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MOUNTAIN MUSICAL THEATRE COMPANY: MAKING A STATEMENT

Brian Lane, Brooke Klassen, and Vince Bruni-Bossio wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On September 1, 2014, Cathy Wiegers was preparing to meet with the board of the Mountain Musical Theatre Company (MMTC), which she chaired. Wiegers had been a fan of the MMTC for many years and was very pleased to accept the invitation to sit as board chair. MMTC’s shows had always been well reviewed, and the organization had made many important contributions to the cultural scene in Great Falls, Montana. Unfortunately, the success was superficial. Inside the organization, major problems had resulted in conflict between Wiegers and MMTC’s executive director, Carolyn Shylook. Board meetings had been thrown into disarray as a result of numerous tensions. MMTC did not have formal financial statements, and the numbers that were tracked did not make sense. Wiegers, as board chair, was mystified; she did not have enough information to know if the organization was making or losing money. She believed it was time to clean up the mess, but she feared that the results of an investigation might force MMTC to shut down.

MMTC’S BOARD

For a number of years, Shylook had taken a very active, heavy-handed approach in managing the organization and directing MMTC’s board—actions that went against best practices in corporate governance. In a well-managed organization, the board should direct the management team, not the other way around. For MMTC, the result of this misdirected leadership was a dysfunctional board that acted as if its first priority was to do whatever the executive director asked, including making significant donations. The board did not know how the organization was doing in terms of fundraising and ticket sales, and Shylook did not know either. With Wiegers as board chair, there was bound to be conflict: Wiegers understood how to run an organization that would be successful both operationally and financially, while Shylook did not.

MMTC’S FINANCIAL SITUATION

MMTC’s financial information was disorganized, and Wiegers had doubts about the organization’s financial record keeping. Wiegers did not know whether the organization was making or losing money, and it bothered her that she did not have a true understanding of its financial situation. Some investigation revealed that MMTC had not been successful in attracting large external donations, and ticket sales accounted for only about 30 per cent of costs. There were signs that MMTC was facing financial strain, but the reasons for this were not clear. It was time to figure it out. In addition to creating and analyzing financial statements for the theatre, Wiegers would also need to attend to the treatment of personal donations.

Historically, Shylook had made annual personal donations to the theatre to ensure that the not-for-profit organization could cover expenses. She used her credit card to make these donations and later wrote them off as donations from her husband’s law firm. The donations typically exceeded her MMTC salary. Along with providing years of financial support, Shylook had built a culture of autocratic decision-making within MMTC and acted almost as if she was a sole proprietor. Shylook took the initiative to recruit new board members, which enabled her to populate the board with people who were more likely to donate money and less likely to oversee the organization objectively.

Wiegers’s first board meeting as chair had been on January 24, 2015. She was surprised and concerned when Shylook took over the meeting and began to demand money from the board. Wiegers used her position as chair to remind members that the function of the board was to provide oversight, not funding. She asked Shylook to provide an accurate budget for the next meeting.

FINANCIAL STATEMENT PREPARATION

Two months passed, and Shylook had not produced the financials, so in April 2015, Wiegers recruited Nola Gregor as a new member of the MMTC board. Gregor had more than 20 years of experience as a professional accountant. Wiegers gave Gregor all of the numbers she had, and Gregor began to develop financial statements. Wiegers believed that MMTC’s most pressing priority was to understand the health of the organization from a financial perspective. Once this was done, the organization could move on to address two concerns that loomed large in Wiegers’s mind: First, she wondered whether the financials would show that MMTC was merely in a tough spot or in a worse state. Second, she wondered if it would be necessary for the board to shut the MMTC down.

Wiegers loved theatre and the MMTC, and feared that the answers to her questions would not be happy ones. As board chair, she knew that the requirements of her duty of care for the organization had to take precedence over her personal feelings. With these things in mind, Wiegers provided the information to Gregor (see Exhibit 1).

Gregor planned to prepare both a balance sheet and an income statement. She knew that a major driver for completing these exercises was to determine how much revenue and fundraising would need to increase in the 2015/16 fiscal year for MMTC to become financially stable.

Exhibit 1: MMTC Financial information (US$)

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| **Account** | **September 1, 2014 to August 30, 2015** |
| Accounts Receivable | 250 |
| Administration Expense | 18,910 |
| Artistic Team Fees | 14,009 |
| Bond Investment | 1,500 |
| Cash | - |
| Chequing and Savings (Bank Account) | −27,004 |
| Earned Revenue | 70,081 |
| Foundation Donations Revenue | 5,000 |
| Fundraising Expense | 2,101 |
| Fundraising Income | 11,231 |
| Government Funding Revenue | 79,560 |
| Interest Income | 1 |
| Marketing and Promotion Expense | 12,650 |
| Miscellaneous Revenue (Proceeds from Personal Loan) | 55 |
| Orchestral Fees | 15,600 |
| Performers’ Fees | 62,780 |
| Pre-Paid Expenses | 4,250 |
| Private Donation Revenue | 24,671 |
| Private Loan Payable | 12,000 |
| Production Expense | 72,003 |
| Production Staff Expense | 50,341 |
| Retained Earnings | −68,260 |
| Sponsorship Revenue | 18,578 |
| Unrestricted Net Assets | 20,000 |
| Wages and Salaries Payable | 15,256 |

Source: Company documents.