

2016
Financial Statements
With
Auditor's Letters

NASHVILLE SHAKESPEARE FESTIVAL

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(With Independent Auditor's Report Thereon)

NASHVILLE SHAKESPEARE FESTIVAL
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Nashville Shakespeare Festival

We have audited the accompanying financial statements of Nashville Shakespeare Festival (a nonprofit organization), which comprise the statement of financial position as of September 30, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Shakespeare Festival as of September 30, 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.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the previously issued financial statements have been restated to correct the classification of the Actors' Equity Association Equity Security from temporarily restricted to unrestricted net assets. Our opinion is not modified with respect to that matter.

Patterson Hardee & Ballentine

December 1, 2016

NASHVILLE SHAKESPEARE FESTIVAL
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2016

ASSETS

Current Assets:

Cash	\$	116,839	
Accounts receivable		32,985	
Prepaid insurance		1,408	
Total current assets			\$ 151,232

Assets Whose Use is Limited:

Cash		3,601	
Certificate of deposit		8,252	
Total assets whose use is limited			11,853

Equipment:

Equipment		42,092	
Less: accumulated depreciation		(26,618)	
Total equipment, net			15,474

Total assets			<u>\$ 178,559</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Line of credit	\$	25,000	
Accounts payable		24,598	
Deferred revenue		320	
Total current liabilities			\$ 49,918

Net Assets:

Unrestricted		128,641	
Temporarily restricted		-	
Total net assets			128,641
Total liabilities and net assets			<u>\$ 178,559</u>

NASHVILLE SHAKESPEARE FESTIVAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue:			
Public support:			
Contributions	\$ 321,924	\$ -	\$ 321,924
Total public support	<u>321,924</u>	<u>-</u>	<u>321,924</u>
Revenue:			
Grants	130,915	-	130,915
Program fees and tickets	104,406	-	104,406
In-kind donations	1,302,059	-	1,302,059
Investment and interest income	47	-	47
Net assets released from restrictions	<u>5,514</u>	<u>(5,514)</u>	<u>-</u>
Total revenue	<u>1,542,941</u>	<u>(5,514)</u>	<u>1,537,427</u>
Total public support and revenue	<u>1,864,865</u>	<u>(5,514)</u>	<u>1,859,351</u>
Expenses:			
Program services:			
Workshops and Education	44,369	-	44,369
Winter Shakespeare	581,382	-	581,382
Shakespeare in the Park	976,394	-	976,394
Other	<u>75,615</u>	<u>-</u>	<u>75,615</u>
Total program services	<u>1,677,760</u>	<u>-</u>	<u>1,677,760</u>
Supporting services:			
Management and general	71,452	-	71,452
Fundraising	<u>91,206</u>	<u>-</u>	<u>91,206</u>
Total supporting services	<u>162,658</u>	<u>-</u>	<u>162,658</u>
Total expenses	<u>1,840,418</u>	<u>-</u>	<u>1,840,418</u>
Increase (decrease) in net assets	24,447	(5,514)	18,933
Net assets - beginning of year, as previously stated	93,973	15,735	109,708
Transfer of net assets	<u>10,221</u>	<u>(10,221)</u>	<u>-</u>
Net assets - end of year	<u><u>\$ 128,641</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 128,641</u></u>

See accompanying notes to financial statements.

NASHVILLE SHAKESPEARE FESTIVAL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER, 30, 2016

	Program Services					Supporting Services		
	<u>Workshops and Education</u>	<u>Winter Shakespeare</u>	<u>Shakespeare in the Park</u>	<u>Other</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 39,575	\$ 61,937	\$ 67,865	\$ 39,706	\$ 209,083	\$ 39,410	\$ 35,200	\$ 283,693
Employee benefits and payroll taxes	3,267	17,325	5,561	9,011	35,164	8,259	4,975	48,398
Bank charges and ticket fees	323	3,375	-	-	3,698	195	2,260	6,153
Dues, subscriptions and fees	-	-	-	150	150	292	550	992
In-kind expenses	-	461,878	819,162	-	1,281,040	3,269	17,750	1,302,059
General liability and workers' compensation	-	-	-	5,107	5,107	2,635	-	7,742
Interest	-	-	-	-	-	38	-	38
Marketing and publications	163	4,605	9,835	14,728	29,331	38	10,466	39,835
Merchandising and promotional items	92	-	296	51	439	-	13,036	13,475
Miscellaneous	-	-	-	-	-	56	3	59
Productions contractors	200	26,926	40,180	700	68,006	-	-	68,006
Production costs	651	5,239	30,452	2,320	38,662	-	2,003	40,665
Postage	-	21	-	-	21	173	1,775	1,969
Professional services	-	-	-	-	-	3,450	-	3,450
Rent	-	-	2,812	3,622	6,434	2,717	2,717	11,868
Office supplies and expenses	98	76	9	-	183	3,046	44	3,273
Telephone	-	-	222	220	442	1,329	427	2,198
Total expenses before depreciation	44,369	581,382	976,394	75,615	1,677,760	64,907	91,206	1,833,873
Depreciation	-	-	-	-	-	6,545	-	6,545
Total program and supporting services	<u>\$ 44,369</u>	<u>\$ 581,382</u>	<u>\$ 976,394</u>	<u>\$ 75,615</u>	<u>\$1,677,760</u>	<u>\$ 71,452</u>	<u>\$ 91,206</u>	<u>\$ 1,840,418</u>

See accompanying notes to financial statements.

NASHVILLE SHAKESPEARE FESTIVAL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Cash Flows From Operating Activities:		
Increase in net assets	\$	18,933
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	\$	6,545
Changes in:		
Accounts receivable	(9,347)	
Prepaid insurance	755	
Assets whose use is limited	3,882	
Accounts payable	22,691	
Deferred revenue	(2,723)	
Total adjustments		21,803
Net cash provided by operating activities		40,736
Cash Flow From Investing Activities:		
Purchase of equipment	(4,717)	
Net cash used in investing activities		(4,717)
Cash Flows From Financing Activities:		
Net change in line of credit	25,000	
Net cash provided by financing activities		25,000
Net increase in cash		61,019
Cash - beginning of year		55,820
Cash - end of year	\$	116,839

SUPPLEMENTAL INFORMATION

Total interest paid for the year ending September 30, 2016, was \$38.

NASHVILLE SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - Summary of Significant Accounting Policies

a. **Nature of Activities and Program Descriptions**

The Nashville Shakespeare Festival (the "Festival") is a nonprofit organization, incorporated on September 12, 1988. The Festival's mission is to educate and entertain the Mid-South community through professional Shakespearean experiences. The Festival accomplishes its mission through unifying and enriching the community with bold, innovative and relevant productions along with empowering, participatory educational programs, setting the community standard of excellence in educational outreach and performances of Shakespeare's plays. The Festival's signature programs are Shakespeare in the Park and Winter Shakespeare. Shakespeare in the Park is an annual free, outdoor, family-friendly event attended by 12,000-15,000 people per year. Winter Shakespeare is an annual production in residence at Belmont University attended by 6,000 people per year, half of them school groups, many of which also receive in-school outreach services. The Festival produces a variety of outreach opportunities for schools, institutions, and the general public including workshops, artists in residence, and travelling performances. The major sources of our funding are grants and contributions from local and state governments, private foundations, corporations, and individuals in the Middle Tennessee area.

b. **Basis of Presentation**

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

Unrestricted net assets - Net assets which are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations which may or will be met, either by our actions and/or the passage of time. Restrictions which are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations which are maintained permanently by us. Generally, the donors of these assets permit us to use all or part of the income earned and any related investments for general or specific purposes. There are no permanently restricted net assets at September 30, 2016.

c. **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, The Festival considers all unrestricted cash, certificates of deposit and investment instruments purchased with original maturities of three months or less to be cash equivalents. At September 30, 2016, there were no cash equivalents.

d. **Accounts Receivable**

The Festival reports accounts receivable, net of an allowance for doubtful accounts, at the amount which represents management's estimate of the amount that ultimately will be realized. The Festival reviews the adequacy of its allowance for uncollectible accounts on an ongoing basis, using historical payment trends, as well as review of specific accounts, and makes adjustments in the allowance as necessary. Management determined that no allowance for doubtful accounts was necessary at September 30, 2016.

NASHVILLE SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

e. Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. The Festival does not imply time restrictions on contributions of long-lived assets. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Expenditures for props, costumes, and repairs and maintenance are charged to expense as incurred. It is The Festival's policy to capitalize purchases of fixed assets with a value of \$500 or more and have a useful life greater than one year.

The Festival retains the title to all of our long-lived assets. None of the long-lived assets were purchased with restricted assets, has been pledged as collateral or is subject to legal limitations on use or disposal.

f. Revenue Recognition

Revenue is earned primarily from donor contributions, service fees, ticket sales and from grants from the state and local government organizations and other private organizations. Cash contributions from donors are recognized when received. Revenue from service fees and ticket sales are recognized when the related programming is completed. Revenue from grants generally require the submission of reimbursement requests before funds are disbursed. Grant revenue is recognized as these expenses are incurred.

In-kind donations are recorded based on their estimated fair value at the date of donation.

g. Income Tax Status

The Festival is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and classified as an organization which is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. The Festival does not believe there are any uncertain tax positions or any unrelated business income, which would be subject to federal taxes.

h. Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

i. 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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

NASHVILLE SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 - Summary of Significant Accounting Policies (continued)

k. Advertising

Advertising is expensed as incurred. Total advertising expense for the year ended September 30, 2016, was \$39,835.

NOTE 2 - Certificate of Deposit

The Festival has a Certificate of Deposit in the amount of \$8,252 at the Actors Federal Credit Union. It bears an annual interest rate of .45% and matures May 28, 2017. See NOTE 4.

NOTE 3 - Accounts Receivable

At September 30, 2016, accounts receivable consisted of the following:

Grants receivable	\$ 20,383
Other receivable	<u>12,602</u>
	<u>\$ 32,985</u>

NOTE 4 - Assets Whose Use is Limited

The certificate of deposit and a portion of our cash, which total \$11,853, are required to be restricted for the actors' pay while a play is running by the Actor's Equity Association. After the play is concluded, the certificate of deposit and cash are released by the Actor's Equity Association.

NOTE 5 - Line of Credit

The Festival has a \$50,000 revolving line of credit with First Tennessee Bank that renews automatically every year. The revolving line of credit bears interest at a variable interest rate (7.50% at September 30, 2016), and is unsecured. The Festival owed \$25,000 under the line at September 30, 2016.

NOTE 6 - Deferred Revenue

At September 30, 2016, The Festival had deferred revenue in the amount of \$320 for presale tickets relating to events.

NOTE 7 - Leases

The Festival leases office space from Nashville Public Television under two lease agreements, which expire on December 31, 2016. The Festival may also enter into other short term leases for rehearsal or storage space. Total rent expense for the year ending September 30, 2016, was \$11,868 for the office space and storage unit and \$9,593 in production equipment rental. As of December 1, 2016, the lease for the office space has not been renewed but is expected to be renewed by December 31, 2016.

The following is a schedule of future minimum lease payments:

<u>Year Ending</u> <u>September 30,</u>	
2017	<u>\$ 2,264</u>

NASHVILLE SHAKESPEARE FESTIVAL
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 - Insurance

The Festival finances insurance premiums through a third party at an annual rate of 7.17%. The Festival made a down payment of \$1,502, and the outstanding premium of \$6,010 is payable in nine consecutive payments during the next fiscal year.

The policy period is August 20, 2016 to August 20, 2017. The Festival has not booked a prepaid insurance asset for the entire amount of the premiums and a corresponding liability for the amount of premiums financed. The right to off-set exists and The Festival has netted these two amounts in the prepaid asset. Insurance expense and interest expense will be recorded as the premium payments are made.

NOTE 9 - Concentrations

At September 30, 2016, 62% of our total receivables were due from two grantors.

NOTE 10 - In-kind Contributions

The Festival receives various in-kind gifts and donations which are recorded as revenue at fair market value and fully expensed when received. The donated goods included rental equipment, marketing items, software, building materials, and venue rentals for the performances. Donated services included advertising, public relations, legal, media production, and graphic design. The donated goods and services were used for both the winter and summer theater productions, along with professional services donated for general and administrative uses. The total amount of the revenue and expense recognized for the fiscal year was \$1,302,059. Of this amount, \$1,196,808, represents advertising slots provided by Comcast.

NOTE 11 - Prior Period Adjustment

An adjustment was made between unrestricted and temporarily restricted net assets of \$10,221 to properly classify the Actors' Equity Association Equity Security at October 1, 2015. The net effect of the restatement to net assets is \$0.

NOTE 12 - Subsequent Events

The Festival has evaluated events and transactions that occurred between September 30, 2016 and December 1, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

December 1, 2016

To the Board of Directors
of Nashville Shakespeare Festival

We have audited the financial statements of Nashville Shakespeare Festival for the year ended September 30, 2016, and have issued our report thereon dated December 1, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 10, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Nashville Shakespeare Festival are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was:

Management's estimate of the In-kind revenue and expense is based on estimated values of the goods or services donated. We evaluated the key factors and assumptions used to develop the In-kind revenue and expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure in Note 1 to the financial statements explaining the basis of allocation of functional expenses into their appropriate functional categories.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements, detected as a result of audit procedures, were corrected by management: temporarily restricted net assets, in-kind revenue and expenses, deferred revenues, cash, prepaid rent, and depreciation. In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 1, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Nashville Shakespeare Festival and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Harder & Ballentine

Nashville Shakespeare Festival
Statement of Uncorrected Misstatements
September 30, 2016

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Cause	W/P Reference	Financial Statement Effect—Amount of Over (Under) Statement of:						
				Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
Revenue from Comedy of Errors that crossed into the new FY was recognized at 9/30/16.	F	Management considered amount to be Immaterial to F/S	B-1	\$6,241	\$0	\$6,241	\$6,241	\$0	\$6,241	\$6,241
Paypal GL account is negative.	F	An entry was dated incorrectly which caused the paypal account to be negative	B-3	-\$1,156	\$0	-\$1,156	\$0	\$1,156	-\$1,156	-\$1,156
									\$0	
									\$0	
Total				\$5,085	\$0	\$5,085	\$6,241	\$1,156	\$5,085	\$5,085
Less Audit Adjustments Subsequently Booked									\$0	
Unadjusted AD—Current Year (Iron Curtain Method)				\$5,085	\$0	\$5,085	\$6,241	\$1,156	\$5,085	\$5,085
Effect of Unadjusted AD—Prior Years									\$0	
Combined Current and Prior Year AD (Rollover Method)				\$5,085	\$0	\$5,085	\$6,241	\$1,156	\$5,085	\$5,085
Financial Statement Caption Totals				\$178,559	\$49,918	\$128,641	\$1,859,351	\$1,840,418	\$18,933	\$101,309
Current Year AD as % of FS Captions (Iron Curtain Method)				2.85%	0.00%	3.95%	0.34%	0.06%	26.86%	5.02%
Current and Prior Year AD as % of FS Captions (Rollover Method)				2.85%	0.00%	3.95%	0.34%	0.06%	26.86%	5.02%

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, ☐ do ☒ do not cause the financial statements taken as a whole to be materially misstated.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

December 1, 2016

To the Board of Directors and Management of
Nashville Shakespeare Festival

In planning and performing our audit of your financial statements for the year ended September 30, 2016, we noted certain matters involving current accounting issues and other matters which are presented here for your consideration.

This letter does not affect our report dated December 1, 2016, on the financial statements of Nashville Shakespeare Festival ("the Organization"). We will review the status of these comments during our next engagement. Our comments and recommendations are intended to improve your understanding of current events which could affect your Organization's accounting policies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

Timely Bank Reconciliations

During the audit, we noted that bank statements were not reconciled to the general ledger in a timely manner and changes were being made after the original bank reconciliation. In addition, we noted that the PayPal account is not being reconciled to the general ledger. Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the company's procedures. We recommend that all of the bank accounts, including PayPal, be reconciled monthly to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanation.

Old and Outstanding Checks

The First Tennessee bank reconciliation includes checks that were outstanding at the prior year's audit date. We suggest that, at least annually, all checks dated in the prior year be moved to a liability account for control purposes and to facilitate preparation of monthly bank reconciliations. These items should be reviewed regarding whether they should be written off with appropriate stop orders placed with the bank.

Timely Deposits

Our audit testing in the area of cash receipts revealed that deposits are not being made on a timely basis. This practice opens Nashville Shakespeare Festival to the threat of a loss or theft of cash while it is on the premises. To strengthen internal controls in this area, we suggest that during times of heavy cash inflow, deposits to the bank be made on a daily basis. During periods of less cash inflow, we recommend that cash be deposited at the bank no less than once a week.

Allowance for Doubtful Accounts

We noted during our audit that there is not an established formalized policy for calculating an allowance for doubtful accounts receivable. The adequacy of the allowance should be reviewed during the year and adjusted based on the success of your collection efforts, account aging, and an overall evaluation of the accounts. This should minimize the need for a year-end adjustment of this account and improve accuracy of interim financial statements.

Administrative Issues

We have reviewed the Board Questionnaire responses and have noted there is a lack of consistency in knowledge about the Statement of Functional Expenses among board members. It is the Board's responsibility to understand and approve the policy for allocation expenses on a functional basis.

Financial Statement Review

We've noted for at least the last couple of years you have had a board member who is knowledgeable of Generally Accepted Accounting Principles. We recommend maintaining an individual on the board who can review the financials before the audit begins. This would include the notes to the financial statements and material transactions for which accounting is unusual or not obvious.

As always, thank you for your business, and please call us with any questions!

Patterson Hande & Bellentine