

PALM BEACH DRAMAWORKS, INC.
INCOME TAX BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDING
AUGUST 31, 2016

PALM BEACH DRAMAWORKS, INC.
August 31, 2016
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INDEPENDENT AUDITOR'S REPORT



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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, 2016 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, 2016 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

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 & Mimer, P.A.

West Palm Beach, FL
January 17, 2017

PALM BEACH DRAMAWORKS, INC.
Statement of Assets, Liabilities, and Net Assets-Income Tax Basis
August 31, 2016
(With Comparative Totals as of August 31, 2015)

ASSETS

	2016	2015
Current Assets		
Cash and Cash Equivalents	\$ 1,458,142	\$ 1,734,027
Deposits	12,204	5,021
Other Assets	24,922	24,922
Total Current Assets	1,495,268	1,763,970
Cash and Cash Equivalents	503,533	241,082
457(b) Plan Participant Accounts	37,528	
Land, Buildings, and Equipment, net	3,924,294	3,840,331
Total Assets	\$ 5,960,623	\$ 5,845,383

LIABILITIES AND NET ASSETS

Liabilities		
Current Liabilities		
Payroll	\$ 12,213	\$ 12,205
Security Deposit	8,000	8,000
Total Current Liabilities	20,213	20,205
457(b) Plan Participant Accounts	37,528	
Total Liabilities	57,741	20,205
Net Assets		
Unrestricted Net Assets		
Equity in Fixed Assets	3,924,294	3,840,331
Operating Contingency Reserve	176,211	
Undesignated	1,117,529	1,305,106
	5,218,034	5,145,437
Temporarily Restricted Net Assets	684,848	679,741
Total Net Assets	5,902,882	5,825,178
Total Liabilities and Net Assets	\$ 5,960,623	\$ 5,845,383

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, 2016
(With Comparative Totals for the Year Ended August 31, 2015)

Revenues	Unrestricted	Temporarily Restricted	Total	
			2016	2015
Ticket Sales	\$ 1,809,960	\$	\$ 1,809,960	\$ 1,887,193
Cash Contributions	660,552	380,194	1,040,746	2,223,421
Fundraising Events	229,250		229,250	221,150
Less Direct Expenses	(67,338)		(67,338)	(93,249)
In-kind Contributions	15,000		15,000	36,980
Grant Revenue	329,123		329,123	852,392
Interest Revenue	1,613	681	2,294	2,110
Other Revenue	138,729		138,729	119,596
Net Assets Released from Restrictions	375,768	(375,768)		
Total Revenues	3,492,657	5,107	3,497,764	5,249,593
Expenses				
Program Services	2,510,907		2,510,907	2,462,673
Management and General	754,616		754,616	701,818
Fundraising	154,537		154,537	145,122
Total Expenses	3,420,060		3,420,060	3,309,613
Change in Net Assets	72,597	5,107	77,704	1,939,980
Net Assets, Beginning of Year	5,145,437	679,741	5,825,178	3,885,198
Net Assets, End of Year	<u>\$ 5,218,034</u>	<u>\$ 684,848</u>	<u>\$ 5,902,882</u>	<u>\$ 5,825,178</u>

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2016

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 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, 2016, 2015, 2014, and 2013.

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, 2016, 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, 2016

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, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain 2015 financial statement amounts have been reclassified to conform to the presentation in the 2016 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, 2016, 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, 2016, Palm Beach Dramaworks, Inc. had \$1,363,320 in excess of SIPC insurance.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2016, consisted of the following:

	<u>2016</u>
Land	\$ 856,390
Building	1,323,145
Building Improvements	2,144,569
Leasehold Improvements	91,063
Stage Equipment	263,183
Automobiles	46,905
Software	17,495
Furniture	<u>17,302</u>
	4,760,052
Accumulated Depreciation	<u>(835,758)</u>
Net Property and Equipment	<u>\$ 3,924,294</u>

Depreciation expense for the fiscal year ended August 31, 2016, was \$220,574.

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, 2016

NOTE 4 – PLEDGES

The Organization had pledges at August 31, 2016, which consist of the following at:

	<u>Due in</u> <u>1 Year</u>
Capital campaign pledges receivable	\$ <u>64,025</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, 2016, Palm Beach Dramaworks, Inc.'s temporarily restricted net assets consisted of the following:

	<u>Cash</u>
Capital Campaign	\$ 503,533
Student bus program	2,787
Education	57,262
Dramaworkshop	<u>121,266</u>
Temporarily Restricted Net Assets	\$ <u>684,848</u>

NOTE 6 – OPERATING LEASES

The Organization had 5-year lease for storage and warehouse facilities that expired in 2016. The lease was renewed for two years with three additional one year extensions. Monthly rental payments during the term of the lease range from \$4,701 to \$4,271.

In addition to the warehouse lease described above, the Organization has a 6-year lease for rehearsal and costume production that expires in 2021 and may be renewed for an additional 5-year term. Monthly rental payments during the term of the lease range from \$3,364 to \$3,900.

The Organization paid \$56,290 for the operating leases in the fiscal year 2016.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2016

NOTE 6 – OPERATING LEASES (Continued)

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

<u>Fiscal Year</u>	<u>Warehouse</u>	<u>Rehearsal</u>	<u>Total</u>
2017	\$ 49,284	\$ 41,575	\$ 90,859
2018	51,255	42,823	94,078
2019		44,108	44,108
2020		45,431	45,431
2021		46,794	46,794
Total	<u>\$ 100,539</u>	<u>\$ 220,731</u>	<u>\$ 321,270</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, 2016, the Organization paid the above mentioned individuals cumulative salaries in the amount of \$330,527.

NOTE 8 – CURRENT VULNERABILITY DUE TO CONCENTRATIONS

Palm Beach Dramaworks, Inc. received approximately 16% of its revenue and support from five contributors and organizations in the current year. It is at least reasonably possible that in the near term, these contributors and organizations could cease funding, which would cause an impact on Palm Beach Dramaworks, Inc.'s operations. Palm Beach Dramaworks, Inc. does not expect that the revenue and support from these contributors and organizations will be lost in the near term.

NOTE 9 – 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.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2016

NOTE 10 – PENSION PLANS

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, 2016, were \$24,844.

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, 2016 were \$15,411.

In September 2015, the Board of Directors approved a supplemental retirement plan under Section 457(b) of the Internal Revenue Code for the Managing Director and Producing Artistic Director in recognition of their outstanding and long-time service to the Organization. The participants may make voluntary contributions to the plan and the Organization may make discretionary contributions to the plan as determined each year. The Organization made a \$36,000 discretionary contribution to the plan and there were no participant contributions during the year ended August 31, 2016. Participant amounts vest immediately, however the assets of this plan are the legal assets of the Organization until they are distributed to the participants, and therefore the plan assets and a corresponding liability are reported in the statement of financial position. At August 31, 2016 plan assets in the amount of \$37,528 are classified within FASB's fair value hierarchy at Level 1, and consisted of mutual funds with readily observable prices.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events were evaluated through January 17, 2017, 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, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Actors & Director	\$ 58,508	\$	\$	\$ 58,508
Advertising/Printing	161,876	33,082	1,975	196,933
Stages, Costumes, & Props	298,185			298,185
Royalties, Dues, & Fees	161,054	19,360		180,414
Repairs and Maintenance	54,708	6,079		60,787
Banking		44,195		44,195
Professional & Legal Fees	25,758	25,387		51,145
Occupancy	145,417	8,573		153,990
Payroll	1,149,044	487,292	120,367	1,756,703
Health Insurance	68,508	65,238		133,746
Programs & Tickets	23,678		4,510	28,188
Small Equipment	9,076			9,076
Insurance	56,155	7,503		63,658
Postage and Shipping	14,328	4,759	1,548	20,635
Special Events	15,746		3,259	19,005
Travel	50,546	16,671		67,217
Food			33,283	33,283
Supplies			10,814	10,814
Facility			23,241	23,241
Miscellaneous	9,420	24,803	22,878	57,101
Depreciation	208,900	11,674		220,574
Total Expenses	<u>\$ 2,510,907</u>	<u>\$ 754,616</u>	<u>\$ 221,875</u>	<u>\$ 3,487,398</u>

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
Benefits	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>