

PALM BEACH DRAMAWORKS, INC.
INCOME TAX BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDING
AUGUST 31, 2014

PALM BEACH DRAMAWORKS, INC.
August 31, 2014
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INDEPENDENT AUDITOR'S REPORT



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To the Board of Directors
Palm Beach Dramaworks, Inc.
201 Clematis Street
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Report on the Financial Statements

We have audited the accompanying financial statements of Palm Beach Dramaworks, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets— income tax basis, as of August 31, 2014 and the related statements of revenues, expenses, and other changes in net assets—income tax basis for the year 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 the basis of accounting Palm Beach Dramaworks, Inc. uses for income tax purposes; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 assets, liabilities, and net assets of Palm Beach Dramaworks, Inc. as of August 31, 2014 and its revenues, expenses, and other changes in net assets for the year then ended in accordance with the basis of accounting Palm Beach Dramaworks, Inc. uses for income tax purposes described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting Palm Beach Dramaworks, Inc. uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Palm Beach Dramaworks, Inc.'s 2013 financial statements, and our report dated January 9, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information to the financial statements on pages 12 through 13 are presented for purposes of additional analysis and are not a required part of the financial statements. The prior year supplemental information to the financial statements on page 13 has been derived from the Palm Beach Dramaworks, Inc.'s 2013 financial statements and, in our reported dated January 9, 2014 we expressed an unmodified opinion on those financial statements.

The supplemental information to the financial statements on pages 12 through 13 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, FL
January 13, 2015

PALM BEACH DRAMAWORKS, INC.
Statement of Assets, Liabilities, and Net Assets-Income Tax Basis
August 31, 2014
(With Comparative Totals as of August 31, 2013)

ASSETS

	2014	2013
Current Assets		
Cash and Cash Equivalents	\$ 1,142,861	\$ 1,314,067
Deposits	4,577	8,721
Prepaid Rent	35,334	
Other Assets	23,817	22,586
Total Current Assets	1,206,589	1,345,374
Cash and Cash Equivalents	241,082	476,308
Prepaid Rent	688,617	
Land, Buildings, and Equipment, net	1,766,350	1,779,562
Total Assets	\$ 3,902,638	\$ 3,601,244

LIABILITIES AND FUND BALANCE

Current Liabilities		
Payroll	\$ 9,440	\$ 8,623
Security Deposit	8,000	
Total Current Liabilities	17,440	8,623
Net Assets		
Unrestricted Net Assets		
Equity in Fixed Assets	1,766,350	1,779,562
Undesignated	1,843,516	1,336,751
	3,609,866	3,116,313
Temporarily Restricted Net Assets	275,332	476,308
Total Net Assets	3,885,198	3,592,621
Total Liabilities and Net Assets	\$ 3,902,638	\$ 3,601,244

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Statement of Revenues, Expenses, and Changes in Net Assets-Income Tax Basis
Year Ended August 31, 2014
(With Comparative Totals for the Year Ended August 31, 2013)

Revenues	Unrestricted	Temporarily Restricted	Total	
			2014	2013
Ticket Sales	\$ 1,788,470	\$	\$ 1,788,470	\$ 1,688,780
Cash Contributions	604,214	531,967	1,136,181	1,076,877
Fundraising Events	197,725		197,725	187,740
Less Direct Expenses	(80,927)		(80,927)	(55,083)
In-kind Contributions	13,570		13,570	44,695
Grant Revenue	110,634		110,634	128,994
Interest Revenue	1,834	188	2,022	2,463
Other Revenue	85,532		85,532	92,071
Net Assets released from Restriction	733,131	(733,131)		
Total Revenues	3,454,183	(200,976)	3,253,207	3,166,537
Expenses				
Program Services	2,195,742		2,195,742	2,065,103
Management and General	627,531		627,531	594,156
Fundraising	137,357		137,357	145,702
Total Expenses	2,960,630		2,960,630	2,804,961
Change in Net Assets	493,553	(200,976)	292,577	361,576
Net Assets, Beginning of Year	3,116,313	476,308	3,592,621	3,231,045
Net Assets, End of Year	<u>\$ 3,609,866</u>	<u>\$ 275,332</u>	<u>\$ 3,885,198</u>	<u>\$ 3,592,621</u>

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Palm Beach Dramaworks, Inc. is a not-for-profit organization incorporated in 2000 under the laws of the State of Florida. Palm Beach Dramaworks, Inc. produces superior quality stage works of established playwrights, develops works in progress by local aspiring artists, and cultivates interest, respect, and appreciation for the dramatic arts in our community.

Palm Beach Dramaworks, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly supported organization which is not a private foundation under Section 509(a) of the Code. The years that remain subject to examination by tax authorities are August 31, 2014, 2013, 2012, and 2011.

Basis of Accounting

The accompanying financial statements present financial results on the cash basis of accounting Palm Beach Dramaworks, Inc. uses for federal income tax reporting. The basis differs from generally accepted accounting principles primarily because certain revenues and the related assets are recognized when received rather than when earned, and expenses generally are recognized when paid rather than when the obligation is incurred. Consequently, accounts receivable and accounts payable are not reflected in the accompanying financial statements.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities. Under FASB ASC 958, Palm Beach Dramaworks, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At August 31, 2014, there were no permanently restricted net assets.

Advertising Costs

Advertising costs are charged to operations when incurred.

Property and Equipment

Palm Beach Dramaworks, Inc. capitalizes all expenditures on equipment with a cost of \$750 or more. Property and equipment is recorded at cost or at estimated fair market value at date of gift, if donated. Depreciation is provided by the straight-line method over the length of time prescribed by Internal Revenue Code. Maintenance, minor repairs, and replacements are expensed in the year incurred.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with another comprehensive basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prepaid Rent

The Organization paid in advance a portion of the Cullio Center Lease agreement. Generally, entities using the income tax method of accounting may currently deduct the full amount of expenses paid in advance if the period the payment applies to does not extend beyond the close of the following tax year. The prepaid balance applies to periods in excess of one year, and in addition, if the Organization exercises its purchase option on the building, the amount would be applied to the purchase price. For more information on the Cullio Center Lease see Note 6.

Accounts Payable and Accrued Expenses

The Organization has not accrued accounts payable or accrued expenses, including compensated absences, because its financial statements are prepared on the income tax basis of accounting. The Organization's policy is to recognize these costs when actually paid. The Organization reports short term liabilities only if cash was collected as an agent (such as sales taxes collected from customers) or withheld from a cash payment (such as payroll taxes withheld from employees' pay).

Contributions

Contributions that are restricted by the donor are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenue, Expenses and Changes in Net Assets-Income Tax Basis as net assets released from restrictions.

Donated Goods and Services

Donations of property, equipment, and merchandise are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations 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.

In accordance with the income tax basis of accounting, donated services or the free use of materials, equipment, or facilities are not recognized as income. For the fiscal year ending August 31, 2014, the Organization had \$500 of donated services and \$7,200 for the free use of materials, equipment, or facilities that were not recorded as income.

Reclassifications

Certain 2013 financial statement amounts have been reclassified to conform to the presentation in the 2014 financial statements. The reclassifications had no effect on the change in net assets.

NOTE 2 – CASH

Palm Beach Dramaworks, Inc. maintains balances at one bank. Accounts at this bank are insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000 per depositor. As of August 31, 2014, Palm Beach Dramaworks, Inc. had no accounts with balances in excess of the FDIC coverage.

Palm Beach Dramaworks, Inc. also maintains money market accounts at one bank. The balances are protected by SIPC (Securities Investor Protection Corporation) insurance up to \$500,000 per depositor. As of August 31, 2014, Palm Beach Dramaworks, Inc. had \$761,763 in excess of SIPC insurance.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2014

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2014, consisted of the following:

	2014
Stage Equipment	\$ 166,465
Leasehold Improvements	1,986,953
Automobiles	34,752
Software	21,518
Furniture	7,557
	2,217,245
Accumulated Depreciation	(450,895)
Net Property and Equipment	\$ 1,766,350

Depreciation expense for the fiscal year ended August 31, 2014, was \$157,500.

NOTE 4 – PLEDGES

The Organization had pledges at August 31, 2014, which consist of the following at:

	Due in 1 Year	Due in 2 – 5 Years	Total
Capital campaign pledges receivable	\$ 436,987	\$ 1,001,736	\$1,438,723
Less:			
Discount to net present value		30,136	30,136
Net pledges	\$ 436,987	\$ 971,600	\$1,408,587

Pledges have been discounted at a 3% annual rate of interest. The capital campaign pledges are restricted in use for costs and expenses of a new facility and of the campaign, itself.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

On August 31, 2014, Palm Beach Dramaworks, Inc.'s temporarily restricted net assets consisted of the following:

	Cash
Capital Campaign	\$ 241,082
Dramaworkshop	34,250
Temporarily Restricted	
Net Assets	\$ 275,332

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2014

NOTE 6 – OPERATING LEASES

Theatre

On October 22, 2010, the Organization entered into a 20-year lease agreement, with a purchase option priced at \$2,850,000, with the West Palm Beach Community Redevelopment Agency (CRA) for the lease of a larger theatre facility, which opened in November 2011. Monthly rental payments during the term of the lease range from \$4,714 to \$19,714. If, by October 22, 2015, the Organization notifies the CRA in writing that the Organization intends to exercise the purchase option, a portion of the rent paid will be credited to the purchase price. As of August 31, 2014, the purchase price would be \$1,604,500. This amount would be reduced by subsequent rental payments made through the purchase date.

Warehouse

In addition to the theatre lease described above, the Organization maintains another 5-year lease for storage and warehouse facilities. Monthly rental payments during the term of the lease range from \$2,176 to \$2,942.

Total Lease Payments and Future Commitments

The Organization paid \$218,144 for the theatre and warehouse operating leases in the fiscal year 2014.

Future commitments under both operating leases as of August 31 are as follows:

<u>Fiscal Year</u>	<u>Theatre*</u>	<u>Warehouse</u>	<u>Total</u>
2015	\$ 177,500	\$ 34,380	\$ 211,880
2016	140,119	32,362	172,481
2017	133,903		133,903
2018	131,072		131,072
2019	128,251		128,251
Thereafter	<u>1,238,940</u>		<u>1,238,940</u>
Total	\$ 1,949,785	\$ 66,742	\$ 2,016,527

* These amounts do not include the prepaid rent of \$723,951 as of August 31, 2014.

If the Organization exercises its purchase option, at such time there would be no future theatre lease commitments.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2014

NOTE 7 – RELATED PARTY TRANSACTIONS

Because of the size of the Organization, the Board of Directors is significantly involved in the day to day operations of Palm Beach Dramaworks, Inc. Accordingly, three of the Board members are also full-time, salaried employees of the Organization, and serve as Managing Director, Producing Artistic Director, and Company Manager. During the fiscal year end August 31, 2014, the Organization paid the above mentioned individuals cumulative salaries in the amount of \$284,000.

NOTE 8 – PENSION PLAN

The Organization has in place a pension plan which covers all employees who are union members. The Organization's contributions to the plan are based on a fixed contribution rate set by the actors union. Total contributions for the fiscal year ending August 31, 2014, were \$21,503.

The Organization provides retirement benefits to its full time employees through a Simple Individual Retirement Account (IRA). The Organization will match each participant's contribution up to three percent of gross wages. Contributions to the plan during the year ended August 31, 2014 were \$13,824.

NOTE 9 – CURRENT VULNERABILITY DUE TO CONCENTRATIONS

Palm Beach Dramaworks, Inc. received approximately 18% of its revenue and support from eleven contributors. It is at least reasonably possible that in the near term, these contributors could cease funding, which would cause a severe impact on Palm Beach Dramaworks, Inc. and its ability to continue operations. Palm Beach Dramaworks, Inc. does not expect that the revenue and support from these contributors will be lost in the near term.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were evaluated through January 13, 2015 which is the date the financial statements were available to be issued.

PALM BEACH DRAMAWORKS, INC.
Schedule of Functional Expenses - Income Tax Basis
Year Ended August 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Actors & Director	\$ 42,234	\$	\$	\$ 42,234
Advertising/Printing	163,585	21,090	2,345	187,020
Stages, Costumes, & Props	243,149			243,149
Royalties, Dues, & Fees	154,317	16,086		170,403
Repairs and Maintenance	46,441			46,441
Banking		43,292		43,292
Professional & Legal Fees		45,399		45,399
Occupancy	286,522	26,418		312,940
Payroll	848,083	384,741	101,897	1,334,721
Benefits	96,984	41,098		138,082
Programs & Tickets	24,837		5,826	30,663
Small Equipment	4,274			4,274
Insurance	31,678	11,954		43,632
Postage and Shipping	11,751	3,377	722	15,850
Special Events	31,590			31,590
Travel	40,329	17,685		58,014
Food			47,128	47,128
Supplies			9,910	9,910
Facility			23,889	23,889
Miscellaneous	12,468	16,391	26,567	55,426
Depreciation	157,500			157,500
 Total Expenses	 <u>\$ 2,195,742</u>	 <u>\$ 627,531</u>	 <u>\$ 218,284</u>	 <u>\$ 3,041,557</u>

PALM BEACH DRAMAWORKS, INC.
Schedule of Functional Expenses - Income Tax Basis
Year Ended August 31, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Actors & Director	\$ 43,236	\$	\$	\$ 43,236
Advertising/Printing	125,733	22,380	1,738	149,851
Stages, Costumes, & Props	204,809			204,809
Royalties, Dues, & Fees	130,531	12,069		142,600
Repairs and Maintenance	57,666			57,666
Banking		47,826		47,826
Professional & Legal Fees		49,492	10,958	60,450
Occupancy	264,981	60,802		325,783
Payroll	825,952	314,353	99,321	1,239,626
Benefits	70,401	38,685		109,086
Programs & Tickets	25,608		6,807	32,415
Small Equipment	10,281			10,281
Insurance	31,600	11,733		43,333
Postage and Shipping	18,616	430	978	20,024
Special Events	31,005		11,195	42,200
Travel	36,660	16,662		53,322
Food			31,621	31,621
Supplies			8,400	8,400
Facility			15,062	15,062
Miscellaneous	34,514	19,724	14,705	68,943
Depreciation	153,510			153,510
Total Expenses	<u>\$ 2,065,103</u>	<u>\$ 594,156</u>	<u>\$ 200,785</u>	<u>\$ 2,860,044</u>