

CENTER FOR CREATIVE EDUCATION, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

CENTER FOR CREATIVE EDUCATION, INC.
FINANCIAL STATEMENTS
For the Year Ended September 30, 2018

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LARRISA M. SHAFFER CPA, P.A.

Jupiter, Florida 33458

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 statements of the Center for Creative Education, Inc. (a non-profit organization) which comprise the statement of financial position as of September 31, 2018, and the related statement of activities and changes in nets assets, statement of functional expenses and the statement of cash flows for the year then 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 accounting principles generally accepted in the United States of America; this includes 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 financial position of the Center for Creative Education, Inc. as of September 30, 2018, and the changes in its nets 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
January 31, 2019

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
As of September 30, 2018

| | <u>2018</u> |
|--|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 656,543 |
| Receivables | |
| Pledges outstanding | - |
| Grants outstanding | 155,000 |
| Other receivables | 28,000 |
| Prepaid Assets | 72,000 |
| Beneficial interest in assets held at the Community | |
| Foundation for Palm Beach and Martin Counties, at fair value | 1,023,664 |
| Property and equipment, net | 5,519,974 |
| Art and collections (Note 1) | - |
| Land | 433,126 |
| | <hr/> |
| TOTAL ASSETS | \$ 7,888,307 |
| | <hr/> |

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
As of September 30, 2018

| | <u>2018</u> |
|---|---------------------|
| LIABILITIES | |
| Accounts payable and accrued expenses | \$ 75,585 |
| Mortgage | 309,864 |
| | <hr/> |
| TOTAL LIABILITIES | 385,449 |
| NET ASSETS | |
| Unrestricted | |
| Board designated - endowment | 1,023,664 |
| Undesignated | 6,237,125 |
| Temporarily Restricted | 242,069 |
| | <hr/> |
| TOTAL NET ASSETS | 7,502,858 |
| | <hr/> |
| TOTAL LIABILITIES AND NET ASSETS | \$ 7,888,307 |
| | <hr/> <hr/> |

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| Revenue and Support: | | | |
| State & Local Government | \$ 570,569 | \$ - | \$ 570,569 |
| Foundation/Grants | 928,275 | 32,500 | 960,775 |
| Contributions/Donations | 27,765 | - | 27,765 |
| Programming | 67,895 | 25,000 | 92,895 |
| Special events | 334,312 | - | 334,312 |
| Board contributions | 25,400 | - | 25,400 |
| Other income | 85,233 | - | 85,233 |
| Net assets released from restriction | 225,000 | (225,000) | - |
| TOTAL SUPPORT | 2,264,449 | (167,500) | 2,096,949 |
| Expenses: | | | |
| Program services | 1,683,952 | - | 1,683,952 |
| Supporting services: | | | |
| Management and general | 113,700 | - | 113,700 |
| Fundraising | 149,385 | - | 149,385 |
| TOTAL EXPENSES | 1,947,037 | - | 1,947,037 |
| INCREASE (DECREASE) IN NET ASSETS | 317,412 | (167,500) | 149,912 |
| NET ASSETS AT BEGINNING OF YEAR | 6,943,377 | 409,569 | 7,352,946 |
| NET ASSETS (DEFICIT) AT END OF YEAR | \$ 7,260,789 | \$ 242,069 | \$ 7,502,858 |

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2018

| | <u>Total</u> | <u>Program</u> | <u>Management & General</u> | <u>Fundraising</u> |
|-----------------------------|---------------------|---------------------|-------------------------------------|--------------------|
| Program expenses | \$ 493,997 | \$ 493,997 | \$ - | \$ - |
| Special events | 66,467 | - | - | 66,467 |
| Dues and subscriptions | 6,086 | 5,224 | 498 | 364 |
| Conference/Workshops | - | - | - | - |
| Accounting | 11,701 | 10,041 | 960 | 700 |
| Consulting | 15,411 | 13,226 | 1,263 | 922 |
| Development | 11,077 | 9,506 | 909 | 662 |
| Insurance | 19,996 | 17,160 | 1,640 | 1,196 |
| Taxes, licenses & permits | 1,422 | 1,220 | 117 | 85 |
| Office expense | 21,843 | 18,744 | 1,792 | 1,307 |
| Equipment rental | 6,317 | 5,421 | 518 | 378 |
| Depreciation & amortization | 241,564 | 207,310 | 19,809 | 14,445 |
| Property taxes | 3,619 | 3,106 | 297 | 216 |
| Repairs & maintenance | 75,136 | 64,479 | 6,163 | 4,494 |
| Payroll | 828,626 | 711,128 | 67,947 | 49,551 |
| Employee Benefits | 78,797 | 67,624 | 6,461 | 4,712 |
| Travel | 599 | 514 | 49 | 36 |
| Postage | 2,636 | 2,261 | 217 | 158 |
| Utilities | 37,476 | 32,163 | 3,072 | 2,241 |
| Interest expense | 11,805 | 10,131 | 968 | 706 |
| Other Expense | 12,462 | 10,697 | 1,020 | 745 |
| TOTAL | <u>\$ 1,947,037</u> | <u>\$ 1,683,952</u> | <u>\$ 113,700</u> | <u>\$ 149,385</u> |

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|----|----------------|
| Increase (Decrease) in Net Assets: | \$ | 149,912 |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Depreciation/Amortization | | 241,564 |
| Unrealized (gain)/loss on investments | | (53,698) |
| Excess value on Piano received in trade | | 7,463 |
| (Increase)/decrease in operating activities: | | |
| Decrease in other receivables | | 32,139 |
| Decrease in grants and pledges outstanding | | 298,289 |
| Increase in prepaid expenses | | (72,000) |
| Increase in accounts payable and accrued expenses | | 21,622 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | 623,254 |

CASH FLOWS (USED)/PROVIDED BY INVESTING ACTIVITIES:

| | | |
|--|--|------------------|
| Payments for property and equipment | | (133,093) |
| Transfer of funds into board designated endowment fund | | (280,000) |
| NET CASH (USED) BY INVESTING ACTIVITIES | | (413,093) |

CASH FLOWS (USED)/PROVIDED BY FINANCING ACTIVITIES:

| | | |
|--|--|-----------------|
| Principal payments on debt – Mortgage | | (29,827) |
| NET CASH (USED) BY FINANCING ACTIVITIES | | (29,827) |

| | | |
|---|----|----------------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ | 180,334 |
|---|----|----------------|

| | | |
|--|--|---------|
| CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR | | 476,209 |
|--|--|---------|

| | | |
|--|----|----------------|
| CASH AND CASH EQUIVALENTS – END OF YEAR | \$ | 656,543 |
|--|----|----------------|

SUPPLEMENTAL DISCLOSURES AND NONCASH ACTIVITIES:

| | | |
|---|--|--------|
| Property Taxes paid | | 3,619 |
| Interest expense (net of capitalized amounts) | | 11,805 |

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. By September 2017, the Organization had fully completed a multi-year capital building campaign to renovate a facility in the Northwood Section of the city of West Palm Beach for use in providing additional in-house programming to local youth. The building provides classrooms, meeting areas, rehearsal space, labs, theatre, and an art gallery, positioning the Organization to develop exceptional resources for arts and education extended to both students and the community.

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)

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 capital construction are accounted for as capital campaign revenue and considered to be temporarily restricted since these amounts represent unconditional promises to give with a specific purpose intended. Once the construction project is placed in service, all temporarily restricted assets are reclassified as unrestricted. Grants or contributions given to complete additional phases of a construction project are classified as temporarily restricted until the specific project is completed.

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)*

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 in the period 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.

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.

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 *(continued)*

During the construction phases of capital construction projects, 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.

Investments and Fair Value Measurement

The Organization applies the U.S. GAAP authoritative guidance for *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements used to measure fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets

Level 2 – Quoted prices for similar assets in active or inactive markets, or inputs derived from observable market data by correlation such as appraisals or other means such as calculations based on contractual rates and published tables.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the marketplace's perceived risk of that instrument. The measurement of assets and liabilities, which are presented in Note 4, are classified within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. Management's assessment of the significance of an input requires judgement, which may affect the valuation and classification within the fair value hierarchy.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

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

Investments and Fair Value Measurement *(continued)*

The organization transferred its board designated endowment monies into a beneficial interest in assets held with the Community Foundation for Palm Beach and Martin Counties and managed by external professional investment consultants who invest according to guidelines established by the Foundation's Investment Committee. Assets in the pool are allocated amongst several asset classes with various income and growth objectives (i.e. global public equity, global private equity, fixed income, liquid income, real assets) carried at fair value based on quoted prices in active markets when available. The individual funds held with the Foundation share investment earnings, as well as realized and changes in unrealized appreciation (depreciation) on investments, based on each fund's pro-rata share of the total dollar amount of all funds in the pool. Earnings distributable in accordance with the annual grant spending policy of the Foundation are included in unrestricted net income in the accompanying statement of activities.

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 \$1,500 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.

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)

Art and Collections

The Organization holds various pieces of art created by local artists, with an estimated value of \$47,500. The Organization has adopted a policy of not capitalizing art or collections in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. Proceeds from sales or insurance recoveries are recorded as increases in net assets when received. It is the policy of the Organization that proceeds from the sale of any donated collection items are to be used to purchase additional collection items. No items were purchased for or removed from the collection during the year ended September 30, 2018.

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.

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, 2018, the Organization's cash balances held at financial institutions exceeded 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.

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 \$3,396.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

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

Board-Designated Endowment Funds

The Board of Directors has designated a portion of its unrestricted net assets for operations and special projects. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed stipulations. The goal of the Organization's investment program is to achieve a total rate of return and long-term growth necessary to respond to future needs. To achieve these goals, the Board has specified that board designated additions and unrestricted earnings from the fund be retained and invested, except upon approval of the Board, whose approval shall allow the funds to be used for the operations of the Organization.

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. Permanently restricted net assets are subject to donor imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization. The Organization does not have any donor-imposed permanently restricted net assets.

Accounting Updates

In August 2016, FASB issued ASU No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. The purpose of the ASU is to simplify and improve how a Not-For-Profit classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Management is currently assessing the impact of the changes proposed by the ASU. The ASU is effective for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – PROMISES TO GIVE

Promises to give consist of the following:

| | <u>September 30, 2018</u> |
|--|---------------------------|
| Restricted promises: | |
| Time restricted grants/foundations | \$ 155,000 |
| Unrestricted promises: | |
| Grants/Foundation | <u>-</u> |
| TOTAL | <u>\$ 155,000</u> |
| | |
| Pledges and grants receivable within one year | \$ 155,000 |
| Pledges and grants receivable within two to five years | <u>-</u> |
| TOTAL | <u>\$ 155,000</u> |

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 – INVESTMENTS

Investments are comprised of the following at September 30, 2018, stated at fair value.

| | Cost | Fair Value |
|--|-------------------|---------------------|
| Beneficial Interest in Assets held at the Community Foundation for Palm Beach and Martin Counties | 930,685 | 1,023,664 |
| Total | <u>\$ 930,685</u> | <u>\$ 1,023,664</u> |

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENTS (continued)

The Organization’s investment income consists of the following for the year.

| | | |
|------------------------------|----|--------|
| Interest and dividend income | \$ | - |
| Net realized gain (loss) | | - |
| Net unrealized gain (loss) | | 64,126 |
| | \$ | 64,126 |

The organization paid investment fees of \$10,428 for the year.

NOTE 4 – FAIR VALUE MEASUREMENTS

The following table summarizes the valuation of the organization’s financial assets measured and recorded at fair value on a recurring basis at September 30, 2018, based on the level of input utilized to measure fair value:

| | Fair value measurements at September 30, 2017 | | | |
|-----------------------------------|---|---------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial Interest in Assets (a) | - | - | 1,023,664 | 1,023,664 |
| Total | \$ - | - | \$ 1,023,664 | \$ 1,023,664 |

The table below sets forth a summary of changes in the fair value of the organization’s Level 3 assets:

| | |
|-------------------------------------|--------------|
| Fair value as of September 30, 2017 | 689,966 |
| Purchase of investments | 280,000 |
| Net realized/unrealized gains | 64,126 |
| Investment fees paid out of acct | (10,428) |
| Fair value as of September 30, 2018 | \$ 1,023,664 |

All unrealized gains and losses on the investments are included in the statement of activities.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – FAIR VALUE MEASUREMENTS (continued)

- (a) Shares in the beneficial interest in assets held at the Community Foundation for Palm Beach and Martin Counties are not traceable to specific equities or underlying assets, but rather allocated based on the value of the total pool which is also comprised of equity funds, real, liquid and fixed income assets which may use pricing models to determine fair value and are therefore determined to be Level 3 inputs.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | <u>September 30, 2018</u> |
|---|----------------------------------|
| Buildings | \$ 5,895,018 |
| Instruments & program equipment | 21,752 |
| Furniture, fixtures & equipment | 640,998 |
| Unamortized loan costs | <u>103,487</u> |
| Less: Accumulated depreciation/amortization | (1,141,282) |
| Land | <u>433,126</u> |
| TOTAL | <u><u>\$ 5,953,099</u></u> |

Depreciation and amortization expense for the period ended September 30, 201, was \$241,564. There were no interest costs capitalized to “Unamortized interest and loan costs” during the year ended September 30, 2018. All balances in this account pertain to original loan costs of phases of construction that were completed in 2013.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – OPERATING LEASE AGREEMENTS

The Organization rents certain office equipment under month-to-month operating leases totaling \$6,316, renewable on an annual basis.

NOTE 7 – LONG TERM DEBT

Long-term debt consists of the following:

Mortgage totaling \$309,864 to a financial institution payable in monthly principal installments of \$3,461 including interest at 3.5% through June 30, 2027 at which time a balloon payment of the remaining principal comes due.

Principal payments due for each of the years subsequent to September 30, 2018, are as follows:

| | | |
|----------------------|----|----------------|
| 2019 | \$ | 31,358 |
| 2020 | | 32,473 |
| 2021 | | 33,628 |
| 2022 | | 34,824 |
| 2023 and beyond | | <u>177,581</u> |
| Total long-term debt | \$ | <u>309,864</u> |

NOTE 8 – LINE OF CREDIT

The Organization holds 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. Throughout the 2017/2018 fiscal year (period ended September 30, 2018), no funds were drawn against the line of credit.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – 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. Donated items or in-kind donations when received, are recorded as unrestricted donations with a corresponding charge to the appropriate programming or office expense account.

NOTE 10 – 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. During the year ended September 30, 2018, \$225,000 was released from time restriction for programming purposes that was provided during the year.

The breakdown of temporarily restricted assets is as follows:

| | | |
|---|--------|--------------------|
| Temporarily restricted earnings - Endowment | \$ | 4,569 |
| Time restricted grants for programming | | 237,500 |
| Total temporarily restricted net assets | \$ | <u>242,069</u> |

NOTE 11 – ENDOWMENT NET ASSETS

The Organization’s endowment consists of a board designated endowment in which individual donor gifts may be made at any time. The spending policy allows for only a portion of annual earnings in the endowment account to be available for distribution each year. Endowment net asset composition by type of fund as of September 30, 2018, is as follows:

| | Board Designated- Unrestricted | Temporarily Restricted | Total |
|------------------------------|---|-----------------------------------|--------------|
| Board Designated - endowment | 930,685 | - | 930,685 |
| Earnings on endowment | 88,410 | 4,569 | 92,979 |
| Total | \$ 1,019,095 | \$ 4,569 | \$ 1,023,664 |

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – ENDOWMENT NET ASSETS (continued)

Changes in endowment net assets for the year ended September 30, 2018 were as follows:

| | Board Designated- Unrestricted | Temporarily Restricted | Total |
|---|---|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | 685,397 | 4,569 | 108,464 |
| Contributions | 280,000 | - | 550,685 |
| Investment gains (losses) | 64,126 | - | 30,817 |
| Philanthropic fees | (10,428) | - | (10,428) |
| Endowment net assets, end of year | <u>\$ 1,019,095</u> | <u>\$ 4,569</u> | <u>\$ 1,023,664</u> |

NOTE 12 – RELATED PARTY TRANSACTIONS

The Organization has business accounts at PNC bank and First Republic bank. 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. The Organization also receives in-kind services from time to time from other board members such as legal services or consulting. When these transactions occur, the in-kind donation is recorded as a contribution with a corresponding expense recorded against the service type provided, in accordance with accounting policies and procedures.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Pay Down of Debt

The Organization holds a mortgage with a financial institution, with an outstanding balance of \$309,864 at September 30, 2018. The loan is due and payable in monthly payments through June 2027, with interest at 3.5%.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 13 – COMMITMENTS AND CONTINGENCIES *(continued)*

Grant from the State of Florida

In October 2015, the Organization received a \$500,000 Cultural Facilities grant from the State of Florida 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. A second grant totaling \$400,000 was received from the State of Florida in 2016/2017, which included a second restrictive covenant, extending the restrictions on use of the building through 2027.

NOTE 14 – SUBSEQUENT EVENTS

Management’s Assessment

Subsequent events have been evaluated through January 31, 2019, the date which the financial statements were available to be issued.

Board Designated Additions to Endowment

The Organization and Board of Directors were able to make additional designated contributions to the Endowment fund subsequent to September 30, 2017. Periodic subsequent balances in the fund, available for future allocation pending Board approval are as follows:

| | <u>TOTAL BALANCE</u> |
|------------------|----------------------|
| October 21, 2017 | \$ 728,821 |
| January 12, 2018 | <u>\$ 1,008,821</u> |

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – SUBSEQUENT EVENTS *(continued)*

Charity Navigator Public Not-For-Profit Rating

Charity Navigator (the “agency”) is one of the nation’s largest and most-utilized evaluators of charities. The agency evaluates more than 9,000 charitable organizations in the United States utilizing a rating system that examines both Financial Health and Accountability & Transparency. The ratings system, 1-star (*) to 4-stars (****), indicates how efficiently a charity has been determined to use their support, how well it has sustained its programs and services over time, and their level of commitment to good governance according to the agency’s evaluation criteria. The Center for Creative Education in December 2017, has earned for the third consecutive year, the Charity Navigator 4-star rating. This is the agency’s highest possible rating and is an indicator that the Organization adheres to sector best practices and executes its mission in a financially efficient way.

See independent auditors’ report.