 5,302,312 |

The Notes to Financial Statements are an integral part of this statement.

# Orlando Shakespeare Theater, Inc.
# Statement of Functional Expenses
# Year Ended May 31, 2016

| | Program Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Salaries and wages | $ 1,579,041 | $ 215,028 | $ 135,551 | $ 1,929,620 |
| Production expenses | 443,041 | 3 | 6,174 | 449,218 |
| Donated professional services | 226,785 | - | - | 226,785 |
| Printing and advertising | 158,739 | 1,394 | 18,215 | 178,348 |
| Fundraising expenses | - | - | 95,278 | 95,278 |
| Payroll taxes | 96,673 | 14,390 | 9,358 | 120,421 |
| Employee benefits | 149,521 | 16,263 | 9,628 | 175,412 |
| Donated materials | 41,374 | - | - | 41,374 |
| Insurance | 39,463 | 29,542 | 367 | 69,372 |
| Supplies | 48,221 | 17,460 | - | 65,681 |
| Repairs and maintenance | 1,857 | 25,364 | - | 27,221 |
| Travel and entertainment | 31,840 | 302 | 3,540 | 35,682 |
| Postage and shipping | 17,856 | 1,048 | 1,970 | 20,874 |
| Professional services | - | 12,677 | - | 12,677 |
| Utilities | 91,246 | 27,551 | - | 118,797 |
| Telephone | 2,280 | 7,614 | - | 9,894 |
| Miscellaneous expenses | 21,835 | 7,815 | 375 | 30,025 |
| Bad debt expense | 16 | - | 1,093 | 1,109 |
| Leasing expense | 1,604 | 7,629 | - | 9,233 |
| Total expenses | $ 2,951,392 | $ 384,080 | $ 281,549 | $ 3,617,021 |

# Orlando Shakespeare Theater, Inc.
## Statement of Cash Flows
## Year Ended May 31, 2016

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ | (369,719) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | | 305,640 |
| Noncash contributions of other assets | | 4,302 |
| Gain from sale of investments | | (1,070) |
| Increase (decrease) in cash due to changes in | | |
| Accounts receivable | | (8,185) |
| Inventory | | 571 |
| Prepaid expenses | | 26,009 |
| Other current assets | | (1) |
| Accounts payable and accrued expenses | | (11,621) |
| Deferred support and revenue | | 318,669 |
| Net cash provided by operating activities | | 264,595 |
| **Cash flows from investing activities** | | |
| Change in money market | | 576,159 |
| Purchases of long-term investments | | (668,032) |
| Proceeds from sale of investments | | 89,612 |
| Purchases of property and equipment | | (41,851) |
| Net cash used in investing activities | | (44,112) |
| **Increase in cash and cash equivalents** | | 220,483 |
| **Cash and cash equivalents** | | |
| Beginning of year | | 719,221 |
| End of year | $ | 939,704 |
| **Cash and cash equivalents** | | |
| Cash and cash equivalents | $ | 840,103 |
| Cash and cash equivalents designated by Board of Directors for long-term purposes | | 99,601 |
| Total cash and cash equivalents | $ | 939,704 |

The Notes to Financial Statements are an integral part of this statement.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities**

Orlando Shakespeare Theater, Inc. (the "Organization") is a not-for-profit corporation that produces and presents theatrical performances and related educational programs. These performances and programs are funded through individual and corporate donations, governmental support, and ticket sales. The Organization includes volunteers known as the Orlando Shakespeare Festival Guild (the "Guild"). They organize fundraising events for the benefit of the Organization. The operations of the Guild are included as a component of fundraising revenue and expense in the statement of activities.

**Financial Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

**Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Investments**

The Organization's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

**Accounts Receivable**

Accounts receivable are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on various factors, including aging and the nature of particular accounts. Management has determined that no allowance for doubtful accounts is necessary at May 31, 2016. Accounts receivable are written off as a charge to the allowance for doubtful accounts when, in management's estimation, it is probable that the receivable is worthless.

**Inventory**

Inventory held in the Guild gift shop on the premises of the Organization is stated at the lower of cost or market. Cost is determined using the weighted average cost method.

**Promises to Give**

Unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due within one year are recorded at their estimated net realizable value. Unconditional promises to give due after one year are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years over which the promises are to be received.

**Property and Equipment**

Property and equipment consists of production and office equipment, vehicles, and leasehold improvements. Property and equipment in excess of $250 is capitalized and recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years for production and office equipment and vehicles and the remaining term of the lease for leasehold improvements.

**Donated Property and Equipment**

Donations of property and equipment are recorded as support at their estimated fair market value at the date of donation. Such donations are recorded as unrestricted support unless the donor has restricted the donated assets for a specific purpose. Donations of assets with explicit restriction regarding their use and contributions of cash that must be used to acquire property and equipment are recorded as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization records the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Deferred Support and Revenue**

Season ticket sales received during the year for the following season are recorded as deferred revenue on the accompanying statement of financial position. The deferred revenue is recognized in the following year as the season progresses.

**Income Taxes**

The Organization is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business. At May 31, 2016, the Organization did not incur any income tax liabilities from unrelated business income.

Accounting principles generally accepted in the United States of America prescribe requirements for the recognition of income taxes in financial statements, and the amounts recognized are affected by income tax positions taken by the Organization in its tax returns. The Organization’s status as a tax-exempt entity is defined as a tax position. While management believes it has complied with the Internal Revenue Code, the sustainability of some income tax positions taken by the Organization in its tax returns may be uncertain. There are minimum thresholds of likelihood that uncertain tax positions are required to meet before being recognized in the financial statements. Management does not believe that the Organization has any material uncertain tax positions at May 31, 2016. In the event interest and penalties were due relating to an unsustainable tax position, they would be treated as a component of income tax expense.

**Advertising**
Advertising consists primarily of television, newspaper, magazine, and billboard advertisements. All costs are expensed as incurred. Advertising expense totaled $178,348 for the year ended May 31, 2016.

**Functional Allocation of Expenses**
The costs incurred by the Organization have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services of the Organization. These allocations have been made based on consideration of time.

**Use of Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Subsequent Events**
The Organization has evaluated subsequent events through November 4, 2016, the date which the financial statements were available to be issued. Based upon this evaluation, the Organization has determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements

## 2. INVESTMENTS

Investments at May 31, 2016, consist of the following:

| | Cost | Fair Value |
|---|---|---|
| Exchange traded funds | $ 86,756 | $ 85,451 |
| Mutual funds | 795,512 | 778,649 |
| | $ 882,268 | $ 864,100 |

Investment gain for the year ended May 31, 2016, consists of the following:

| | |
|---|---|
| Interest and dividends | $ 442 |
| Realized and unrealized gains (net) | 1,070 |
| Investment income | $ 1,512 |

## 3. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820*, Fair Value Measurement and Disclosures,* provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets,
  - Quoted prices for identical or similar assets or liabilities in inactive markets,
  - Inputs other than quoted prices that are observable for the asset or liability; and
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement (including the Organization's own assumption in determining the fair value of investments).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following are descriptions of the valuation methodologies used for assets measured at fair value:

*Exchange-traded funds*: Valued at the closing price reported on the active market on which the individual funds trade.

*Mutual funds*: Valued at the daily closing prices as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of May 31, 2016:

| | |
|---|---|
| Level 1 | |
| Mutual funds | |
| Money market funds | $ 50,713 |
| Small cap funds | 54,145 |
| Large cap blend funds | 73,409 |
| Large growth funds | 229,382 |
| Real estate funds | 37,918 |
| Intermediate term bond funds | 237,739 |
| International equity funds | 95,343 |
| | 778,649 |
| Exchange traded funds | |
| Large growth funds | 85,451 |
| | $ 864,100 |

## 4. CONDITIONAL PROMISES TO GIVE

At May 31, 2016, the United Arts of Central Florida ("United Arts") received $321,554 in donations designated for the Organization. During year ended May 31, 2016, $216,922 of these donations were paid to the Organization. The balance of donations, amounting to $104,632, will be paid to the Organization during the year ending May 31, 2017. The Organization believes this promise to give is conditional based on passage of time.

## 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at May 31, 2016:

| | |
|---|---|
| Leasehold improvements | $ 3,740,744 |
| Production equipment | 624,832 |
| Office equipment | 87,602 |
| Vehicles | 2,451 |
| | 4,455,629 |
| Less accumulated depreciation | (2,533,601) |
| Total property and equipment, net | $ 1,922,028 |

Depreciation expense for property and equipment totaled $167,337 for the year ended May 31, 2016.

## 6. LINE OF CREDIT

The Organization maintains an unsecured line of credit with a bank for up to $70,000. The line of credit expires on May 13, 2017. Outstanding advances on the line are due on demand, with interest at the bank's prime rate (3.5%) payable monthly. At May 31, 2016, there was no outstanding balance on the line of credit.

## 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at May 31, 2016, held for various purpose restrictions and time restrictions, consist of the following:

| | |
|---|---|
| Interest in building lease | $ 1,924,717 |
| Cash held for purpose restrictions | 219,733 |
| Endowment earnings not appropriated for expenditures | 25,616 |
| | $ 2,170,066 |

## 8. DONATED MATERIALS AND SERVICES

The value of donated facilities, materials, and services included in the accompanying statement of activities is as follows for the year ended May 31, 2016:

| | |
|---|---|
| Creative services (donated professional services) | $ 226,785 |
| Production and advertising (donated materials) | 41,374 |
| Total donated materials and services | $ 268,159 |

## 9. LEASES

On August 1, 1999, the Organization entered into a building lease with the City of Orlando (the "City"). The lease is for a period of 30 years and calls for annual rent of $1. The Organization recorded the discounted present value of the City's contribution of the interest in the building lease at $4,149,100.

The interest in the building lease is being amortized over the term of the lease and is included as a component of depreciation and amortization expenses. The net balance of the interest in the building lease at May 31, 2016, is included in temporarily restricted net assets in the accompanying statement of financial position as follows:

| | |
|---|---|
| Interest in building lease | $ 4,149,100 |
| Less accumulated amortization | (2,224,383) |
| Total interest in building lease, net | $ 1,924,717 |

Amortization expense totaled $138,303 for the year ended May 31, 2016.

## 10. CONCENTRATIONS

**Support**

The Organization is dependent upon the University of Central Florida ("UCF"), United Arts, and contributors to the Organization through United Arts for financial support of its operations. Funding from these sources totaled $677,860 for the year ended May 31, 2016.

### Cash and Cash Equivalents

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents. The Organization places its cash with high credit quality financial institutions. At various times throughout fiscal year 2016, cash balances held at some financial institutions were in excess of federally insured limits of $250,000, or funds were invested in uninsured money market funds. The Organization's uninsured cash balance was $281,245 at May 31, 2016.

## 11. RETIREMENT PLANS

### Single-Employer Plan

The Organization sponsors a 403(b) retirement plan into which employees may contribute a portion of their income on a pre-tax basis. The Organization paid $11,499 in contributions to the plan for the year ended May 31, 2016.

### Multiemployer Plan

The Organization also contributes to a multiemployer defined benefit pension plan under the terms of a collective bargaining agreement that covers the Organization's union represented employees. The risk of participating in multiemployer plans are different from single-employer plans in the following aspects: a) assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and c) if a participating employer chooses to stop participating in some of its multiemployer plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Organization is subject to a collective bargaining agreement with the Actors' Equity Association. The current collective bargaining agreement expires February 12, 2017. The agreement requires contributions to the Equity-League Pension Trust Fund (EIN / Plan Number 13-6696817 / 001) ("Pension Fund"). At the date these financial statements were issued, Forms 5500 were not available for the plan year ending May 31, 2016; therefore, some of the following information related to the multiemployer plan is based on information obtained from the May 31, 2015, Form 5500.

The Pension Fund is a defined-benefit plan that is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). As of May 31, 2016, the fair value of the Plan's assets exceeded the liabilities, with a funded percentage of 120.8%. Plan benefits are funded by contributions from multiple employers under the collective bargaining agreement, based on gross wages for participants. The employer contribution rate for the year ended May 31, 2016, was 8% of gross wages. Company contributions to the plan amounted to $21,611 for the year ended May 31, 2016. The contributions for the year ended May 31, 2016, were less than 5% of the total contributions made by all employers.

## 12. ENDOWMENT

The Organization's endowment consists of two individual funds established for different purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's cultural endowment fund was established for the purpose of raising $360,000 for the Organization. This is part of the Board designated endowment. On July 21, 2014, this was matched in part by the state of Florida in the amount of $240,000, with a condition of the continuation of the program. The action by the state to match has created a permanently restricted asset, with an endowment totaling $600,000 in principal. The principal on this endowment will not be spent; however, income earned on the investment can be used to fund operations of the Organization.

**Interpretation of Relevant Law**

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

- The duration and preservation of the endowment fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- The investment policies of the Organization.

Endowment net asset composition by type of fund at May 31, 2016, follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 25,616 | $ 600,000 | $ 625,616 |
| Board-designed endowment funds | 99,601 | - | - | 99,601 |
| Total funds | $ 99,601 | $ 25,616 | $ 600,000 | $ 725,217 |

Changes in endowment net assets for the year ended May 31, 2016, follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 99,187 | $ 21,813 | $ 600,000 | $ 721,000 |
| Investment Income | 414 | 3,803 | - | 4,217 |
| | $ 99,601 | $ 25,616 | $ 600,000 | $ 725,217 |

**Risk Parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to preserve the fair value of the original gift as of the gift date of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is conservative and assumes a minimal level of investment risk. The Organization's goal is for its endowment fund to provide a rate of return over a market cycle (3 to 5 years) to exceed the rate of inflation (as measured by the Consumer Price Index) plus 5%.

**Strategies Employed for Achieving Objectives**

To satisfy its investment and rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on fixed asset-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Organization, at the discretion of the Board of Directors, appropriates funds to support the various programs only from the investment earnings of the endowment fund. This is consistent with the Organization's objective to preserve the fair value of the original gift as of the gift date of the endowment assets held in perpetuity or for a specified term, as applicable.

## 13. LITIGATION

The Organization is involved in litigation arising in the normal course of business. In the opinion of management, such matters will not have a material effect of the financial position of the Organization.

## 14. COMMITMENTS AND CONTINGENCIES

In December 2014, the Organization contracted with an outside vendor for the licensing and use of new point-of-sale software to be used in the Organization's operations. The Organization agreed to a five-year contract term beginning on June 1, 2015, and agreed to pay an annual licensing fee of $33,000 for the use of the software. As of May 31, 2016, the Organization has four years remaining on this contract.