

**CENTER FOR CREATIVE EDUCATION, INC.**  
**REPORT ON AUDIT OF FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

# CENTER FOR CREATIVE EDUCATION, INC.

## Table of Contents

Report of independent auditors	1-2
Financial statements:	
Statements of financial position	3
Statement of activities - 2021	4
Statement of activities - 2020	5
Statement of functional expenses - 2021	6
Statement of functional expenses - 2020	7
Statements of cash flows	8
Notes to financial statements	9-21



## **Report of Independent Auditors**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Center for Creative Education, Inc., Inc. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses and 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 Organization as of September 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## 2020 Financial Statements

The financial statements of Center for Creative Education, Inc., Inc. as of September 30, 2020, were audited by other auditors whose report dated February 18, 2021, expressed an unmodified opinion on those statements.

*Templeton & Company, LLP*

West Palm Beach, Florida  
March 8, 2022

**CENTER FOR CREATIVE EDUCATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**As of September 30, 2021 and 2020**

	2021	2020
<b>ASSETS</b>		
Assets:		
Cash and cash equivalents	\$ 3,939,517	\$ 785,838
Pledge receivables, net	1,278,876	402,000
Grant and other receivables	5,945	12,712
Prepaid expenses	52,149	11,210
Beneficial interest in assets held by the Community Foundation, at fair value	860,634	1,063,932
Property and equipment, net	6,351,714	5,551,619
Total assets	\$ 12,488,835	\$ 7,827,311
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 181,422	\$ 55,402
Construction costs payable	32,475	-
Advance on programming grant	-	65,000
Mortgage note payable, net	2,984,365	252,274
Total liabilities	3,198,262	372,676
Net assets:		
Without donor restrictions:		
Undesignated	7,128,939	5,965,703
Board designated endowment	860,634	1,063,932
	7,989,573	7,029,635
With donor restrictions	1,301,000	425,000
Total net assets	9,290,573	7,454,635
Total liabilities and net assets	\$ 12,488,835	\$ 7,827,311

See notes to financial statements.

**CENTER FOR CREATIVE EDUCATION, INC.**

**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support:			
Government grants	\$ 1,131,404	\$ -	\$ 1,131,404
Private contributions and grants	2,471,998	1,527,500	3,999,498
Corporate and individual contributions	389,522	-	389,522
Programming	11,338	-	11,338
Net investment return	296,702	-	296,702
Net assets released from restrictions	651,500	(651,500)	-
Total operating revenues and support	4,952,464	876,000	5,828,464
Operating expenses:			
Program services	2,285,492	-	2,285,492
Supporting services:			
Management and general	151,475	-	151,475
Fundraising	181,027	-	181,027
Total operating expenses	2,617,994	-	2,617,994
Increase in net assets from operating activities	2,334,470	876,000	3,210,470
Non-operating loss:			
Loss on sale of real property	(1,374,532)	-	(1,374,532)
Change in net assets	959,938	876,000	1,835,938
Net assets at beginning of year	7,029,635	425,000	7,454,635
Net assets at end of year	\$ 7,989,573	\$ 1,301,000	\$ 9,290,573

See notes to financial statements.

**CENTER FOR CREATIVE EDUCATION, INC.**

**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Government grants	\$ 828,017	\$ -	\$ 828,017
Private contributions and grants	774,565	425,000	1,199,565
Corporate and individual contributions	75,806	-	75,806
Programming	27,120	-	27,120
Special events	361,034	-	361,034
Net investment return	8,269	-	8,269
Other income	6,428	-	6,428
Net assets released from restrictions	201,730	(201,730)	-
	2,282,969	223,270	2,506,239
Expenses:			
Program services	2,018,797	-	2,018,797
Supporting services:			
Management and general	105,787	-	105,787
Fundraising	230,535	-	230,535
Total expenses	2,355,119	-	2,355,119
Change in net assets	(72,150)	223,270	151,120
Net assets at beginning of year	7,101,785	201,730	7,303,515
Net assets at end of year	\$ 7,029,635	\$ 425,000	\$ 7,454,635

See notes to financial statements.

**CENTER FOR CREATIVE EDUCATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended September 30, 2021**

	Program Services	Management and General	Fundraising	Total
Program costs and supplies	\$ 142,560	\$ -	\$ -	\$ 142,560
Special events	-	-	16,192	16,192
Dues and subscriptions	754	15,652	2,452	18,858
Professional and consulting	193,810	15,594	13,366	222,770
Development	17,499	-	134	17,633
Insurance	26,302	2,116	1,814	30,232
Taxes, licenses, and permits	1,507	121	104	1,732
Office costs	26,907	2,167	1,854	30,928
Equipment rental	6,885	554	475	7,914
Property taxes	24,202	1,947	1,669	27,818
Repairs and maintenance	64,025	5,151	4,416	73,592
Salaries, wages and payroll taxes	1,388,592	78,897	110,456	1,577,945
Employee benefits	96,753	5,497	7,696	109,946
Travel	538	31	43	612
Utilities	39,344	3,166	2,713	45,223
Interest expense	86,359	6,948	5,956	99,263
Total expenses before depreciation	<u>2,116,037</u>	<u>137,841</u>	<u>169,340</u>	<u>2,423,218</u>
Depreciation	<u>169,455</u>	<u>13,634</u>	<u>11,687</u>	<u>194,776</u>
	<u>\$ 2,285,492</u>	<u>\$ 151,475</u>	<u>\$ 181,027</u>	<u>\$ 2,617,994</u>

See notes to financial statements.

**CENTER FOR CREATIVE EDUCATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended September 30, 2020**

	Program Services	Management and General	Fundraising	Total
Program costs and supplies	\$ 469,835	\$ -	\$ -	\$ 469,835
Special events	-	-	110,207	110,207
Dues and subscriptions	353	7,318	1,146	8,817
Professional and consulting	100,511	8,087	6,932	115,530
Development	9,073	-	1,639	10,712
Insurance	25,735	2,071	1,775	29,581
Taxes, licenses, and permits	2,473	199	171	2,843
Office costs	31,957	2,571	2,204	36,732
Equipment rental	6,943	559	479	7,981
Property taxes	3,490	281	241	4,012
Repairs and maintenance	84,203	6,775	5,806	96,784
Salaries, wages and payroll taxes	984,663	55,947	78,326	1,118,936
Employee benefits	88,089	5,005	7,007	100,101
Travel	1,652	94	131	1,877
Utilities	29,011	2,333	2,001	33,345
Interest expense	8,266	665	570	9,501
Total expenses before depreciation	<u>1,846,254</u>	<u>91,905</u>	<u>218,635</u>	<u>2,156,794</u>
Depreciation	<u>172,543</u>	<u>13,882</u>	<u>11,900</u>	<u>198,325</u>
	<u>\$ 2,018,797</u>	<u>\$ 105,787</u>	<u>\$ 230,535</u>	<u>\$ 2,355,119</u>

See notes to financial statements.

**CENTER FOR CREATIVE EDUCATION, INC.**

**STATEMENT OF CASH FLOWS**

**For the Year Ended September 30, 2021**

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 1,835,938	\$ 151,120
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	194,776	198,325
Amortization of debt issuance costs	81,382	-
Net unrealized gains on investments	(296,702)	(54,529)
Loss on sale of real property	1,374,532	-
Changes in operating assets and liabilities:		
Pledge receivables	(876,876)	(206,667)
Grant and other receivables	6,767	-
Prepaid expenses	(40,939)	8,506
Accounts payable and accrued expenses	126,020	6,352
Refundable advances	(65,000)	65,000
Net cash provided by operating activities	2,339,898	168,107
Cash flows from investing activities:		
Proceeds from sale of real property, net	3,461,536	-
Purchases of property and equipment	(2,879,846)	(14,505)
Distributions from beneficial interest in assets held by Community Foundation	500,000	46,260
Contributions to beneficial interest in assets held by Community Foundation	-	(11,912)
Net cash provided by investing activities	1,081,690	19,843
Cash flows from financing activities:		
Principal payments on mortgage note payable	(252,274)	(24,016)
Loan costs paid	(15,635)	-
Net cash used in financing activities	(267,909)	(24,016)
Net increase in cash	3,153,679	163,934
Cash and cash equivalents at beginning of year	785,838	621,904
Cash and cash equivalents at end of year	\$ 3,939,517	\$ 785,838
Supplemental cash flow disclosure:		
Acquisition of property with mortgage note	\$ 3,000,000	\$ -
Interest paid	\$ 28,452	\$ -

See notes to financial statements.

# CENTER FOR CREATIVE EDUCATION, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Nature of Activities and Summary of Significant Accounting Policies

#### Nature of activities

The Center for Creative Education, Inc. (the Organization) is organized generally to develop, coordinate, and promote advancements in tax supported public education. 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. The Organization operates in a facility in the Northwood Section of the City of West Palm Beach. This location 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. During 2021, the Organization purchased property to open a new campus in the fall of 2022 (see Note 6).

The Organization carries out its mission through the following programs:

#### *Creative Arts Designed to Reinforce Education (CADRE)*

Serving nearly 7,500 K-5 students through afterschool programming in recreation centers, churches, and other community sites across Palm Beach County. CADRE provides an interactive, supportive and safe learning environment with 40 out-of-school sites, and sometimes as many as 65 sites. Funding for this program comes from Prime Time of Palm Beach County, which receives significant funding from the Children's Services Council of Palm Beach County. Prime Time also supports our Art of Science initiative that serves roughly 300 students. This is a collaborative effort between South Florida Science Center and Aquarium (SFSCA) based on STEAM (Science, Technology, Engineering, Art and Math) activities.

#### *Arts for Literacy*

This is in-school programming currently serving approximately 1,000 students in 54 kindergarten, first and second grade classrooms. The program is aligned with the School District of Palm Beach County's goal of 75% of students reading on grade level by third grade. Teaching artists work in collaboration with classroom teachers each week throughout the school year.

#### *Digital Literacy*

The Digital Literacy program develops middle and high school students' abilities to design communication across the fluid digital formats of film, photography, video, audio, and interactive media. Creatively, students employ the elements of space, time, light, motion, color, and sound to develop their perspectives and voices. This program has three strands, A Sense of Place, Designing PSAs, and Global Vision through Digital Media, which seeks to broaden students' understanding of the digital world so they can adapt to changing technology with confidence.

#### *The Foundation School Summer Camp*

In response to the need for summer camps to open during a pandemic and allow parents to go back to work, the Organization opened 10-week academic summer camp program. This also provided a solution for students who were most at risk and already behind academically with the goal of covering lessons using the district's scope and sequence that was left unfinished because of the shutdown of public schools in Palm Beach County due to the COVID-19 pandemic. The model was designed to use certified teachers supported by professional teaching artists to employ curriculum infused with the arts.

#### *The Foundation School*

The Organization's innovative response to the third-grade illiteracy crisis in Palm Beach County is to use out-of-school time to build an afterschool program in order to accelerate student learning and by using an arts-integrated teaching model. This model allows the Organization to take control of the entire learning environment and provide students 10 hours/week of literacy instruction and reading recovery support that are aligned with the scope and sequence of the district curriculum.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies, Continued**

*The Foundation School. Continued*

During 2021, the Organization purchased certain real property for the new campus of The Foundations School and the Organization's administrative offices (see Note 6) is scheduled to open in the fall of 2022. The Foundations School will offer education for up to two hundred students from kindergarten through fifth grade. The Foundations School's mission is to disrupt educational inequality by successfully teaching all students the foundations of learning – curriculum engagement, social emotional well-being, creative practice, reading proficiency, and academic achievement.

*Professional Development*

A significant portion of the annual budget ensures the highest quality of instruction by providing professional development to all teachers, teaching assistants, teaching artists, and pre-service teachers through our University partnerships.

*Basis of presentation*

The financial statements of the Organization have been prepared in accordance with the U.S. generally accepted accounting principles (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions* – Net assets available for the support of the Organization's operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purpose specified in the corporate documents and its application for tax-exempt status, and any limits resulting from contractual arrangements with creditors or others that are entered into in the course of operations.

*Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time and net assets subject to donor-imposed stipulations to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the earnings on related investments for general or specific purposes. The Organization's unspent contributions are included in this class if the donor limited their use, as are its donor-imposed endowment funds.

When a donor's restriction is satisfied either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Net assets restricted for acquisition of building or equipment (or less commonly the contribution of those assets directly) are reported as net assets with donor restrictions until the specified assets are placed in service by the Organization, unless the donor provided more specific directions about the period of its use.

*Contributions*

Transfers of cash or other assets that are both voluntary and nonreciprocal are recognized as contributions. Contributions may be either conditional or unconditional. Conditional contributions are recognized as revenue on the date all donor-imposed restrictions are overcome or explicitly waived by the donor. Restrictions may include specific and measurable outcomes, limitations on performance of an activity and other stipulations related to the contribution, as well as a right of return. Assets received before the restriction is met are accounted for as refundable advances. Contributions not bound by donor-imposed restrictions are considered to be available for unrestricted use.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies, Continued**

Contributions, continued

When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without restrictions and are reported in the statement of activities as net assets released from donor 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 net assets without donor restrictions.

All promises to give for capital construction purposes are accounted for as capital campaign revenue and considered to be support with donor restrictions since these amounts represent promises to give with a specific purpose intended. Once the construction project is placed in service, all related net assets with donor restrictions are reclassified as net assets without donor restrictions.

Grants

The Organization receives various grants from state, local and private agencies for program and supporting service expenses. 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 revenues and support not subject to donor restrictions. Any amounts collected in advance of incurring specified costs are reflected as deferred revenue.

Other revenue and support

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

Special events revenue is comprised of both contribution and exchange elements based upon the direct benefits donors receive and their stated intentions. Ticket and auction-type revenues are recognized based upon the fair value and timing of the direct benefit received in the form of the event taking place or the item/service acquired during the exchange transaction. The contribution elements of the special event, such as pledges, cash contributions and sponsorships that do not contain an exchange element, are recognized immediately, unless there is a barrier to performance or right of return.

Cash and cash equivalents

Cash and cash equivalents include non-interest bearing accounts and other highly liquid investments with an original maturity of three months or less.

Pledge receivables

Pledges outstanding are recorded as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Organization uses the allowance method to determine estimated uncollectible amounts. The provision is based upon historical experience and management's analysis of specific promises made on an individual basis. There was no allowance for doubtful accounts related to pledges outstanding as of September 30, 2021 and 2020.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies, Continued**

Grants receivable

Grants receivable consists mainly of gifts from state and local organizations and foundations, generally for the purpose of providing funds for programming, capital construction projects or general operating needs. Interest is not charged on outstanding receivables. The Organization determines the need to provide an allowance for doubtful accounts based on the timing of payments due, subsequent receipts, current economic conditions, historical experience and individual knowledge of the donor. There was no allowance for doubtful accounts related to grants receivable as of September 30, 2021 and 2020.

Fair value disclosures

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 financial statements provide for fair value disclosures for financial instruments for which it is practicable to estimate fair value. Financial instruments include cash and cash equivalents, receivables, and accounts payable and accrued expenses, and are stated at carrying cost at year-end, which approximates fair value, due to the short-term nature of their maturities. Other financial instruments at year-end are stated at fair value.

Property and equipment

Property and equipment are recorded at cost, or if donated, at estimated fair value on the date of receipt. Donated assets are reported as contributions without donor restriction in the statement of activities unless the donor has imposed restrictions on the donated asset for a specific purpose. Assets donated with donor-imposed restrictions or cash contributed with the stated purpose of acquiring or constructing property and equipment are reported as contributions with donor restriction. Assets with temporary donor restrictions are released from restriction when the donated, acquired or constructed assets are placed in service.

The Organization capitalizes additions of property and equipment over \$1,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three (3) to thirty (30) years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed in the period incurred.

Art and collections

The Organization holds various pieces of art created by local artists, with an estimated value of \$337,500 at September 30, 2021. 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 years ended September 30, 2021 and 2020.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies, Continued**

Board designated endowment funds

The Organization's Board of Directors has designated a portion of its net assets without donor restrictions for future operating expenditures and special projects. As required by U.S. GAAP, 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 of Directors has specified that board designated additions and earnings not subject to donor restrictions from the fund be retained and reinvested, except upon approval of the Board of Directors, whose approval shall allow the funds to be used for the operations of the Organization.

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.

Functional allocation of expenses

The Organization allocates its expenses on a functional basis among its various programs and support services in the accompanying statements of functional expenses. Expenditures which can be directly identified with a specific program or service are allocated directly, according to their natural expenditure classification. Costs that are common to multiple functions are allocated among program and support services based on estimates made by management or direct costs when identifiable. The costs that are commonly allocated include payroll, office expenses, information technology, insurance, utilities and rent, which are allocated based on estimates of time, usage or square footage.

Income taxes

The Organization has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been recorded in the financial statements. The Organization is required to operate in conformity with the provisions of the IRC to maintain its exempt status.

Management analyzes tax positions in jurisdictions where it is required to file income tax returns. Based on its evaluation, management did not identify any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease. Interest and penalties attributable to income taxes, if any, are included in operating expenses. No such interest or penalties were recorded for the years 2021 or 2020. The Organization is no longer subject to income tax examinations for fiscal years prior to 2018.

Advertising and promotion

The Organization follows the policy of charging the costs of advertising and promotion to expense as incurred. Advertising and promotional expense totaled \$15,650 and \$6,002 for the years ended September 30, 2021 and 2020, respectively, included in various expense accounts in the statements of functional expenses.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Nature of Activities and Summary of Significant Accounting Policies, Continued**

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. Management regularly evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2020 financial statements were reclassified to conform to the presentation in the 2021 financial statements. The reclassifications had no impact on previously reported net assets.

New accounting pronouncements

In June 2020, the FASB issued ASU 2020-05 allowing certain private entities and not for profits to defer the implementation of ASU 2016-02, *Leases*. The FASB issued ASU 2020-05 in response to the coronavirus (COVID-19) pandemic to give some relief to organizations and the difficulties they are facing during the pandemic.

In February 2016, the FASB issued guidance on lease accounting. The new guidance will continue to classify leases as either finance or operating and will result in the lessee recording a right-of-use asset and a corresponding lease liability on its balance sheet, with classification affecting the presentation for fiscal years beginning on or after December 15, 2021, and early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the financial statements. Management is currently evaluating the impact of this guidance on its financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The guidance in this ASU requires not-for-profit entities to present nonfinancial assets as a separate line item in the statement of activities separately from contributions of cash and other financial assets. The ASU also requires disclosures including the use of the contributed nonfinancial assets, the policy of monetizing or utilizing contributed nonfinancial assets, description of donor-imposed restrictions associated with contributed nonfinancial assets, and the valuation techniques and inputs to measure the contributed nonfinancial assets at fair value.

**Note 2 – Liquidity and Availability of Resources**

The Organization's financial assets available within one-year of September 30, 2021 and 2020 for general expenditures are as follows:

	2021	2020
Financial assets due within one-year:		
Cash and cash equivalents	\$ 3,939,517	\$ 785,838
Pledges and grant receivables due within one year	301,000	101,000
Other receivables	5,945	12,712
Beneficial interest in assets held by Community Foundation	860,634	1,063,932
Total financial assets	\$ 5,107,096	\$ 1,963,482

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 2 – Liquidity and Availability of Resources, Continued**

The Organization strives to maintain liquid financial assets sufficient to cover 8 months operating costs. The purpose of cash reserves held in certain bank accounts and the beneficial interest is to ensure the Organization can continue operations uninterrupted. As part of the Organization’s liquidity management plan, the Organization invests cash in excess of daily requirements in cash equivalents and short-term investments. The Organization maintains a line of credit with available borrowings of \$50,000 to cover short-term cash needs (see Note 7).

**Note 3 – Pledges Receivable**

Pledges receivable consist of the following at September 30, 2021 and 2020:

	2021	2020
Program pledges	\$ 301,000	\$ 402,000
Capital campaign pledges	<u>1,000,000</u>	<u>-</u>
Pledges receivable before unamortized discount	1,301,000	402,000
Less: unamortized discount	<u>(22,124)</u>	<u>-</u>
Net pledges receivable	<u>\$ 1,278,876</u>	<u>\$ 402,000</u>
	2021	2020
Amounts due in:		
Less than one year	\$ 301,000	\$ 101,000
One to five years	<u>1,000,000</u>	<u>302,000</u>
Total	<u>\$ 1,301,000</u>	<u>\$ 402,000</u>

A discount rate of 0.98% is applied to pledges with terms in excess of one year as of September 30, 2021.

**Note 4 – Beneficial Interest in Assets Held by the Community Foundation**

The Organization has a beneficial interest in assets held by the Community Foundation for Palm Beach and Martin Counties, Inc. (the Foundation) which holds them as an endowed component fund for the benefit of the Organization. The Organization has granted the Foundation variance power which gives the Foundation’s Board of Trustees the power to use the funds for other purposes in certain circumstances. The Fund is subject to the Foundation’s investment and operating policies. For the year ended September 30, 2021, the Organization received distributions totaling \$500,000, while the beneficial interest in assets held by the Foundation appreciated in fair value in the amount of \$296,702, which is included in the accompanying statement of activities.

**Note 5 – Fair Value Measurements**

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 5 – Fair Value Measurements, Continued**

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The beneficial interest in assets held by the Community Foundation (the Foundation) is managed by external professional investment consultants who invest according to guidelines established by the Foundation's Investment Committee. Assets in the Foundation's investment 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 net investment return in the accompanying statements of activities.

The following table summarizes the Organization's determination of fair value as of September 30, 2021 and 2020 on the following financial assets using these input levels that are measured at fair value on a recurring basis:

	<u>Fair Value Measurements as of September 30, 2021</u>			<u>Fair Value Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Beneficial Interest in Assets Held by the Community Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 860,634</u>	<u>\$ 860,634</u>
	<u>Fair Value Measurements as of September 30, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
Beneficial Interest in Assets Held by the Community Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,063,932</u>	<u>\$ 1,063,932</u>

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 5 – Fair Value Measurements, Continued**

The following is a schedule of Level 3 investment activity, which is comprised of funds held by the Foundation, for the year ended September 30, 2021 measured on a recurring basis using significant unobservable inputs:

Balance as of October 1, 2020	\$ 1,063,932
Appreciation in fair value	308,368
Withdrawals	(500,000)
Investment fees	<u>(11,666)</u>
Balance as of September 30, 2021	<u>\$ 860,634</u>

**Note 6 – Property and Equipment**

In July 2021, the Organization acquired certain real property for its new campus for a purchase price of \$5,975,000. The purchase price and closing costs were paid with available cash and a mortgage payable in the amount of \$3,000,000 (see Note 8).

In August 2021, the Organization sold its existing land, buildings, and equipment for a sale price of \$4,000,000. The Organization received approximately \$3,462,000, net of closing costs and payment of the outstanding balance of the mortgage payable (see Note 8), and recognized a loss of approximately \$1,375,000. In conjunction with the sale, the Organization executed a lease agreement with the buyer in order to continue to occupy and conduct operations and activities at its existing campus.

Property and equipment as of September 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,055,000	\$ 433,126
Buildings	4,009,306	5,998,505
Instruments and program equipment	21,752	21,752
Furniture, electronics, and equipment	578,838	634,653
Leasehold improvements	<u>-</u>	<u>49,004</u>
	6,664,896	7,137,040
Less: accumulated depreciation	<u>(427,428)</u>	<u>(1,585,421)</u>
	6,237,468	5,551,619
Construction in progress	<u>114,246</u>	<u>-</u>
Property and equipment, net	<u>\$ 6,351,714</u>	<u>\$ 5,551,619</u>

Depreciation totaled \$194,776 and \$198,325 for the years ended September 30, 2021 and 2020, respectively. Construction in progress at September 30, 2021 represents costs incurred for improvements of the new campus purchased in 2021.

**Note 7 – Line of Credit**

The Organization has an operating line of credit with a bank, with available borrowings of \$50,000. The line of credit is a revolving, unsecured line of credit with no guarantors. Interest is assessed at a floating rate of Prime plus 4.75%. Borrowings on the line of credit are due on demand and expire in March 2023. At September 30, 2021 and 2020, no borrowings were outstanding on the line of credit.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 8 – Mortgage Note Payable**

Former Mortgage Note

The Organization was obligated under a mortgage note (former mortgage note) which was collateralized by the Organization’s previously owned land and building. As of September 30, 2020, the outstanding balance of the mortgage note was \$252,274. In August 2021, the outstanding balance of the former mortgage note was repaid in full with the proceeds from the real property sale in August 2021 (see Note 6).

2021 Mortgage Note

In July 2021, the Organization executed a mortgage note payable with a bank totaling \$3,000,000 for the purchase of land and a building for its new campus (see Note 6). The mortgage is collateralized by the land and building. The mortgage requires monthly interest payments at a fixed rate of 2.95% and semi-annual principal payments of \$100,000. The maturity of the mortgage is August 1, 2026, at which time all remaining principal and accrued interest is due and payable. As of September 30, 2021, the outstanding balance of the mortgage note payable was \$3,000,000.

Amortization of the loan issuance costs is reported as interest expense in the statement of activities and amounted to \$81,382 for the year ended September 31, 2021.

The outstanding balances of the mortgage note payable at September 30 were as follows:

	<u>2021</u>	<u>2020</u>
Former Mortgage Note	\$ -	\$ 252,274
2021 Mortgage Note	3,000,000	
Less: Unamortized debt issuance costs	<u>(15,635)</u>	<u>-</u>
Total long-term debt, net	<u>\$ 2,984,365</u>	<u>\$ 252,274</u>

Principal due in each of the five years subsequent to September 30, 2021 follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2022	\$ 200,000
2023	200,000
2024	200,000
2025	200,000
2026	<u>2,200,000</u>
Total	<u>\$ 3,000,000</u>

**Note 9 – Payment Protection Program Loan**

Paycheck Protection Program Loan (PPP1)

During April 2020, the Organization applied for and received a loan from an unrelated third party lender pursuant to the Paycheck Protection Program (the PPP) under the Coronavirus Aid, Relief and Economic Security Act (the CARES Act), enacted March 27, 2020, in the principal amount of \$228,600.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 9 – Payment Protection Program Loan, Continued**

Paycheck Protection Program Loan (PPP1), Continued

Under the terms of the PPP1 loan, up to the entire amounts of principal and accrued interest may be forgiven to the extent the proceeds of the PPP loan are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration (SBA) under the PPP.

In February 2021, the SBA approved the Organization’s application for full forgiveness of the PPP1 loan in the amount of \$228,600. The Organization recognized the forgiveness in the amount \$228,600 as a government grant in the accompanying statement of activities for the year ended September 30, 2020.

Paycheck Protection Program Loan (PPP2)

During February 2021, the Organization applied for, was approved and received a second PPP loan (PPP2) from an unrelated third party lender pursuant to the PPP under the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act (the Economic Aid Act), enacted December 27, 2020, in the principal amount of \$288,000.

Under the terms of the PPP2 loan, up to the entire amounts of principal and accrued interest may be forgiven to the extent the proceeds of the PPP2 loan are used for qualifying expenses as described in the Economic Aid Act and applicable implementing guidance issued by the U.S. Small Business Administration (SBA) under the PPP2.

In February 2021, the SBA approved the Organization’s application for full forgiveness of the PPP2 loan in the amount of \$288,000. The Organization recognized the forgiveness in the amount \$288,000 as a government grant in the accompanying statement of activities for the year ended September 30, 2021.

**Note 10 – Net Assets with Donor Restrictions**

Net assets with donor restrictions generally consist of funds and promises-to-give that have been allocated to capital projects, provided for future programming, or are to be paid over a stated period of time. During the years ended September 30, 2021 and 2020, \$651,500 and \$201,730, respectively, was released from restriction.

At September 30, 2021 and 2020, net assets with donor restrictions are restricted for the following purposes or periods:

	2021	2020
Purpose and time restrictions:		
Pledges and grants for programming	\$ 301,000	\$ 425,000
Capital campaign pledges	1,000,000	-
Total net assets with donor restrictions	\$ 1,301,000	\$ 425,000

**Note 11 – Board Designated Endowment**

The Organization’s endowment consists of a board designated endowment in which individual donor gifts may be made at any time. The board established spending policy allows for only a portion of annual earnings in the endowment account to be available for distribution each year. During 2021, the board approved an endowment distribution in the amount of \$500,000 to be used for the purchase of the land and building for the new campus.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 11 – Board Designated Endowment, Continued**

Changes in the board designated endowment net assets for the years ended September 30, 2021 and 2020 are as follows:

	2021	2020
Balance as of beginning of year	\$ 1,063,932	\$ 1,043,751
Contributions	-	11,912
Distributions	(500,000)	(46,260)
Investment return	308,368	64,848
Fees	(11,666)	(10,319)
Balance as of end of year	\$ 860,634	\$ 1,063,932

**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 and consulting services. 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. These in-kind contributions and expenses totaled \$4,170 and \$5,000 for the years ended September 30, 2021 and 2020, respectively.

**Note 13 – Commitments and Contingencies**

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 included a restrictive covenant that bound 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 2015/2016, which included a second restrictive covenant, extending the restrictions on use of the building through 2026. Upon the sale of its building in 2021, the Organization executed a consent to transfer the property with the restrictive covenants.

Grants

The Organization receives financial assistance from state and local governmental agencies in the form of grants. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Management believes that the liability, if any, for any reimbursement which may arise as the result of audits would not be material.

Construction contracts

The Organization has entered into construction contracts with unrelated third parties for the renovation of the new campus. The estimated construction costs for the renovation are approximately \$6,000,000.

**CENTER FOR CREATIVE EDUCATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 14 – Concentration of Credit Risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. Cash and cash equivalents exceeded the FDIC insured limit by \$3,665,552 and \$426,672, at September 30, 2021 and 2020, respectively. The Organization has not experienced any losses in such accounts.

**Note 15 – Significant Uncertainty – Impact of COVID-19**

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

As a result of worldwide reporting of COVID-19 infections, certain national, state, and local governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of COVID-19. Additionally, more restrictive proclamations and/or directives may be issued in the future which could disrupt certain Organization internal operations, communications, activities, and administrative operations.

In addition to implementing protective guidelines and protocols approved by the Board of Directors, the Organization considered and implemented preventative and protection measures recommended by the Centers for Disease Control and Prevention (CDC), a United States federal agency under the Department of Health. These protocols are aimed at providing a safe environment for in-person learning activities during the course of the COVID-19 pandemic.

The ultimate impact of the COVID-19 pandemic on the Organization's operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or the Organization, may direct, which may result in an extended period of operational disruption. Any resulting financial impact cannot be reasonably estimated at this time but could be anticipated to have a material adverse impact on the Organization's business operations, financial position, and results of operations for fiscal year 2022.

**Note 16 – Subsequent Events**

Management evaluated activity of the Organization subsequent to September 30, 2021 through March 8, 2022, the date the financial statements were available to be issued, for events that require recognition in the financial statements or disclosure in the notes thereto.