

CENTER FOR CREATIVE EDUCATION, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

CENTER FOR CREATIVE EDUCATION, INC.
FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Center for Creative Education, Inc.
West Palm Beach, Florida

We have audited the accompanying statement of financial position of the Center for Creative Education, Inc. (a non-profit organization) for the twelve months ended September 30, 2015, and the related statement of activities, functional expenses, and cash flows for the same period then ended. These financial statements are the responsibility of the Center for Creative Education, Inc.'s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center for Creative Education, Inc. as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LARRISA M. SHAFFER, CPA, P.A.
Jupiter, Florida

February 4, 2016

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
As of September 30, 2015

ASSETS

	<u>2015</u>
Current Assets:	
Cash and cash equivalents	\$ 653,472
Long-term certificate of deposit	683
Receivables	
Pledges and grants outstanding	<u>618,431</u>
Total current assets	1,272,586
Non-current assets:	
Pledges and grants outstanding, less current portion	1,000,000
Property and equipment, net	3,907,733
Land	433,126
Works of art	<u>7,500</u>
Total non-current assets	5,348,359
TOTAL ASSETS	<u>\$ 6,620,945</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
As of September 30, 2015

LIABILITIES

	<u>2015</u>
Current Liabilities:	
Accounts payable and accrued expenses	\$ 34,876
Mortgage, current portion	38,400
Total current liabilities	<u>73,276</u>
Long-Term Liabilities:	
Mortgage, less current portion	338,997
Total long-term liabilities	<u>338,997</u>
TOTAL LIABILITIES	412,273
NET ASSETS	
Unrestricted	4,353,644
Temporarily Restricted	1,855,028
TOTAL NET ASSETS	<u>6,208,672</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,620,945</u></u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Local Government	\$ 326,916	\$ -	\$ 326,916
Foundation/Grants	256,236	1,772,000	2,028,236
Contributions/Donations	24,256	-	24,256
Programming	48,576	-	48,576
Special events	358,055	-	358,055
Board contributions	5,480	-	5,480
Other income	1,100	-	1,100
Net assets released from restriction	183,028	(183,028)	-
	<hr/>	<hr/>	<hr/>
TOTAL SUPPORT	1,203,647	1,588,972	2,792,619
Expenses:			
Program services	898,892	-	898,892
Supporting services:			
Management and general	102,145	-	102,145
Fundraising	151,703	-	151,703
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	1,152,740	-	1,152,740
INCREASE (DECREASE) IN NET ASSETS	<hr/>	<hr/>	<hr/>
	50,907	1,588,972	1,639,879
NET ASSETS AT BEGINNING OF YEAR	4,302,737	266,056	4,568,793
NET ASSETS (DEFICIT) AT END OF YEAR	<hr/>	<hr/>	<hr/>
	\$ 4,353,644	\$ 1,855,028	\$ 6,208,672

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2015

	<u>Total</u>	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>
Program expenses	\$ 208,810	\$ 208,810	\$ -	\$ -
Special events	95,411	-	-	95,411
Dues and subscriptions	1,222	1,049	100	73
Conference/Workshops	2,124	1,823	174	127
Accounting	10,950	9,397	898	655
Consulting	100,671	48,280	40,821	11,570
Development	8,485	7,282	696	507
Insurance	34,174	29,328	2,802	2,044
Taxes, licenses & permits	1,317	1,130	108	79
Office expense	14,774	12,678	1,212	884
Equipment rental	11,846	10,166	971	709
Depreciation & amortization	130,202	111,739	10,677	7,786
Property taxes	3,900	3,347	320	233
Repairs & maintenance	15,264	13,099	1,252	913
Payroll & benefits	461,394	395,969	37,834	27,591
Travel	639	549	52	38
Postage	1,082	928	89	65
Utilities	26,644	22,866	2,185	1,593
Interest expense	23,831	20,452	1,954	1,425
TOTAL	<u>\$ 1,152,740</u>	<u>\$ 898,892</u>	<u>\$ 102,145</u>	<u>\$ 151,703</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (Decrease) in Net Assets:	\$	1,639,879
Adjustments to reconcile net cash provided by operating activities:		
Depreciation/Amortization		130,202
(Increase)/decrease in operating activities:		
Decrease in prepaid expenses		9,274
Increase in grants and pledges outstanding		(980,281)
Decrease in accounts payable and accrued expenses		(988)
NET CASH PROVIDED BY OPERATING ACTIVITIES		798,086

CASH FLOWS (USED)/PROVIDED BY INVESTING ACTIVITIES:

Payments for property, equipment and capital construction		(28,062)
NET CASH (USED) BY INVESTING ACTIVITIES		(28,062)

CASH FLOWS (USED)/PROVIDED BY FINANCING ACTIVITIES:

Capital Construction		(183,215)
Payments on debt – Bank of America		(19,347)
Payments on line of credit		(40,315)
Borrowings on line of credit		-
NET CASH (USED) BY FINANCING ACTIVITIES		(242,877)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$	527,147
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CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR		126,325
CASH AND CASH EQUIVALENTS – END OF YEAR	\$	653,472

SUPPLEMENTAL DISCLOSURES AND NONCASH ACTIVITIES:

Interest expense (net of capitalized amounts)	\$	23,832
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See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Center for Creative Education, Inc. (the “Organization”) is organized generally to develop, coordinate, and promote arts and cultural activities and school reform endeavors in Palm Beach County schools, community organizations, and other venues which serve youth. The Organization is supported through donor contributions and grants at the State and local levels, including support from Prime Time Palm Beach County, Inc., which receives significant funding from the Children’s Services Council of Palm Beach County, Inc. In July 2013, the Organization completed the first phase of a capital building campaign to renovate a facility in downtown West Palm Beach, Florida, for use in providing additional on-site programming to local youth. The new space includes classrooms, meeting areas, rehearsal space, and an art gallery, positioning the Organization to develop exceptional resources for arts and education extended to both students and the community. As part of Phase II construction, the Organization completed Phase IIA in August 2015 which provided two additional classrooms.

The Organization qualifies as a not-for-profit entity in accordance with Section 501 (c)(3) of the Internal Revenue Code in Palm Beach County.

Basis of Accounting

The Organization’s financial statements are presented in accordance with FASC ASC 958, formerly Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*, which prescribes standards for the form and presentation of external financial statements for all not-for-profit organizations. The Statement requires the classification of an organization’s net assets, its revenues and expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. It requires the amounts for each of three classes of net assets (permanently restricted, temporarily restricted and unrestricted) be displayed in a statement of financial position and the amounts of the change in each of the three classes of net assets be displayed in a statement of activities. The statements are prepared using the accrual basis of accounting.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Net Assets

Unrestricted net assets are presently available for use by the Organization at the discretion of management with oversight from the Board of Directors. Temporarily restricted net assets are expendable only for purposes and/or during time periods specified by the donor. The Organization does not have any donor-imposed permanently restricted net assets.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of public support and revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Organization follows FASB ASC 958-605, formerly SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recognized at fair value, including unconditional promises to give, which are recorded when the promise is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods (time restriction) or are restricted by the donor for specific purposes (purpose restriction) are reported as temporarily restricted support.

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 are reported in the statement of activities as net assets released from restrictions. Awards with a donor restriction that expires or is met in the same fiscal period that the award is received are reported as increases in unrestricted net assets. All promises to give for completing construction of the new building are accounted for as capital campaign revenue and considered to be temporarily restricted since these

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Revenue Recognition *(continued)*

amounts represent unconditional promises to give with a specific purpose intended. Once the building or designated phase/project is placed in service, all temporarily restricted assets are reclassified as unrestricted. Upon completion in July 2013, all historical temporarily restricted net assets were released from restriction. Grants or contributions given to complete additional phases of the project are classified as temporarily restricted until the specific project is completed.

The Organization receives various grants from state, local and private agencies for program and supporting services. These grants are often funded on a cost reimbursement basis. Revenues from these types of grants are recognized in the statement of activities when expenditures are incurred for the purpose specified, and included in unrestricted revenues and support.

Tuition from programs and classes are recorded when held, net of scholarships awarded to students.

Special events revenue is recognized when the event occurs.

Donated Services

The Organization recognizes the fair value of donated services received if such services: (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

Pledges Outstanding

Pledges outstanding are recorded as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. The Organization uses the allowance method to determine estimated uncollectible amounts. The provision is based upon previous years' experience and management's analysis of specific promises made on an individual basis.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized in the accompanying statement of activities on a functional basis. Accordingly, certain shared costs have been allocated among program and support services based on estimates made by management.

During the construction phases of the new building, certain functional expenses may be allocated and capitalized to the capital construction account on the balance sheet as allowable during pre-construction and construction phases of project implementation. The capitalized expenditures represent time and costs attributable to the construction project during the construction phase. In 2015, management did not allocate general and administrative costs to any additional phases of the construction project.

Fair Value Measurement

The Organization implemented FASB ASC 820-10, formerly SFAS No. 157, “*Fair Value Measurements*” in fiscal year 2009. This statement defines “fair value” and establishes a framework for measuring fair value of a position in a financial instrument. The fair market value of a financial instrument is defined in FASB ASC Topic 825, *Financial Instruments*, as “the amount at which the instrument could be exchanged in a current transaction between willing parties.” The carrying amounts reported in the accompanying statement of financial position for grants receivable approximate fair value as they are considered short-term financial instruments.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Property and Equipment

Land is carried at cost. Donations of property and equipment are recorded as support at their estimated fair value at the time of donation. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Purchased and constructed property and equipment are recorded at cost for expenditures equal to or in excess of \$500 and whose useful life is greater than one year. All property and equipment are depreciated/amortized using the straight-line method over the estimated useful life of the asset.

Art and Collections

Art purchased by or donated to the Organization is capitalized in the Statement of Financial Position. Art includes objects that contain aesthetic, historical or educational value and are displayed for exhibition or program activities. Purchased items are recorded as decreases in unrestricted assets at the cost the item was acquired at. Donated items are recorded as an increase in unrestricted support at the fair market value at the time of the donation. Proceeds from deaccessions, which are reflected as increases in unrestricted net assets, are used exclusively to acquire other items for the art collection.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, no provision for income taxes is reflected in the financial statements. The Organization's information returns are subject to examination, generally for three years after the filing date.

Cash and Cash Equivalents

For purposes of the *Statement of Cash Flows*, the Organization considers all highly liquid investments available for current use with an initial maturity of three (3) months or less to be cash equivalents.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Advertising and Promotion

The Organization follows the policy of charging the costs of advertising and promotion to expense as incurred. Advertising and promotional expense for the year totaled \$90,086.

Significant Concentrations of Cash or Credit Risk

Cash balances are maintained with financial institutions in South Florida. Accounts with financial institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. As of September 30, 2015, the Organization’s cash balances held at financial institutions did not exceed FDIC limits.

Credit risk for outstanding promises to give is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region.

NOTE 2 – PROMISES TO GIVE

Promises to give consist of the following:

	<u>September 30, 2014</u>
Restricted promises:	
Capital Campaign	\$ 1,000,000
Programming	83,028
Unrestricted promises:	
Grants/Foundations	<u>535,403</u>
TOTAL	<u>\$ 1,618,431</u>
Pledges and grants receivable within one year	\$ 618,431
Pledges and grants receivable within two to five year	<u>1,000,000</u>
TOTAL	<u>\$ 1,618,431</u>

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – PROMISES TO GIVE *(continued)*

All promises to give are receivable within one to three years, accordingly, no adjustment for the present value of estimated future cash flows has been made. Management periodically contacts donors throughout the year and assesses individually any outstanding promises to give during the course of the year for collectability. As there have been no collection issues in the past recent years, no additional reserves have been recorded.

NOTE 3 – CONCENTRATION OF REVENUE

The Organization currently receives a significant portion of its support from grants provided through a local government organization. During the twelve-month period ended September 30, 2015, approximately 33% of program funding came from this source.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>September 30, 2014</u>
Buildings	\$ 3,931,849
Instruments & program equipment	46,372
Furniture, fixtures & equipment	179,439
Unamortized loan costs	103,487
Phase II Capital construction	<u>220,193</u>
Less: Accumulated depreciation/amortization	(573,606)
Art	7,500
Land	<u>433,126</u>
TOTAL	<u><u>\$ 4,348,359</u></u>

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PROPERTY AND EQUIPMENT *(continued)*

Depreciation and amortization expense for the period ended September 30, 2015, was \$130,202. There were no interest costs capitalized to “Unamortized interest and loan costs” during the year ended September 30, 2015. All balances in this account pertain to original loan costs of Phase 1 construction completed in 2013.

NOTE 5 – OPERATING LEASE AGREEMENTS

The Organization rents certain office equipment under month-to-month operating leases totaling \$11,846, renewable on an annual basis.

NOTE 6 – LONG TERM DEBT

Long-term debt consists of the following:

Mortgage totaling \$377,397 to a financial institution payable in monthly principal installments of \$3,200 including interest at 4.75% through April 30, 2019 at which time a balloon payment of the remaining principal comes due.

Principal payments due for each of the years subsequent to September 30, 2015, are as follows:

2016	\$ 20,000
2017	20,000
2018	20,000
2019	<u>317,397</u>
	<u>\$ 377,397</u>

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – LINE OF CREDIT

The Organization obtained an operating line of credit with PNC Bank, with a balance available of \$50,000. It is a revolving, unsecured line with no guarantors. Interest is assessed at a floating rate of Prime plus 4.75. Repayments are due monthly. As of September 30, 2015, there are no balances drawn against the line.

NOTE 8 – DONATED SERVICES, MATERIALS, AND FACILITIES

Donated services from artists are not generally recognized because the amounts are typically immaterial. Other donated items recognized include program equipment and supplies. The donated items are recorded as unrestricted donations with a corresponding charge to the appropriate programming or office expense account.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets generally consist of funds and promises-to-give that have been allocated to the Capital Campaign Project or provided for future programming. In 2015, \$83,028 was released from time restriction for programming that was provided during the year.

The breakdown of temporarily restricted assets is as follows:

Discover Series grants	\$ 105,028
Capital construction grants	<u>1,750,000</u>
	<u>\$ 1,855,028</u>

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – RELATED PARTY TRANSACTIONS

The Organization has business accounts at PNC Bank and Bank of America. There are members on the Organization’s Board of Directors from each of these institutions, however, neither of these individuals are directly involved with the management of the accounts.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Pay Down of Debt

The Organization holds a mortgage with a financial institution, with an outstanding balance of \$377,397 at September 30, 2015. The loan is due and payable in monthly payments through April 2019, with interest at 4.75%.

Capital Construction Completion

The Organization is currently in the process of completing construction of Phase IIB which includes two additional classrooms plus separate student and adult restrooms. Currently the Organization is raising funds for the 3rd Phase which is expected to be completed by the end of 2016. There have been significant monetary contributions from individuals, foundations and local governmental entities to fund major portions of the project. There is an explicit guarantee that support received for the project will be expended for the purpose intended, and an implied guarantee that the building will be completed.

NOTE 12 – SUBSEQUENT EVENTS

Management’s Assessment

The Organization adopted FASB ASC 855-10, formerly SFAS No. 165, “Subsequent Events” in 2009. Subsequent events have been evaluated through February 04, 2016, the date which the financial statements were available to be issued.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – SUBSEQUENT EVENTS *(continued)*

Grant from the State of Florida

In October 2015, the Organization received a Cultural Facilities grant from the State of Florida in the amount of \$500,000 to continue additional phases of the building renovation. The grant includes a restrictive covenant that binds the ownership and use of the building as a “cultural facility” for a minimum of ten years.

See independent auditors’ report.