

PALM BEACH DRAMAWORKS, INC.
INCOME TAX BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDING
AUGUST 31, 2017

PALM BEACH DRAMAWORKS, INC.
August 31, 2017
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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.NHMCOPA.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

MARK J. BYMASTER, CFE, CPA
RYAN M. SHORE, CFP®, CPA
WEI PAN, CPA
WILLIAM C. KISKER, CPA
RICHARD E. BOTTS, CPA

INDEPENDENT AUDITOR'S REPORT

BELLE GLADE OFFICE
333 S.E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
TELEPHONE (561) 996-5612
FAX (561) 996-6248

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, 2017 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, 2017 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, 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 13 through 14 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
February 2, 2018

PALM BEACH DRAMAWORKS, INC.
Statement of Assets, Liabilities, and Net Assets-Income Tax Basis
August 31, 2017
(With Comparative Totals as of August 31, 2016)

ASSETS

	2017	2016
Current Assets		
Cash and Cash Equivalents	\$ 1,494,343	\$ 1,458,142
Deposits	12,204	12,204
Other Assets	27,841	24,922
Total Current Assets	1,534,388	1,495,268
Cash and Cash Equivalents	465,043	503,533
457(b) Plan Participant Accounts	90,895	37,528
Land, Buildings, and Equipment, net	3,790,696	3,924,294
Total Assets	\$ 5,881,022	\$ 5,960,623

LIABILITIES AND NET ASSETS

Liabilities		
Current Liabilities		
Payroll	\$ 8,944	\$ 12,213
Security Deposit	8,000	8,000
Total Current Liabilities	16,944	20,213
457(b) Plan Participant Accounts	90,895	37,528
Total Liabilities	107,839	57,741
Net Assets		
Unrestricted Net Assets		
Equity in Fixed Assets	3,790,696	3,924,294
Operating Contingency Reserve	194,360	176,211
Undesignated	1,037,216	1,117,529
	5,022,272	5,218,034
Temporarily Restricted Net Assets	750,911	684,848
Total Net Assets	5,773,183	5,902,882
Total Liabilities and Net Assets	\$ 5,881,022	\$ 5,960,623

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, 2017
(With Comparative Totals for the Year Ended August 31, 2016)

Revenues	Unrestricted	Temporarily Restricted	Total	
			2017	2016
Ticket Sales	\$ 1,468,743	\$ 20,667	\$ 1,489,410	\$ 1,809,960
Cash Contributions	831,137	301,797	1,132,934	1,040,746
Fundraising Events	225,850		225,850	229,250
Less Direct Expenses	(59,950)		(59,950)	(67,338)
In-kind Contributions	11,965		11,965	15,000
Grant Revenue	251,453		251,453	329,123
Interest Revenue	1,523	611	2,134	2,294
Other Revenue	119,621		119,621	138,729
Net Assets Released from Restrictions	257,012	(257,012)		
Total Revenues	3,107,354	66,063	3,173,417	3,497,764
Expenses				
Program Services				
Mainstage	2,275,625		2,275,625	2,429,360
Dramaworkshop	80,077		80,077	59,809
Education Initiative	93,447		93,447	21,738
Management and General	702,898		702,898	754,616
Fundraising	151,069		151,069	154,537
Total Expenses	3,303,116		3,303,116	3,420,060
Change in Net Assets (See Note 6)	(195,762)	66,063	(129,699)	77,704
Net Assets, Beginning of Year	5,218,034	684,848	5,902,882	5,825,178
Net Assets, End of Year	<u>\$ 5,022,272</u>	<u>\$ 750,911</u>	<u>\$ 5,773,183</u>	<u>\$ 5,902,882</u>

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2017

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, 2017, 2016, 2015, and 2014.

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, 2017, 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, 2017

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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain 2016 financial statement amounts have been reclassified to conform to the presentation in the 2017 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, 2017, 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, 2017, Palm Beach Dramaworks, Inc. had \$1,344,505 in excess of SIPC insurance.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2017, consisted of the following:

	2017
Land	\$ 856,390
Building	1,323,145
Building Improvements	2,144,569
Leasehold Improvements	111,019
Stage Equipment	268,894
Automobiles	46,905
Software	36,633
Furniture	17,302
	4,804,857
Accumulated Depreciation	(1,014,161)
Net Property and Equipment	\$ 3,790,696

Depreciation expense for the fiscal year ended August 31, 2017, was \$195,889.

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, 2017

NOTE 4 – PLEDGES

The Organization had pledges at August 31, 2017, which consist of the following:

	Due in Fiscal Year Ending August 31,					Total
	2018	2019	2020	2021	2022	
Capital Campaign	\$ 15,350	\$ 9,525	\$ 3,250	\$ 1,000	\$	\$ 29,125
Drama-workshop	65,000	45,000	10,000			120,000
Education Initiative	61,000	61,000	61,000	11,000	10,000	204,000
Total	\$ 141,350	\$ 115,525	\$ 74,250	\$ 12,000	\$ 10,000	\$ 353,125

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

On August 31, 2017, Palm Beach Dramaworks, Inc.’s temporarily restricted net assets consisted of the following:

	Cash
Capital Campaign	\$ 465,043
Education Initiative	147,715
Dramaworkshop	138,153
Temporarily Restricted Net Assets	\$ 750,911

NOTE 6 – CHANGE IN NET ASSETS

The Organization presents financial results on the cash basis of accounting used for federal income tax reporting. Even though this is on the cash basis, fixed assets are capitalized and depreciated. The Organization has historically funded fixed asset additions, repairs and replacements through capital campaigns and believes the change in net assets without depreciation is a useful measurement of operations. The change in net assets without depreciation expense for the fiscal years ending August 31, 2017 and 2016 were \$66,190 and \$298,278, respectively.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2017

NOTE 7 – 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 \$4,107 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 \$91,736 for the operating leases in the fiscal year 2017.

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

Fiscal Year	Warehouse	Rehearsal	Total
2018	\$ 51,255	\$ 42,823	\$ 94,078
2019		44,108	44,108
2020		45,431	45,431
2021		46,794	46,794
Total	\$ 51,255	\$ 179,156	\$ 230,411

NOTE 8 – 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, 2017, the Organization paid the above mentioned individuals cumulative salaries in the amount of \$312,260.

NOTE 9 – 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.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2017

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.

NOTE 11 – 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, 2017, were \$22,714.

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, 2017 were \$24,560.

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, 2017. 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, 2017 plan assets in the amount of \$90,895 are classified within FASB's fair value hierarchy at Level 1, and consisted of mutual funds with readily observable prices.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2017

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued new accounting guidance that will affect the Organization. The Organization has considered the new pronouncements, and other than as disclosed below, does not believe that any other new or modified principles will have a material impact on the Organization.

In August 2016, the FASB issued ASU 2016-14, “Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities.” The ASU amends the current reporting model for nonprofit organizations and enhances the required disclosures. The major changes affecting the Organization include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the fiscal year ending August 31, 2019.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 2, 2018, 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, 2017

	Program Services			Management and General	Fund- Raising	Total
	Mainstage	Dramaworkshop	Education Initiative			
Director & Playwrights	\$ 52,624	\$ 4,731	\$	\$	\$	\$ 57,355
Advertising/Printing	163,654	2,643	1,169	22,836	3,978	194,280
Stages, Costumes, & Props	298,286	7,796	3,094			309,176
Royalties, Dues, & Fees	129,839	390		12,947		143,176
Repairs and Maintenance	53,374	30		5,934		59,338
Banking				37,779		37,779
Professional & Legal Fees			2,787	20,781		23,568
Occupancy	140,752	221		8,597		149,570
Payroll	1,021,185	57,491	77,863	484,903	124,216	1,765,658
Health Insurance	61,035	2,249		65,501		128,785
Programs & Tickets	21,716	252			3,877	25,845
Small Equipment	787					787
Insurance	45,188			10,040		55,228
Postage and Shipping	14,009			4,180	1,323	19,512
Special Events	20,962	401			4,411	25,774
Travel	52,418	1,000	8,107		1,248	62,773
Food					30,000	30,000
Supplies					10,610	10,610
Facility					19,340	19,340
Miscellaneous	11,640	2,873	427	21,827	11,856	48,623
Depreciation	188,156			7,573	160	195,889
Total Expenses	\$ 2,275,625	\$ 80,077	\$ 93,447	\$ 702,898	\$ 211,019	\$ 3,363,066

PALM BEACH DRAMAWORKS, INC.
Schedule of Functional Expenses - Income Tax Basis
Year Ended August 31, 2016

	Program Services			Management and General	Fund- Raising	Total
	Mainstage	Dramaworkshop	Education Initiative			
Director & Playwrights	\$ 56,026	\$ 2,482	\$	\$	\$	\$ 58,508
Advertising/Printing	158,131	1,620	2,125	33,082	1,975	196,933
Stages, Costumes, & Props	287,188	10,997				298,185
Royalties, Dues, & Fees	160,657	397		19,360		180,414
Repairs and Maintenance	54,353	355		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	1,088,586	41,700	18,758	487,292	120,367	1,756,703
Benefits	68,508			65,238		133,746
Programs & Tickets	23,528	150			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	6,457	2,108	855	24,803	22,878	57,101
Depreciation	208,900			11,674		220,574
Total Expenses	\$ 2,429,360	\$ 59,809	\$ 21,738	\$ 754,616	\$ 221,875	\$ 3,487,398