

PALM BEACH DRAMAWORKS, INC.
INCOME TAX BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDING
AUGUST 31, 2018

PALM BEACH DRAMAWORKS, INC.
August 31, 2018
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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, 2018 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, 2018 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, 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
January 3, 2019

PALM BEACH DRAMAWORKS, INC.
Statement of Assets, Liabilities, and Net Assets-Income Tax Basis
August 31, 2018
(With Comparative Totals as of August 31, 2017)

ASSETS

	2018	2017
Current Assets		
Cash and Cash Equivalents	\$ 1,544,973	\$ 1,494,343
Deposits	12,205	12,204
Other Assets	24,501	27,841
Total Current Assets	1,581,679	1,534,388
Cash and Cash Equivalents	409,253	465,043
457(b) Plan Participant Accounts	129,653	90,895
Land, Buildings, and Equipment, net	3,636,384	3,790,696
Total Assets	\$ 5,756,969	\$ 5,881,022

LIABILITIES AND NET ASSETS

Liabilities		
Current Liabilities		
Payroll	\$ 3,663	\$ 8,944
Security Deposit	8,000	8,000
Total Current Liabilities	11,663	16,944
457(b) Plan Participant Accounts	129,653	90,895
Total Liabilities	141,316	107,839
Net Assets		
Unrestricted Net Assets		
Equity in Fixed Assets	3,636,384	3,790,696
Operating Contingency Reserve	168,276	194,360
Undesignated	1,067,274	1,037,216
	4,871,934	5,022,272
Temporarily Restricted Net Assets	743,719	750,911
Total Net Assets	5,615,653	5,773,183
Total Liabilities and Net Assets	\$ 5,756,969	\$ 5,881,022

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, 2018
(With Comparative Totals for the Year Ended August 31, 2017)

Revenues	Unrestricted	Temporarily Restricted	Total	
			2018	2017
Ticket Sales	\$ 1,466,982	\$ 12,381	\$ 1,479,363	\$ 1,489,410
Cash Contributions	818,513	249,345	1,067,858	1,132,934
Fundraising Events	202,750		202,750	225,850
Less Direct Expenses	(61,919)		(61,919)	(59,950)
In-kind Contributions	12,069		12,069	11,965
Grant Revenue	217,433		217,433	251,453
Interest Revenue	2,407	749	3,156	2,134
Other Revenue	109,238		109,238	119,621
Net Assets Released from Restrictions	269,667	(269,667)		
Total Revenues	3,037,140	(7,192)	3,029,948	3,173,417
Expenses				
Program Services				
Mainstage	2,134,893		2,134,893	2,275,625
Dramaworkshop	33,160		33,160	80,077
Education Initiative	162,468		162,468	93,447
Management and General	700,335		700,335	702,898
Fundraising	156,622		156,622	151,069
Total Expenses	3,187,478		3,187,478	3,303,116
Change in Net Assets (See Note 6)	(150,338)	(7,192)	(157,530)	(129,699)
Net Assets, Beginning of Year	5,022,272	750,911	5,773,183	5,902,882
Net Assets, End of Year	<u>\$ 4,871,934</u>	<u>\$ 743,719</u>	<u>\$ 5,615,653</u>	<u>\$ 5,773,183</u>

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2018

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, 2018, 2017, 2016, and 2015.

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, 2018, 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, 2018

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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain 2017 financial statement amounts have been reclassified to conform to the presentation in the 2018 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, 2018, Palm Beach Dramaworks, Inc. had \$1,702,800 in excess of FDIC insurance.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2018, consisted of the following:

	<u>2018</u>
Land	\$ 856,390
Building	1,323,145
Building Improvements	2,144,569
Leasehold Improvements	119,175
Stage Equipment	281,450
Automobiles	46,905
Software	36,633
Furniture	<u>17,302</u>
	4,825,569
Accumulated Depreciation	<u>(1,189,185)</u>
Net Property and Equipment	<u>\$ 3,636,384</u>

Depreciation expense for the fiscal year ended August 31, 2018, was \$198,522.

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, 2018

NOTE 4 – PLEDGES

The Organization had pledges at August 31, 2018, which consist of the following:

	Due in Fiscal Year Ending August 31,				Total
	2019	2020	2021	2022	
Capital Campaign	\$ 9,550	\$ 2,750	\$ 1,000	\$	\$ 29,125
Drama-workshop Education Initiative	45,000	10,000			55,000
	61,000	61,000	11,000	10,000	143,000
Total	\$ 115,550	\$ 73,750	\$ 12,000	\$ 10,000	\$ 211,300

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

On August 31, 2018, Palm Beach Dramaworks, Inc.’s temporarily restricted net assets consisted of the following:

	Cash
Capital Campaign	\$ 409,253
Education Initiative	157,092
Dramaworkshop	177,374
Temporarily Restricted Net Assets	\$ 743,719

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, 2018 and 2017 were \$40,992 and \$66,190, respectively.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2018

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 \$94,252 for the operating leases in the fiscal year 2018.

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

<u>Fiscal Year</u>	<u>Rehearsal</u>
2019	\$ 44,108
2020	45,431
2021	<u>46,794</u>
Total	<u>\$ 136,333</u>

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. Two of the Board members are full-time, salaried employees of the Organization, and serve as Managing Director and Producing Artistic Director. The Company Manager was also on the Board for part of the year, but had left the Board and was no longer was employed by the Organization at year end. During the fiscal year end August 31, 2018, the Organization paid the above mentioned individuals cumulative salaries in the amount of \$305,308.

NOTE 9 – CURRENT VULNERABILITY DUE TO CONCENTRATIONS

Palm Beach Dramaworks, Inc. received approximately 14% 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, 2018

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, 2018, were \$17,643.

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, 2018 were \$22,060.

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 \$28,000 discretionary contribution to the plan and there were no participant contributions during the year ended August 31, 2018. 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, 2018 plan assets in the amount of \$129,653 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, 2018

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 13 – SUBSEQUENT EVENTS

Subsequent events were evaluated through January 3, 2019, 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, 2018

	Program Services			Management and General	Fund- Raising	Total
	Mainstage	Dramaworkshop	Education Imitative			
Director & Playwrights	\$ 49,668	\$ 1,064	\$ 3,151	\$	\$	\$ 53,883
Advertising/Printing	164,645	658	5,666	19,051	9,063	199,083
Stages, Costumes, & Props	303,007	2,375	7,916			313,298
Royalties, Dues, & Fees	110,976	5,000	9,363	17,657		142,996
Repairs and Maintenance	50,599			5,622		56,221
Credit card and bank fees				38,555		38,555
Professional & Legal Fees				27,031		27,031
Occupancy	136,736			9,858		146,594
Payroll	899,847	19,645	109,655	490,510	125,797	1,645,454
Health Insurance	48,156			50,355		98,511
Programs & Tickets	21,697				4,444	26,141
Small Equipment	1,829					1,829
Insurance	47,778			13,317		61,095
Postage and Shipping	7,397			4,150	1,100	12,647
Special Events	40,665				3,568	44,233
Travel	46,405	3,505	16,769			66,679
Food					30,000	30,000
Supplies					11,010	11,010
Facility					20,909	20,909
Miscellaneous	16,807	913	9,948	15,026	12,012	54,706
Depreciation	188,681			9,203	638	198,522
Total Expenses	\$ 2,134,893	\$ 33,160	\$ 162,468	\$ 700,335	\$ 218,541	\$ 3,249,397

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 Imitative			
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
Credit card and bank fees				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