

PALM BEACH DRAMAWORKS, INC.
INCOME TAX BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDING
AUGUST 31, 2019

PALM BEACH DRAMAWORKS, INC.
August 31, 2019
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INDEPENDENT AUDITOR'S REPORT



NOWLEN, HOLT & MINER, P.A.

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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, 2019 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, 2019 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 2.

Basis of Accounting

We draw attention to Note 2 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.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, Palm Beach Dramaworks, Inc implemented Accounting Standards Update 2016-14: Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended August 31, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Palm Beach Dramaworks, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, FL
January 13, 2020

PALM BEACH DRAMAWORKS, INC.
Statement of Assets, Liabilities, and Net Assets-Income Tax Basis
August 31, 2019
(With Comparative Totals as of August 31, 2018)

ASSETS

	2019	2018
Current Assets		
Cash and Cash Equivalents	\$ 184,284	\$ 1,544,973
Investments	1,527,602	
Deposits	12,205	12,205
Other Assets	27,764	24,501
Total Current Assets	1,751,855	1,581,679
Cash and Cash Equivalents	293,062	409,253
457(b) Plan Participant Accounts	171,132	129,653
Land, Buildings, and Equipment, net	3,534,102	3,636,384
Total Assets	\$ 5,750,151	\$ 5,756,969

LIABILITIES AND NET ASSETS

Liabilities		
Current Liabilities		
Payroll	\$ 3,093	\$ 3,663
Security Deposit	8,000	8,000
Total Current Liabilities	11,093	11,663
457(b) Plan Participant Accounts	171,132	129,653
Total Liabilities	182,225	141,316
Net Assets		
Without donor restrictions		
Equity in Fixed Assets	3,534,102	3,636,384
Board Designated Operating		
Contingency Reserve	201,627	168,276
Undesignated	1,065,617	1,067,274
	4,801,346	4,871,934
With donor restrictions	766,580	743,719
Total Net Assets	5,567,926	5,615,653
Total Liabilities and Net Assets	\$ 5,750,151	\$ 5,756,969

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, 2019
(With Comparative Totals for the Year Ended August 31, 2018)

Revenues	Without	With	Total	
	Donor Restrictions	Donor Restrictions	2019	2018
Ticket Sales	\$ 1,498,124		\$ 1,498,124	\$ 1,479,363
Cash Contributions	891,021	333,170	1,224,191	1,067,858
Fundraising Events	227,000		227,000	202,750
Less Direct Expenses	(61,201)		(61,201)	(61,919)
In-kind Contributions	13,301		13,301	12,069
Grant Revenue	189,723		189,723	217,433
Interest Revenue	10,415	345	10,760	3,156
Other Revenue	114,819		114,819	109,238
Net Assets Released from Restrictions	310,654	(310,654)		
Total Revenues	3,193,856	22,861	3,216,717	3,029,948
Expenses				
Program Services				
Mainstage	2,205,727		2,205,727	2,134,893
Dramaworkshop	38,793		38,793	33,160
Education Initiative	138,700		138,700	162,468
Management and General	721,940		721,940	700,335
Fundraising	159,284		159,284	156,622
Total Expenses	3,264,444		3,264,444	3,187,478
Change in Net Assets (See Note 10)	(70,588)	22,861	(47,727)	(157,530)
Net Assets, Beginning of Year	4,871,934	743,719	5,615,653	5,773,183
Net Assets, End of Year	<u>\$ 4,801,346</u>	<u>\$ 766,580</u>	<u>\$ 5,567,926</u>	<u>\$ 5,615,653</u>

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Statement of Functional Expenses - Income Tax Basis
Year Ended August 31, 2019
(With Comparative Totals for the Year Ended August 31, 2018)

	2019		
	Program Services		
	Mainstage	Dramaworkshop	Education Imitative
Director & Playwrights	\$ 38,513	\$ 6,444	\$ 350
Advertising/Printing	158,060	4,627	6,101
Stages, Costumes, & Props	290,504	190	5,473
Royalties, Dues, & Fees	134,499		
Repairs and Maintenance	58,978		
Credit card and bank fees			
Professional & Legal Fees		2,500	10,605
Occupancy	151,813		
Payroll	965,136	20,082	87,443
Health Insurance	46,796		
Programs & Tickets	21,566		
Small Equipment	2,002		
Insurance	47,277		
Postage and Shipping	6,289		
Special Events	19,066		
Travel	61,420	1,325	18,817
Food			
Supplies			
Facility			
Miscellaneous	15,771	3,625	9,911
Depreciation	188,037		
Total Expenses	\$ 2,205,727	\$ 38,793	\$ 138,700

<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>	<u>2018 Total</u>
\$	\$	\$ 45,307	\$ 53,883
27,102	11,732	207,622	199,083
		296,167	313,298
18,011		152,510	142,996
6,553		65,531	56,221
38,028		38,028	38,555
18,673		31,778	27,031
10,936		162,749	146,594
490,510	125,797	1,688,968	1,645,454
70,974		117,770	98,511
	4,417	25,983	26,141
		2,002	1,829
12,386		59,663	61,095
2,981	637	9,907	12,647
	2,227	21,293	44,233
		81,562	66,679
	32,317	32,317	30,000
	8,832	8,832	11,010
	20,052	20,052	20,909
16,808	13,836	59,951	54,706
8,978	638	197,653	198,522
<u>\$ 721,940</u>	<u>\$ 220,485</u>	<u>\$ 3,325,645</u>	<u>\$ 3,249,397</u>

See Notes to the Financial Statements

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 1 – NATURE OF BUSINESS

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. Our Vision is to enhance the quality of life through the transformative power of live theatre. Our performances are presented at The Don & Ann Brown Theatre, which is located in the heart of downtown West Palm Beach, at 201 Clematis Street.

Five main-stage shows, two children's shows, one summer camp production, and three concerts were produced during the season providing a quality theatrical environment for students and community members to practice their talents, to learn theatre arts, and an opportunity to be involved in local productions and community theatrical enrichment. The five main-stage productions were: Indecent; House on Fire; The Spitfire Grill; and House of Blue Leaves. The two children's shows were: Charlotte's Web and The Ugly Duckling. The summer camp production was Edges. The three cabaret events were: Jill and Rich; Ukelelee by Taimaine; and The Lubben Brothers. The Dramalogue-Talking Theatre! Series gave public presentations of lectures, staged readings and interviews of five theatre legends: Charles Busch interview, August Wilson Playwright presentation, a Regional Theatre Roundtable discussion, John Guare playwright presentation, and Ted Chapin interview. These forums allowed for public comment, discussion and education.

Some of the Organization's efforts are spent on student educational initiatives, including in-school master classes on acting and playwriting, and apprenticeship and intern programs for theatre students. Ten Special student performances of our productions were held at no charge serving 1,967 students from 15 area schools with transportation also provided. Additionally, 2,265 students were given free or reduced priced tickets to regularly scheduled performances. Interested students were offered positions to work as apprentices assisting directors, stage managers, light and sound operators, and prop and costume mistresses. Students also had the opportunity to audition and receive guidance from theatre professionals to polish audition techniques, including monologues and song presentations.

Some of the Organization's efforts are focused on the identification and development of new plays through our Dramaworkshop. We receive agent submitted scripts for playwrights around the country which are read and adjudicated by a group of artists. 5 finalists are selected to receive staged readings at our New Year/New Play Festival over 3 days in January with an opportunity for the playwright to attend and garner feedback from the community.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization prepares its financial statements on the cash method of accounting used for federal income tax purposes. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America (GAAP). The following are the significant differences from those accounting principles:

- Under the income tax basis of accounting, revenues are recognized as payments are received. Under GAAP, revenue is recognized as performance obligations are met based on the provisions of FASB ASC 606.
- Expenses generally are recognized when paid rather than when the obligation is incurred. Consequently, accounts receivable and trade accounts payable are not reflected in the accompanying financial statements.
- Marketable securities are carried at cost, instead of fair value. Gains and losses on investments are recorded upon disposition of the investment. GAAP generally requires equity investments with readily determinable values to be measured at fair value with changes in fair value recognized in net income.

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 the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. Expenses are reported as decreases in unrestricted net assets without donor restrictions.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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, 2019, 2018, 2017, and 2016.

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 are 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.

Management's 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.

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 net assets with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions 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, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses which are associated with a specific program or activity are charged directly to that program or activity. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation, insurance, and occupancy, which are allocated on a square footage basis.

Reclassifications

Certain 2018 financial statement amounts have been reclassified to conform to the presentation in the 2019 financial statements. The reclassifications had no effect on the change in net assets.

NOTE 3 – 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, 2019, Palm Beach Dramaworks, Inc. had \$240,350 in excess of FDIC insurance.

NOTE 4 – LIQUIDITY AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets available to meet general expenditures within one year.

Cash	\$ 477,346
Investments	<u>1,527,600</u>
Total financial assets	2,004,948
Less:	
Payroll payable and security deposits	(11,093)
Donor imposed restrictions	(766,580)
Board designated contingency reserve	<u>(201,627)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 1,025,648</u></u>

At August 31, 2019, the Organization's financial assets available to meet general expenditures within one year were 115 days or 3.8 months of expected expenditures.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 4 – LIQUIDITY AVAILABILITY OF FINANCIAL ASSETS (Continued)

The Organization manages its liquidity and reserves following three guiding principles: Operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to fund new projects or weather economic downturns. The Organization does not have a formal liquidity policy; however, the Finance Committee monitors the Organization’s liquidity and if necessary, makes recommendations to the Board. Increases to the contingency reserve are funded annually, the finance committee recommends to the Board an amount between 25% to 100% of the prior year’s change in net assets adjusted for depreciation and restricted expenses.

NOTE 5 – INVESTMENTS

Investments at August 31, 2019, consisted of two US Treasury Bills with maturities of 13 and 26 days. As the investments come due, they are reinvested in new US Treasury Bills with a 30 day maturity. At August 31, 2019, there was no significant difference between market value and cost.

NOTE 6 – PLEDGES

The Organization had pledges at August 31, 2019, which consist of the following:

	Due in Fiscal Year Ending August 31,					
	2020	2021	2022	2023	2024	Total
Capital Campaign	\$ 19,350	\$ 14,100	\$ 13,100	\$ 13,100	\$ 13,100	\$ 72,750
Drama-workshop	20,000					20,000
Education Initiative	60,000	11,000	10,000			81,000
Total	<u>\$ 99,350</u>	<u>\$ 25,100</u>	<u>\$ 23,100</u>	<u>\$ 13,100</u>	<u>\$ 13,100</u>	<u>\$ 173,750</u>

Since the Organization uses the income tax basis of accounting, pledges are recorded as revenue when received and the amounts above do not reflect any discounts.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment as of August 31, 2019, consisted of the following:

	2019
Land	\$ 856,390
Construction in progress – new marquee	90,169
Building	1,323,145
Building Improvements	2,150,742
Leasehold Improvements	119,175
Stage Equipment	275,767
Automobiles	46,905
Software	36,633
Furniture	17,302
	4,916,228
Accumulated Depreciation	(1,382,126)
Net Property and Equipment	\$ 3,534,102

Depreciation expense for the fiscal year ended August 31, 2019, was \$197,653.

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.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

On August 31, 2019, Palm Beach Dramaworks, Inc.’s net assets with donor restrictions consisted of the following:

Capital Campaign	\$ 293,062
Education Initiative	190,237
Dramaworkshop	283,281
Temporarily Restricted	
Net Assets	\$ 766,580

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

For the fiscal year ended December 31, 2019, net assets released from restrictions were as follows:

Capital Campaign	\$ 133,161
Education Initiative	138,700
Dramaworkshop	<u>38,793</u>
	<u>\$ 310,654</u>

NOTE 9 – IN-KIND CONTRIBUTIONS

The Organization records various types of in-kind contributions. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to equipment. For the year ending August 31, 2019, the Organization received various items as follows:

Occupancy	\$ 3,676
Stages, costumes and props	625
Dues and fees	500
Advertising	5,000
Supplies	<u>3,500</u>
	<u>\$ 13,301</u>

Around 340 volunteers have donated approximately 7,300 hours to the Organization, with 370 hours in administrative support, 180 hours in the education department, and 6,750 hours for ushers and show related activities. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under the income tax basis of accounting.

NOTE 10 – 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, 2019 and 2018 were \$149,926 and \$40,992 respectively.

PALM BEACH DRAMAWORKS, INC.
Notes to the Financial Statements
August 31, 2019

NOTE 11 – 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 \$97,662 for the operating leases in the fiscal year 2019.

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

<u>Fiscal Year</u>	<u>Rehearsal</u>
2020	\$ 45,431
2021	46,794
Total	<u>\$ 92,225</u>

NOTE 12 – 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. During the fiscal year end August 31, 2019, the Organization paid the above mentioned individuals cumulative salaries in the amount of \$295,660.

NOTE 13 – CURRENT VULNERABILITY DUE TO CONCENTRATIONS

Palm Beach Dramaworks, Inc. received approximately 15% 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, 2019

NOTE 14 – 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 15 – 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 actor's union. Total contributions for the fiscal year ending August 31, 2019, were \$17,909.

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, 2019 were \$24,104.

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 \$37,000 discretionary contribution to the plan and there were no participant contributions during the year ended August 31, 2019. 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, 2019 plan assets in the amount of \$171,132 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, 2019

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

In the current year the Organization implemented Accounting Standards Update 2016-14: Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities, including net asset classification requirements and the information presented about an entity's liquidity, financial performance, and cash flows.

Key elements of the standard include:

- 1) Reducing net asset classifications from three categories to two. Reporting net assets with donor restrictions and net assets without donor restrictions.
- 2) Expanding disclosures about the nature and amount of any donor restrictions.
- 3) Expanding disclosures on any board designations of net assets without donor restrictions.
- 4) Enhanced disclosures regarding cost allocations.

The Organization also implemented Accounting Standards Update 2018-08: Not-For-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

The Organization made changes to terminology and classification as described above as well as additional and modified disclosures, particularly in Notes 4, 8 and 9 to the financial statements. The Organization also added the Statement of Functional Expenses-Income Tax Basis, which was included a supplemental schedule in the prior year. Retrospective application of the standards did not have an impact on the beginning net assets, change in net assets or in the classification of items between without donor restrictions and with donor restrictions.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events were evaluated through January 13, 2020, which is the date the financial statements were available to be issued.