

AMERICAN SHAKESPEARE CENTER

FINANCIAL REPORT

September 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
American Shakespeare Center
Staunton, Virginia

We have audited the accompanying financial statements of the American Shakespeare Center (the "Center") (a nonprofit organization), which comprise the statements of financial position as of September 30, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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 Center'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 Center'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 qualified audit opinion.

Basis for Qualified Opinion

We were unable to obtain written representations from management of the Center concerning transactions after September 30, 2021, which took place under substantially different management.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of American Shakespeare Center as of September 30, 2021, 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.

Correction of an Error

As discussed in Note 13 to the financial statements, certain errors resulting in an overstatement of amounts previously reported for deferred revenue and understatement of income as of September 30, 2020 were discovered by management of the Center during the current year. Accordingly, amounts reported for deferred revenue have been restated in the 2021 financial statements now presented, and an adjustment has been made to beginning net assets as of September 30, 2021, to correct the error. Our opinion is not modified with respect to that matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the schedule of expenditures of federal awards with the inability to obtain written representations from management as noted in the “Basis for Qualified Opinion” paragraph above, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022, on our consideration of the Center’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center’s internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 29, 2022

AMERICAN SHAKESPEARE CENTER

STATEMENT OF FINANCIAL POSITION

September 30, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,046,426
Trade receivables	2,428
Grants receivable	443,314
Inventory	32,610
Prepaid expenses	36,656
	<hr/>
Total current assets	1,561,434

OTHER ASSETS

Endowment (Note 3)	89,343
Deposits	27,645
Property and equipment, net (Note 2)	2,176,198
	<hr/>
Total assets	<u><u>\$ 3,854,620</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 43,437
Accrued expenses	17,446
Deferred revenue	397,754
Current portion of long-term debt (Note 4)	94,072
	<hr/>
Total current liabilities	552,709

Long-term debt, net of current portion (Note 4)	1,449,288
	<hr/>
Total liabilities	2,001,997

NET ASSETS (DEFICIT)

Without donor restrictions	
Undesignated	1,719,077
Board designated	24,776
With donor restrictions (Note 8)	108,770
	<hr/>
Total net assets	1,852,623
	<hr/>
Total liabilities and net assets	<u><u>\$ 3,854,620</u></u>

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

AMERICAN SHAKESPEARE CENTER

STATEMENT OF ACTIVITIES

Year Ended September 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 605,448	\$ 117,543	\$ 722,991
Grants	145,500	1,540,223	1,685,723
Performance revenues			
Admissions	312,177	-	312,177
Education	158,748	-	158,748
BlkFrS TV	84,393	-	84,393
Special events, net of related expenses of \$543	12,937	-	12,937
In-kind contributions	80	-	80
Gift store sales	33,868	-	33,868
Miscellaneous	53,882	-	53,882
Interest income	69	17	86
Loss on disposal of property	(63,016)	-	(63,016)
Gain on extinguishment of debt (Note 4)	813,425	-	813,425
Net assets released from restriction (Note 9)	1,657,766	(1,657,766)	-
Total revenues, gains, and other support	3,815,277	17	3,815,294
EXPENSES			
Program services	1,566,820	-	1,566,820
Management and general	503,112	-	503,112
Fundraising	119,179	-	119,179
Total expenses	2,189,111	-	2,189,111
Change in net assets	1,626,166	17	1,626,183
NET ASSETS			
Beginning, as originally reported	1,640	108,753	110,393
Prior period adjustment (Note 13)	116,047	-	116,047
Beginning, as restated	117,687	108,753	226,440
Ending	\$ 1,743,853	\$ 108,770	\$ 1,852,623

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

AMERICAN SHAKESPEARE CENTER

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2021

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 684,799	\$ 92,231	\$ 95,440	\$ 872,470
Benefits	61,764	15,395	5,963	83,122
Payroll taxes	57,901	6,706	6,917	71,524
Rent	254,725	41,602	-	296,327
Lease/rental of equipment	9,967	2,314	-	12,281
Cost of goods sold	15,809	-	-	15,809
Maintenance	33,157	1,546	-	34,703
Utilities	74,608	23,513	-	98,121
Taxes and licenses	640	300	-	940
Insurance	48,080	12,171	1,953	62,204
Depreciation	-	122,534	-	122,534
Office	67,337	4,340	509	72,186
Advertising and publicity	37,361	5,006	-	42,367
Meals and entertainment	25,797	-	-	25,797
Bank fees	26,494	736	5,422	32,652
Interest	(5,832)	79,878	-	74,046
Royalties	267	-	-	267
Training, meetings, and travel	20,316	4,056	-	24,372
Production costs	9,268	-	-	9,268
Professional fees	138,365	89,487	994	228,846
Other	5,997	1,297	1,981	9,275
	<u>\$ 1,566,820</u>	<u>\$ 503,112</u>	<u>\$ 119,179</u>	<u>\$ 2,189,111</u>

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

AMERICAN SHAKESPEARE CENTER

STATEMENT OF CASH FLOWS

Year ended September 30, 2021

OPERATING ACTIVITIES

Change in net assets	\$ 1,626,183
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	122,534
Cash received from contributions restricted for long-term purposes	(5,000)
Loss on sale of equipment	63,016
Gain on extinguishment of debt	(813,425)
(Increase) decrease in assets:	
Trade receivables	(1,032)
Grants receivable	(434,761)
Inventory	7,623
Prepaid expenses	25,753
Increase (decrease) in liabilities:	
Accounts payable	(67,432)
Accrued expenses	(51,751)
Deferred revenue	34,493
Net cash provided by operating activities	<u>506,201</u>

INVESTING ACTIVITIES

Change in cash designated for endowment	(5,017)
Acquisition of property and equipment	(13,778)
Proceeds from sale of property	183,807
Net cash provided by investing activities	<u>165,012</u>

FINANCING ACTIVITIES

Proceeds from Paycheck Protection Program loan (Note 4)	379,525
Payments on long-term debt	(349,807)
Cash received from contributions restricted for long-term purposes	5,000
Net cash provided by financing activities	<u>34,718</u>
Net increase in cash and cash equivalents	705,931

CASH AND CASH EQUIVALENTS

Beginning	<u>340,495</u>
Ending	<u><u>\$ 1,046,426</u></u>

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u><u>\$ 74,046</u></u>
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The Notes to Financial Statements are an integral part of this statement.

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 1. Nature of Entity and Significant Accounting Policies

Organized in 1990, the American Shakespeare Center (the “Center”) illuminates the plays of Shakespeare and his contemporaries, classic and new, refreshing the individual, fostering civil discourse, and creating community in the Blackfriars Playhouse and beyond. The Center operates the Blackfriars Playhouse from its principal location in Staunton, Virginia and sends a touring company throughout the United States, performing and teaching the works of Shakespeare. Conferences, workshops, and summer programs compliment the activities at the Blackfriars Playhouse.

Basis of financial statement presentation and accounting

The financial statements of the Center have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

The accompanying financial statements present information regarding the Center’s financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The two classes are differentiated based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Net assets with donor restrictions are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Center pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

Cash and cash equivalents

The Center considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Accounts in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances in these accounts at times may exceed federally insured limits. However, the Center does not believe it is subject to any significant credit risk as a result of those deposits.

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS September 30, 2021

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Trade receivable

Receivables are stated at the amount management expects to collect from outstanding balances. Management uses the direct write-off method for uncollectible accounts. Once management has determined that an account is uncollectible, the write-off is made. No bad debt expense was recorded for the year ended September 30, 2021. At September 30, 2021, no receivables were greater than 90 days past due.

Grants receivable

The Center records grants revenue and receivable when the grants are awarded unless the grant revenues are conditional. Conditional grant revenues and receivables would be recorded when the uncertain future condition is satisfied. The Center received grants from foundations, state agencies, and the federal government for general operating support and for specific purposes. Conditional promises to give at September 30, 2021 totaled \$264,126 for the Shuttered Venue Operator Grant.

Merchandise inventory

Merchandise inventory consists primarily of books and souvenir items and is stated at the lower of cost, as determined on the average cost basis, or net realizable value. Donated inventory is recorded at fair value at the date of the gift.

Property and equipment

Property and equipment is stated at cost at date of acquisition or at fair value at the date of gift, less accumulated depreciation. Expenditures for repairs and maintenance are expensed as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Blackfriars Playhouse building	39 years
Furniture and fixtures	3-7 years
Machinery and equipment	3-7 years
Leasehold improvements	3 years

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Contributions

Contributions, including unconditional promises, are recognized as without donor restrictions or with donor restrictions, in the period the donor's commitment is received. All donor restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Amounts due to be received or paid in more than one year are discounted to their net present value. Changes in discounts are recognized as contribution revenue or expense over the period of the pledge. All pledges are deemed collectible and therefore an allowance for doubtful pledges is not considered necessary. Contributions received with donor-imposed restrictions that are met in the same year as received are recorded as revenues of the net asset without donor restrictions class. Contributions of donated noncash assets are recorded at their fair values on the date received.

Deferred revenue

Deferred revenue consists primarily of the Center's obligation to fulfill future performance commitments. Deferred revenue also includes future event fees paid by attendees and gift cards purchased by customers.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Certain amounts in the statements of activities have been allocated among functional expense categories based on the activity benefited. The Center incurs shared costs that are allocated based on the program or service benefited.

Income taxes

The Center has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section §501(c)(3) of the *Internal Revenue Code (IRC)* and is generally exempt from federal income taxes. Certain revenues may be subject to unrelated business income tax. The Center follows the provisions of accounting for uncertainty in income tax positions as required by the *Income Taxes Topic* of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. Management does not believe it is exposed to any such positions as they are defined in this guidance. The Center files Form 990 annually and Form 990-T when required.

Advertising costs

Advertising and publicity costs are expensed as incurred. Total publicity costs for the year ended September 30, 2021 were \$42,367.

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AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 1. Nature of Entity and Significant Accounting Policies (Continued)

Estimates and assumptions

The preparation of financial statements in accordance with GAAP requires the Center to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

COVID-19

In March of 2020, the World Health Organization classified the COVID-19 outbreak as a global pandemic, adversely affecting global economic activity and financial markets. The Center had closures and limited operations throughout 2021 due to COVID restrictions. Federal relief funding for theaters helped reduce the impact on the Center. There is uncertainty to the extent or length of time that COVID-19 will continue to impact revenues and operations.

Adoption of new revenue recognition standard

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The Center adopted ASU 2014-09 and all amendments as of October 1, 2020 for fiscal year 2021. Consistent with the modified retrospective adoption method, prior reporting period results remain unchanged and reported in accordance with ASC 605. As it relates to the programs provided by the Center to clients, the guidance in ASC 606 is consistent with the guidance in ASC 605; therefore, the modified retrospective approach resulted in no cumulative catch-up to net assets. Furthermore, there was no significant impact to revenues recognized, and no significant changes to the Center's related processes, systems, or internal control over financial reporting because of the new guidance.

Subsequent events

Management has evaluated subsequent events through April 29, 2022, the date the financial statements were available to be issued.

Note 2. Property and Equipment

Property and equipment consist of the following at September 30, 2021.

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 2. Property and Equipment (Continued)

Land	\$ 51,329
Building	4,268,362
Machinery and equipment	71,168
Furniture and fixtures	64,111
Leasehold improvements	<u>5,658</u>
	4,460,628
Less: accumulated depreciation	<u>(2,284,430)</u>
Net property and equipment	<u>\$ 2,176,198</u>

Note 3. Endowment

The Center's educational endowment consists of one account established to further the educational purposes of the Center. Net assets associated with the endowment fund are classified and reported based on the existence of donor-imposed restrictions for education.

The Center has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Center retains in perpetuity a) the original value of initial and subsequent gift amounts donated to the permanent endowment and b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Center in a manner consistent with the standard of prudence prescribed by SPMIFA. When the Center does appropriate amounts for expenditure, it will be based upon accumulated earnings in the funds and the educational needs of the Center. The primary objective is long-term capital appreciation and total return. The Center currently utilizes a money market account.

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

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

Endowment assets as of December 31 are summarized as follows:

Money market account	<u>\$ 89,343</u>
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(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 3. Endowment (Continued)

Endowment net asset classification by type of fund as of September 30, 2021 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 89,343	\$ 89,343

Changes in endowment net assets for the year ended September 30, 2021 are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ -	\$ 84,326	\$ 84,326
Investment return:			
Interest and dividends	-	17	17
Contributions	-	5,000	5,000
Endowment net assets, end of year	\$ -	\$ 89,343	\$ 89,343

Perpetual endowment funds that were required to be maintained in perpetuity by either explicit donor restriction or by SPMIFA was \$85,171 as of September 30, 2021. The remainder represents the portion of perpetual endowment fund subject to time or purpose restrictions.

Note 4. Long-Term Debt

The Center has a mortgage note collateralized by the Blackfriars Playhouse. The collateral consists of a first lien deed of trust on the building and any current and future improvements. The note is due November 13, 2033, and currently accrues interest at an annual rate of 5.125%. The interest rate is adjustable at five year increments, and the next potential adjustment date for the interest rate is November 2023. The balance on this note was \$1,543,360 as of September 30, 2021.

The Center obtained two unsecured loans from one of the trustees totaling \$185,000 in March and October 2019. In October 2019, the Center received a third unsecured loan from one of the trustees for \$75,000. The loans were non-interest bearing and were repaid during the year.

In April 2020, the Center obtained a Paycheck Protection Program loan for \$433,900. In March 2021, the Center obtained a second Paycheck Protection Program loan for \$379,525. The loans were forgiven on January 7, 2021 and September 17, 2021, respectively, and recognized as a gain on extinguishment of debt during the year ended September 30, 2021.

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 4. Long-Term Debt (Continued)

Future note payments are as follows:

2022	\$ 94,072
2023	98,541
2024	102,204
2025	107,071
2026	112,409
Thereafter	<u>1,029,063</u>
	<u>\$ 1,543,360</u>

Note 5. Rental Agreements

The Center holds a lease for office space with payments of \$4,263 per month. The fee for the lease includes \$758 in utility costs that are allocated to the Center. The lease expires in September 2024.

The Center leases a facility for actor and/or employee housing. The lease requires annual rate increases, and currently consists of average monthly payments of \$14,052. The lease expires in December 2022. An additional rental agreement for housing does not have an ending date and is paid month-to-month with a payment of \$1,500.

The Center leases one vehicle under an operating lease with monthly payments of \$737. The lease for the vehicle expires August 2023.

The Center leases storage space which incurs average monthly lease payments of \$1,700. The current lease expires in October 2022.

Minimum future lease payments are as follows:

2022	\$ 249,021
2023	90,617
2024	<u>42,059</u>
	<u>\$ 381,697</u>

Note 6. Donated Property and Services

The Center received \$80 of donated property and services for the year ended September 30, 2021. These in-kind donations were recorded at their estimated fair market value.

Note 7. Pension Contributions

The Center contributes funds to the Equity League Pension and Health Trust Fund (Fund) on behalf of covered actors under a contract with Actors Equity Association. Contributions amounted to \$630 for the year ended September 30, 2021.

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 8. Net Assets with Donor Restrictions

Net assets with purpose and time restrictions consist of endowment earnings net of fees and contributions receivable to be received in the future that are not designated for endowment. Net assets with donor restrictions are available for the following purposes:

Globe theater research	\$ 15,593
Touring set	3,836
Interest income on endowment	<u>4,172</u>
	<u>\$ 23,601</u>

Perpetually restricted net assets consist of all amounts restricted for endowment. Perpetually restricted net assets was \$85,171 at September 30, 2021. See Note 3 for additional detail on perpetual restriction.

Note 9. Net Assets Released from Restrictions

Net assets were released from restrictions through expenditures satisfying the following purposes:

Shuttered Venue Operator Grant	\$ 1,453,920
Purpose restrictions	<u>203,846</u>
	<u>\$ 1,657,766</u>

Note 10. Liquidity and Availability

The following table reflects the Center's financial assets as of September 30, 2021, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action. The Center considers general expenditures to be all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets:	
Cash and cash equivalents	\$ 1,135,769
Trade receivables	2,428
Grant receivables	<u>443,314</u>
Total financial assets	<u>1,581,511</u>

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 10. Liquidity and Availability (Continued)

Less those unavailable for general expenditure within one year:	
Donor-restricted endowment	\$ (89,343)
Donor-restricted funds	(19,429)
Board designated funds	<u>(24,776)</u>
Total unavailable assets	<u>(133,548)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,447,963</u>

Note 11. Revenue Recognition

The following table summarizes revenue by the Center's main sources of revenue from contracts with customers for the years ended September 30, 2021:

Performances	\$ 555,318
Gift Store	<u>33,868</u>
	<u>\$ 589,186</u>

Accounts receivable from contracts with customers were as follows:

Receivables from contracts with customers, net:	
Beginning of year	\$ 1,396
End of year	2,428

The following is a description of principal activities from which the Center generates its revenues from customers:

Performances

The performance of plays results in the satisfaction of the Center's performance obligation. Customers pay in advance and revenue is recognized as the play is completed.

Ticket prices include variable consideration for negotiated pricing agreements per customer based on contractual agreements or discounts. Management recognizes variable consideration as ticket sales are made to each customer as the variable consideration is specifically identifiable to each customer and does not require the use of estimates.

Gift store

The sale and transfer of ownership of merchandise to customers results in the satisfaction of the Center's performance obligation. Revenue is recognized at the point of sale.

(Continued)

AMERICAN SHAKESPEARE CENTER

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

Note 11. Revenue Recognition (Continued)

Use of practical expedients

The Center applies revenue recognition on a portfolio basis for each revenue stream.

Note 12. Related Party Transactions

Mary Baldwin University (MBU) and the Center have entered into an agreement under which MBU pays an annual fee of \$65,000 in order to gain access to Blackfriars Playhouse and staff to facilitate their educational programs during the academic year. This contract is renewable on an annual basis.

The Center's debt during the year included three unsecured notes payable due to a trustee which were previously described in Note 4. There was no balance outstanding at year end.

The Center is regularly supported by its officers and trustees. The Center received \$117,953 for the year ended September 30, 2021.

Note 13. Prior Period Adjustment

The Center performed a study of its previously reported deferred revenue balances and uncovered certain amounts that should have been recognized in revenue in prior years. The impact of this prior period adjustment was an increase to beginning net assets in the amount of \$116,047.

Note 14. Subsequent Accounting Pronouncements

The FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The purpose of the new standard is to provide clarity regarding the nature and valuation of contributions received in a reporting period. The standard requires separate line item presentation of contributed nonfinancial assets in the statement of activities. Additional disclosures will include qualitative information regarding the use of the assets, policies surrounding the use of such contributions, and a description of the fair value measurement process. Entities are required to adopt the standard for reporting periods beginning after June 15, 2021. Early adoption is permitted.

The FASB issued ASU 2016-02, *Leases*. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities' balance sheets. Nonpublic entities are required to adopt the new leases standard for reporting periods beginning after December 15, 2021. Early adoption is permitted.

Management has not determined the effects these new FASB Statements may have on prospective financial statements but will be assessing these changes in 2022 with the assistance of its accountants.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
American Shakespeare Center
Staunton, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of American Shakespeare Center, Inc. (the "Center") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2022.

In our report on the financial statements, our opinion on the financial statements was qualified as discussed in the "Basis for Qualified Opinion" paragraph in the report on the financial statements. We were unable to obtain written representations from management of the Center concerning transactions after September 30, 2021 through the date of our report.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-003 to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

Center's Response to Findings

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 29, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors
American Shakespeare Center
Staunton, Virginia

Report on Compliance for Each Major Federal Program

We have audited American Shakespeare Center's (the "Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal programs for the year ended September 30, 2021. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, American Shakespeare Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. **We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-004 to be a material weaknesses.**

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Center's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 29, 2022

AMERICAN SHAKESPEARE CENTER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2021**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Cluster Amounts	Federal Expenditures
<i>Department of the Treasury:</i>				
Pass-through payments:				
Virginia Department of Accounts:				
COVID-19 – Coronavirus Relief Fund	21.019	Not provided	-	<u>\$ 20,000</u>
<i>Department of Commerce</i>				
Direct payments:				
COVID-19 – Shuttered Venue Operators Grant	59.075	Not provided	-	<u>1,453,920</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,473,920</u></u>

AMERICAN SHAKESPEARE CENTER

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2021

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of American Shakespeare Center (the “Center”) under programs of the federal government for the year ended September 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.

Note 2. Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

The Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Subrecipient Monitoring

The Center does not have any subrecipients.

Note 5. Outstanding Loan Balances

At September 30, 2021, the Center had no outstanding loan balances requiring continuing disclosure.

AMERICAN SHAKESPEARE CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 31, 2021

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a **qualified opinion** on the financial statements.
2. **Three material weaknesses** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **One material weakness** in internal control over a major federal award program was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **one audit finding** listed at 2021-004 relating to the major program.
7. The program tested as major was:
 - Shuttered Venue Operators Grant, ALN 59.075
8. The **threshold** for distinguishing Types A and B programs was **\$750,000**.
9. The Center was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2021-001: Material Audit Adjustments (Material Weakness)

Condition:

During the audit, we detected material misstatements in the trial balance. Generally accepted auditing standards dictate that detection of errors in an audit is a strong indicator of a significant deficiency or material weakness. Accordingly, we are required to communicate this finding as such.

Recommendation:

Material audit adjustments indicate that financial information presented to us for the audit was missing or inaccurate. We recommend that management implement processes to ensure accuracy of accounts.

AMERICAN SHAKESPEARE CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 31, 2021

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2021-001: Material Audit Adjustments (Material Weakness) (Continued)

Views of Responsible Officials:

Management intends to expand the number of personnel dedicated to financial management for all of the American Shakespeare Center. Fully staffed, the American Shakespeare Center will assign three employees to share responsibilities and manage, control, and review all task and responsibilities in this area. Together with this additional staffing, the American Shakespeare Center will implement augmented measures to clearly assemble pertinent documentation for transactions and to continue to refine presentations of financial results.

2021-002: Segregation of Duties (Material Weakness)

Condition:

Multiple duties in a transaction cycle are performed by the same individual. Consequently, errors or irregularities may occur and not be detected.

Recommendation:

In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. While we understand that limited staff can make this difficult, controls should be in place to mitigate the risk. We have suggested specific controls in a separate communication.

Views of Responsible Officials:

The American Shakespeare Center fully intends to implement all recommendations presented pertaining to improving and strengthening internal controls, to the extent possible with expanded staffing devoted to financial management. Where precise recommendations prove difficult, management will assure that procedures are developed to assure strong segregation of duties.

2021-003: Bank Reconciliations (Material Weakness)

Condition:

The completed September bank reconciliation did not agree to the general ledger, resulting in a material audit adjustment.

Recommendation:

Any reconciling differences should be resolved prior to completion of the bank reconciliation. Bank reconciliations should be reviewed promptly after preparation and agreed to the general ledger, considering the accuracy of reconciling items.

(Continued)

AMERICAN SHAKESPEARE CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 31, 2021

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2021-003: Bank Reconciliations (Material Weakness) (Continued)

Views of Responsible Officials:

Without a doubt or hesitation, American Shakespeare Center will implement the recommendation and adhere to this standard of performance.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2021-004: Shuttered Venue Operators Grant (Material Weakness)

Condition:

Certain expenditures selected for testing during our audit did not show evidence of review or proper operation of controls surrounding disbursements.

Criteria:

Pursuant to 2 CFR §200.303(a), the nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Cause:

Procedures were not in place to ensure internal controls over compliance were operating appropriately.

Effect:

Internal controls were not properly functioning to provide reasonable assurance that the federal award was managed in compliance with the applicable conditions of the federal award.

Perspective information

The finding occurred in ten of forty expenditures selected for testing.

Recommendation:

Management should document the function of internal controls for program expenditures, such as initialing and dating invoices upon review and approval for payment.

Views of Responsible Officials and Planned Corrective Action:

New systems and procedures of these types have already been established. Approvals are being clearly indicated, together with stated reasons for the expenditures, notations regarding which part of the organization the expenditure benefits, and method and date of payment.