

PALM BEACH DRAMAWORKS, INC.
INCOME TAX BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDING
AUGUST 31, 2015

PALM BEACH DRAMAWORKS, INC.
August 31, 2015
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INDEPENDENT AUDITOR'S REPORT



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE
NORTHBRIDGE CENTRE
515 N. FLAGLER DRIVE, SUITE 1700
POST OFFICE BOX 347
WEST PALM BEACH, FLORIDA 33402-0347
TELEPHONE (561) 659-3060
FAX (561) 835-0628
WWW.NHMCPA.COM

EVERETT B. NOWLEN (1930-1984) CPA
EDWARD T. HOLT, CPA
WILLIAM B. MINER, RETIRED, CPA
ROBERT W. HENDRIX, JR., CPA
JANET R. BARICEVICH, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CVA, ABV, CFF, CPA
ALEXIA G. VARGA, CFE, CPA
EDWARD T. HOLT, JR., PFS, CPA
BRIAN J. BRESCIA, CFP®, CPA

KATHLEEN A. MINER, CPA
KARA D. PETERSON, CFE, CPA
MARK J. BYMASTER, CFE, CPA
RYAN M. SHORE, CFP®, CPA
TIMOTHY H. SCHEDES, CFP®, CPA
WEI PAN, CPA
PHILLIP C. McALLISTER, CPA

BELLE GLADE OFFICE
333 S.E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33439-0338
TELEPHONE (561) 996-5612
FAX (561) 996-6248

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Palm Beach Dramaworks, Inc.
201 Clematis Street
West Palm Beach, Florida 33401

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, 2015 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, 2015 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 13, 2015. 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. 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Nowlen, Holt & Miner, P.A.

West Palm Beach, FL
January 26, 2016

PALM BEACH DRAMAWORKS, INC.
Statement of Assets, Liabilities, and Net Assets-Income Tax Basis
August 31, 2015
(With Comparative Totals as of August 31, 2014)

ASSETS

	2015	2014
Current Assets		
Cash and Cash Equivalents	\$ 1,390,125	\$ 1,142,861
Deposits	5,021	4,577
Prepaid Rent		35,334
Other Assets	24,922	23,817
Total Current Assets	1,420,068	1,206,589
Cash and Cash Equivalents	584,984	241,082
Prepaid Rent		688,617
Land, Buildings, and Equipment, net	3,840,331	1,766,350
Total Assets	\$ 5,845,383	\$ 3,902,638

LIABILITIES AND NET ASSETS

Current Liabilities		
Payroll	\$ 12,205	\$ 9,440
Security Deposit	8,000	8,000
Total Current Liabilities	20,205	17,440
Net Assets		
Unrestricted Net Assets		
Equity in Fixed Assets	3,840,331	1,766,350
Undesignated	1,305,106	1,843,516
	5,145,437	3,609,866
Temporarily Restricted Net Assets	679,741	275,332
Total Net Assets	5,825,178	3,885,198
Total Liabilities and Net Assets	\$ 5,845,383	\$ 3,902,638

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, 2015
(With Comparative Totals for the Year Ended August 31, 2014)

Revenues	Unrestricted	Temporarily Restricted	Total	
			2015	2014
Ticket Sales	\$ 1,887,193	\$	\$ 1,887,193	\$ 1,788,470
Cash Contributions	725,904	1,497,517	2,223,421	1,136,181
Fundraising Events	221,150		221,150	197,725
Less Direct Expenses	(93,249)		(93,249)	(80,927)
In-kind Contributions	36,980		36,980	13,570
Grant Revenue	852,392		852,392	110,634
Interest Revenue	1,686	424	2,110	2,022
Other Revenue	118,096	1,500	119,596	85,532
Net Assets Released from Restrictions	1,095,032	(1,095,032)		
Total Revenues	4,845,184	404,409	5,249,593	3,253,207
Expenses				
Program Services	2,462,673		2,462,673	2,195,742
Management and General	701,818		701,818	627,531
Fundraising	145,122		145,122	137,357
Total Expenses	3,309,613		3,309,613	2,960,630
Change in Net Assets	1,535,571	404,409	1,939,980	292,577
Net Assets, Beginning of Year	3,609,866	275,332	3,885,198	3,592,621
Net Assets, End of Year	\$ 5,145,437	\$ 679,741	\$ 5,825,178	\$ 3,885,198

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2015

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, 2015, 2014, 2013, and 2012.

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, 2015, 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 expenditures with a cost of \$5,000 or more for building and leasehold improvements and with a cost of \$2,500 or more for all other assets. Property and equipment is recorded at cost or at estimated fair market value at the date of gift, if donated. Depreciation is provided by the straight-line method over the length of time prescribed by the 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, 2015

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.

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.

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

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain 2014 financial statement amounts have been reclassified to conform to the presentation in the 2015 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, 2015, 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, 2015, Palm Beach Dramaworks, Inc. had \$1,393,023 in excess of SIPC insurance.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2015, consisted of the following:

	2015
Land	\$ 856,390
Building	1,323,145
Leasehold Improvements	1,986,953
Stage Equipment	217,659
Automobiles	46,905
Software	21,518
Furniture	7,557
	4,460,127
Accumulated Depreciation	(619,796)
Net Property and Equipment	\$ 3,840,331

Depreciation expense for the fiscal year ended August 31, 2015, was \$185,607.

The land and building at 201 Clematis Street were purchased in March 2015, in part using funding from a Cultural Facilities Grant in the amount of \$500,000 from the Florida Department of State, Division of Cultural Affairs. There is a restrictive covenant on this property that it be used as a “cultural facility” for ten years, or the Organization would have to repay all or a portion of the funding. This covenant expires on March 9, 2025.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2015

NOTE 4 – PLEDGES

The Organization had pledges at August 31, 2015, which consist of the following at:

	<u>Due in 1 Year</u>
Capital campaign pledges receivable	<u>\$ 194,214</u>

The capital campaign pledges are restricted in use for costs and expenses for the new facility and of the campaign, itself.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

On August 31, 2015, Palm Beach Dramaworks, Inc.'s temporarily restricted net assets consisted of the following:

	<u>Cash</u>
Capital Campaign	\$ 584,984
Student bus program	4,632
Dramaworkshop	<u>90,125</u>
Temporarily Restricted Net Assets	<u>\$ 679,741</u>

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 ranged from \$4,714 to \$19,714. As provided for in the agreement, the Organization purchased the theatre on March 9, 2015. A portion of the rents paid prior to the purchase were credited to the purchase price.

Warehouse

In addition to the theatre lease described above, the Organization maintains another 5-year lease for storage and warehouse facilities that expires in 2016. Monthly rental payments during the term of the lease range from \$2,176 to \$2,942.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2015

NOTE 6 – OPERATING LEASES (Continued)

Total Lease Payments and Future Commitments

The Organization paid \$122,700 for the theatre and warehouse operating leases in the fiscal year 2015.

Future commitments under the warehouse operating lease as of August 31 are as follows:

<u>Fiscal Year</u>	<u>Warehouse</u>
2016	<u>\$ 34,380</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

Because of the size of the Organization, certain members of the Board of Directors are significantly involved in the day to day operations of Palm Beach Dramaworks, Inc. Three of the Board members are 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, 2015, the Organization paid the above mentioned individuals cumulative salaries in the amount of \$294,125.

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, 2015, were \$22,656.

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, 2015 were \$23,174.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2015

NOTE 9 – CURRENT VULNERABILITY DUE TO CONCENTRATIONS

Palm Beach Dramaworks, Inc. received approximately 40% of its revenue and support from five contributors in the current year. A significant portion of these contributions were part of the capital campaign which is nearing completion. Revenue and support for the year excluding capital contributions and grants were \$3,350,000 for the year and the Organization received approximately 23% of this support from its top fifteen contributors in the current year. 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 – SUPPORT FROM OUTSIDE AGENCIES

The Organization receives a substantial amount of its support from government and other grants. Hence, these grants require documentation to be maintained and fulfillment of certain conditions. Failure to fulfill the conditions set forth in the grant documents could result in the loss of funds from these grantors. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Organization's services and activities. Program expenditures made by the Organization are subject to additional audit by grantor agencies.

Matching Requirements

The organization received two grants from the Florida Department of State, Division of Cultural Affairs in the current year that had matching requirements. Grant number 15.9.100.606 for \$500,000 required a match of \$1,000,000 and grant number 15.6.142.237 for \$150,000 required a match of \$150,000. To meet these matching requirements, the Organization incurred eligible expenditures.

NOTE 11 – SUBSEQUENT EVENTS

In September 2015, the Board of Directors, pursuant to IRS regulations, approved a supplemental retirement plan for the Managing Director and Producing Artistic Director in recognition of their outstanding and long-time service to the Organization.

Also in September 2015, the Organization entered into a seven year lease for a rehearsal hall with annual payments starting at \$40,365 and increasing 3% each year.

Subsequent events were evaluated through January 26, 2016, 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, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Actors & Director	\$ 63,012	\$	\$	\$ 63,012
Advertising/Printing	164,081	30,563	1,958	196,602
Stages, Costumes, & Props	255,676			255,676
Royalties, Dues, & Fees	158,620	15,445		174,065
Repairs and Maintenance	69,936	7,771		77,707
Banking		45,532		45,532
Professional & Legal Fees		44,885		44,885
Occupancy	219,827	20,847		240,674
Payroll	1,097,947	411,220	108,385	1,617,552
Health Insurance	64,381	57,625		122,006
Programs & Tickets	22,799		5,348	28,147
Small Equipment	2,313			2,313
Insurance	62,575	8,217		70,792
Postage and Shipping	15,590	3,954	767	20,311
Special Events	14,592		12,669	27,261
Travel	66,699	18,411	1,061	86,171
Food			41,105	41,105
Supplies			31,238	31,238
Facility			20,906	20,906
Miscellaneous	11,602	24,764	14,934	51,300
Depreciation	173,023	12,584		185,607
Total Expenses	<u>\$ 2,462,673</u>	<u>\$ 701,818</u>	<u>\$ 238,371</u>	<u>\$ 3,402,862</u>

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>