

THE CENTER FOR CREATIVE EDUCATION, INC.
REPORT ON AUDITS OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

THE CENTER FOR CREATIVE EDUCATION, INC.

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Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of The Center for Creative Education, Inc., Inc. (a nonprofit organization) (the Organization), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Center for Creative Education, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Center for Creative Education, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

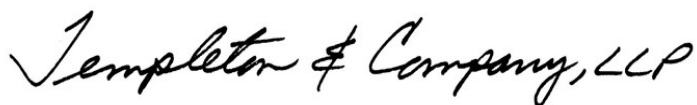
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Center for Creative Education, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Center for Creative Education, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



West Palm Beach, Florida
February 6, 2023

THE CENTER FOR CREATIVE EDUCATION, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Assets:		
Cash and cash equivalents	\$ 340,168	\$ 3,939,517
Pledges receivable, net	1,518,828	1,278,876
Grants and other receivables	45,069	5,945
Prepaid expenses	78,810	52,149
Beneficial interest in assets held by the Community		
Foundation, at fair value	281,383	860,634
Property and equipment, net	<u>12,621,075</u>	<u>6,351,714</u>
Total assets	<u>\$ 14,885,333</u>	<u>\$ 12,488,835</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 108,716	\$ 181,422
Construction and retainage payable	70,865	32,475
Mortgage note payable, net	<u>2,788,013</u>	<u>2,984,365</u>
Total liabilities	<u>2,967,594</u>	<u>3,198,262</u>
Net assets:		
Without donor restrictions:		
Undesignated	10,028,856	7,128,939
Board designated endowment	<u>281,383</u>	<u>860,634</u>
	10,310,239	7,989,573
With donor restrictions	<u>1,607,500</u>	<u>1,301,000</u>
Total net assets	<u>11,917,739</u>	<u>9,290,573</u>
Total liabilities and net assets	<u>\$ 14,885,333</u>	<u>\$ 12,488,835</u>

See accompanying notes to financial statements.

THE CENTER FOR CREATIVE EDUCATION, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support:						
Government grants	\$ 789,938	\$ -	\$ 789,938	\$ 995,499	\$ -	\$ 995,499
Private contributions and grants	469,146	2,825,932	3,295,078	2,471,998	1,527,500	3,999,498
Corporate and individual contributions	396,052	-	396,052	389,522	-	389,522
In-kind contribution	5,755	-	5,755	-	-	-
Programming	257,187	-	257,187	11,338	-	11,338
Special events	312,876	-	312,876	-	-	-
Net investment return (loss)	(79,251)	-	(79,251)	296,702	-	296,702
Other income	6,892	-	6,892	-	-	-
Net assets released from restrictions	2,519,432	(2,519,432)	-	651,500	(651,500)	-
Total operating revenues and support	<u>4,678,027</u>	<u>306,500</u>	<u>4,984,527</u>	<u>4,816,559</u>	<u>876,000</u>	<u>5,692,559</u>
Operating expenses:						
Program services	2,234,217	-	2,234,217	2,285,492	-	2,285,492
Supporting services:						
Management and general	143,293	-	143,293	151,475	-	151,475
Fundraising	220,149	-	220,149	181,027	-	181,027
Total operating expenses	<u>2,597,659</u>	<u>-</u>	<u>2,597,659</u>	<u>2,617,994</u>	<u>-</u>	<u>2,617,994</u>
Increase in net assets from operating activities	2,080,368	306,500	2,386,868	2,198,565	876,000	3,074,565
Employee Retention Tax Credit	240,298	-	240,298	135,905	-	135,905
Loss on sale of property and equipment	-	-	-	(1,374,532)	-	(1,374,532)
Change in net assets	2,320,666	306,500	2,627,166	959,938	876,000	1,835,938
Net assets at beginning of year	<u>7,989,573</u>	<u>1,301,000</u>	<u>9,290,573</u>	<u>7,029,635</u>	<u>425,000</u>	<u>7,454,635</u>
Net assets at end of year	<u>\$ 10,310,239</u>	<u>\$ 1,607,500</u>	<u>\$ 11,917,739</u>	<u>\$ 7,989,573</u>	<u>\$ 1,301,000</u>	<u>\$ 9,290,573</u>

See accompanying notes to financial statements.

THE CENTER FOR CREATIVE EDUCATION, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended September 30, 2022 and 2021

	For the Year Ended September 30, 2022				For the Year Ended September 30, 2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Program costs and supplies	\$ 124,994	\$ -	\$ -	\$ 124,994	\$ 142,560	\$ -	\$ -	\$ 142,560
Special events	-	-	51,664	51,664	-	-	16,192	16,192
Dues and subscriptions	579	12,015	1,882	14,476	754	15,652	2,452	18,858
Professional and consulting	166,929	13,431	11,512	191,872	193,810	15,594	13,366	222,770
Development	25,324	-	6,662	31,986	17,499	-	134	17,633
Insurance	36,534	2,940	2,520	41,994	26,302	2,116	1,814	30,232
Taxes, licenses, and permits	1,861	150	128	2,139	1,507	121	104	1,732
Office costs	41,482	3,337	2,861	47,680	26,907	2,167	1,854	30,928
Equipment rental	14,100	1,134	972	16,206	6,885	554	475	7,914
Property taxes	-	-	-	-	24,202	1,947	1,669	27,818
Repairs and maintenance	76,327	6,141	5,264	87,732	64,025	5,151	4,416	73,592
Salaries, wages and payroll taxes	1,398,954	79,486	111,280	1,589,720	1,388,592	78,897	110,456	1,577,945
Employee benefits	137,746	7,826	10,957	156,529	96,753	5,497	7,696	109,946
Travel	630	36	50	716	538	31	43	612
Utilities	41,978	3,378	2,895	48,251	39,344	3,166	2,713	45,223
Interest expense	3,263	263	225	3,751	86,359	6,948	5,956	99,263
Total expenses before depreciation	2,070,701	130,137	208,872	2,409,710	2,116,037	137,841	169,340	2,423,218
Depreciation	163,516	13,156	11,277	187,949	169,455	13,634	11,687	194,776
	<u>\$ 2,234,217</u>	<u>\$ 143,293</u>	<u>\$ 220,149</u>	<u>\$ 2,597,659</u>	<u>\$ 2,285,492</u>	<u>\$ 151,475</u>	<u>\$ 181,027</u>	<u>\$ 2,617,994</u>

See accompanying notes to financial statements.

THE CENTER FOR CREATIVE EDUCATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,627,166	\$ 1,835,938
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	187,949	194,776
Amortization of debt issuance costs	3,648	81,382
Net unrealized (gains) losses on investments	79,251	(296,702)
Loss on sale of property and equipment	-	1,374,532
Changes in operating assets and liabilities:		
Pledges receivable	(239,952)	(876,876)
Grants and other receivables	(39,124)	6,767
Prepaid expenses	(26,661)	(40,939)
Accounts payable and accrued expenses	(72,706)	126,020
Refundable advances	<u>-</u>	<u>(65,000)</u>
Net cash provided by operating activities	<u>2,519,571</u>	<u>2,339,898</u>
Cash flows from investing activities:		
Proceeds from sale of real property, net	-	3,461,536
Purchases of property and equipment and construction costs paid	(6,418,920)	(2,879,846)
Distributions from beneficial interest in assets held by Community Foundation	<u>500,000</u>	<u>500,000</u>
Net cash provided by (used in) investing activities	<u>(5,918,920)</u>	<u>1,081,690</u>
Cash flows from financing activities:		
Principal payments on mortgage note payable	(200,000)	(252,274)
Loan costs paid	<u>-</u>	<u>(15,635)</u>
Net cash used in financing activities	<u>(200,000)</u>	<u>(267,909)</u>
Net increase (decrease) in cash	(3,599,349)	3,153,679
Cash and cash equivalents at beginning of year	<u>3,939,517</u>	<u>785,838</u>
Cash and cash equivalents at end of year	<u>\$ 340,168</u>	<u>\$ 3,939,517</u>
Supplemental cash flow disclosure:		
Acquisition of property with mortgage note	<u>\$ -</u>	<u>\$ 3,000,000</u>
Interest paid	<u>\$ 87,317</u>	<u>\$ 28,452</u>

See accompanying notes to financial statements.

THE 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 City of West Palm Beach. During 2021, the Organization purchased property to open a new campus in the fall of 2022 (see Note 6). The Organization 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 carries out its mission through the following programs:

Creative Arts Designed to Reinforce Education (CADRE)

Serving nearly 4,000 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.

The Foundations 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.

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). The new campus was opened in the fall of 2022. The Foundations School offers 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 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.

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

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

Basis of presentation, continued

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.

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.

An in-kind (non-cash) contribution of a piano totaled \$5,755 in 2022. The contribution was valued using its appraised value. The Organization holds the contributed piano for use in programming. No in-kind contributions were restricted during 2022.

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.

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

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

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.

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.

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.

Pledges 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, 2022 and 2021.

Grants and other receivables

Grants and other receivables consists mainly of gifts from state and local organizations and foundations, generally for the purpose of providing funds for programming, 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 and other receivables as of September 30, 2022 and 2021.

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

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

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, 2022. 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, 2022 and 2021.

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.

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

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

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 2022 or 2021. The Organization is no longer subject to income tax examinations for fiscal years prior to 2019.

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 2021 financial statements were reclassified to conform to the presentation in the 2022 financial statements. The reclassifications had no impact on previously reported net assets.

New accounting pronouncements

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. 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*, in response to the coronavirus (COVID-19) pandemic to give some relief to organizations and the difficulties they are facing during the pandemic. Management is currently evaluating the impact of this guidance on its financial statements.

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

Note 2 – Liquidity and Availability of Resources

The Organization's financial assets available within one-year of September 30, 2022 for general expenditures are as follows:

Financial assets due within one-year:	
Cash and cash equivalents	\$ 340,168
Pledges due within one year	442,500
Grants other receivables	45,069
Beneficial interest in assets held by Community Foundation	<u>281,383</u>
Total financial assets	<u>\$ 1,109,120</u>

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, 2022 and 2021:

	2022	2021
Program pledges	\$ 200,000	\$ 301,000
Capital campaign pledges	<u>1,407,500</u>	<u>1,000,000</u>
Pledges receivable before unamortized discount	1,607,500	1,301,000
Less: unamortized discount	<u>(88,672)</u>	<u>(22,124)</u>
Net pledges receivable	<u>\$ 1,518,828</u>	<u>\$ 1,278,876</u>
	2022	2021
Amounts due in:		
Less than one year	\$ 442,500	\$ 301,000
One to five years	<u>1,165,000</u>	<u>1,000,000</u>
Total	<u>\$ 1,607,500</u>	<u>\$ 1,301,000</u>

A discount rate of 4.06% is applied to pledges with terms in excess of one year as of September 30, 2022.

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 years ended September 30, 2022 and 2021, the Organization received distributions totaling \$500,000 each year. The beneficial interest in assets held by the Foundation changed in fair value in the amount of \$(79,251) and \$296,702, for the years ending September 30, 2022 and 2021, respectively, which is reported as net investment return (loss) in the accompanying statement of activities.

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

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).

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) and are 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, 2022 and 2021 on the following financial assets using these input levels that are measured at fair value on a recurring basis:

Fair Value Measurements as of September 30, 2022			
Level 1	Level 2	Level 3	Fair Value Total
Beneficial Interest in Assets Held by the Community Foundation	\$ -	\$ 281,383	\$ 281,383
Fair Value Measurements as of September 30, 2021			
Level 1	Level 2	Level 3	Fair Value Total
Beneficial Interest in Assets Held by the Community Foundation	\$ -	\$ 860,634	\$ 860,634

THE 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, 2022 measured on a recurring basis using significant unobservable inputs:

Balance as of October 1, 2021	\$ 860,634
Depreciation in fair value	(71,396)
Withdrawals	(500,000)
Investment fees	<u>(7,855)</u>
Balance as of September 30, 2022	<u>\$ 281,383</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, 2022 and 2021 consists of the following:

	2022	2021
Land	\$ 2,055,000	\$ 2,055,000
Buildings	3,957,508	4,009,306
Instruments and program equipment	21,752	21,752
Furniture, electronics, and equipment	<u>525,320</u>	<u>578,838</u>
	6,559,580	6,664,896
Less: accumulated depreciation	<u>(559,711)</u>	<u>(427,428)</u>
	5,999,869	6,237,468
Construction in progress	<u>6,621,206</u>	<u>114,246</u>
Property and equipment, net	<u>\$ 12,621,075</u>	<u>\$ 6,351,714</u>

Depreciation totaled \$187,949 and \$194,776 for the years ended September 30, 2022 and 2021, respectively. Construction in progress at September 30, 2022 and 2021 represents costs incurred for improvements of the new campus purchased in 2021.

Total interest incurred and capitalized for the years ended September 30, 2022 and 2021 are presented as follows:

	2022	2021
Interest incurred	\$ 94,200	\$ 28,452
Interest capitalized	<u>(94,097)</u>	<u>(10,571)</u>
Interest expense, net	<u>\$ 103</u>	<u>\$ 17,881</u>

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

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, 2022 and 2021, no borrowings were outstanding on the line of credit.

Note 8 – Mortgage Note Payable

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.

Amortization of the loan issuance costs is reported as interest expense in the statement of activities and amounted to \$3,648 for the year ended September 30, 2022.

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

	<u>2022</u>	<u>2021</u>
2021 Mortgage Note	\$ 2,800,000	\$ 3,000,000
Less: Unamortized debt issuance costs	<u>(11,987)</u>	<u>(15,635)</u>
Total long-term debt, net	<u>\$ 2,788,013</u>	<u>\$ 2,984,365</u>

Principal due subsequent to September 30, 2022 follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2023	\$ 200,000
2024	200,000
2025	200,000
2026	<u>2,200,000</u>
Total	<u>\$ 2,800,000</u>

Note 9 – Payment Protection Program Loan

During February 2021, the Organization applied for, was approved and received a 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.

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

Note 9 – Payment Protection Program Loan, Continued

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.

At September 30, 2022 and 2021, net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Purpose and time restrictions:		
Pledges and grants for programming	\$ 200,000	\$ 301,000
Capital campaign pledges	<u>1,407,500</u>	<u>1,000,000</u>
Total net assets with donor restrictions	<u>\$ 1,607,500</u>	<u>\$ 1,301,000</u>

Net assets are released from donor restrictions by the Organization incurring costs or expenses satisfying restricted purposes or by the occurrence of events and passage of time specified by the donors.

At September 30, 2022 and 2021, net assets with donor restrictions were released for the following purposes or periods:

	2022	2021
Purpose and time restrictions:		
Programming	\$ 101,000	\$ 651,500
Capital campaign	<u>2,418,432</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 2,519,432</u>	<u>\$ 651,500</u>

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 2022 and 2021, the board approved endowment distributions in the amount of \$500,000 to be used for the purchase of the land and building and construction of improvements for the new campus.

Changes in the board designated endowment net assets for the years ended September 30, 2022 and 2021 are as follows:

	2022	2021
Balance as of beginning of year	\$ 860,634	\$ 1,063,932
Distributions	(500,000)	(500,000)
Investment return (loss)	(71,396)	308,368
Fees	<u>(7,855)</u>	<u>(11,666)</u>
Balance as of end of year	<u>\$ 281,383</u>	<u>\$ 860,634</u>

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

Note 12 – 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 contracted construction costs for the renovation are approximately \$6,000,000, with approximately \$500,000 of contracted construction costs remaining as of September 30, 2022.

Note 13 – 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 did not exceed the FDIC limit at September 30, 2022 and exceeded the FDIC insured limit by \$3,665,552, at September 30, 2021. The Organization has not experienced any losses in such accounts.

Note 14 – Employee Retention Tax Credit

On March 27, 2020, the CARES Act was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA PPP loans that were forgivable in certain situations.

The Employee Retention Tax Credit (ERTC) was enacted as part of the CARES Act. The ERTC is a refundable tax credit designed to reward business owners for retaining employees throughout the COVID-19 pandemic. The Organization received the ERTC, including interest, in the amounts of \$240,298 and \$135,905 which is included in non-operating activities in the statements of activities for the years ended September 30, 2022 and 2021, respectively.

Note 15 – Subsequent Events

Management evaluated activity of the Organization subsequent to September 30, 2022 through February 6, 2023, 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.

SUPPLEMENT INFORMATION

THE CENTER FOR CREATIVE EDUCATION, INC.
SCHEDULE OF FINANCIAL POSITION, BY FUND
September 30, 2022

	Operating Fund	Capital Fund	Eliminating Entries	Total
ASSETS				
Assets:				
Cash and cash equivalents	\$ 340,168	\$ -	\$ -	\$ 340,168
Pledges receivable, net	200,000	1,318,828	-	1,518,828
Grants and other receivables	45,069	-	-	45,069
Prepaid expenses	78,810	-	-	78,810
Beneficial interest in assets held by the Community Foundation, at fair value	281,383	-	-	281,383
Due from capital fund	4,999,856	-	(4,999,856)	-
Property and equipment, net	<u>6,114,115</u>	<u>6,506,960</u>	<u>-</u>	<u>12,621,075</u>
Total assets	<u>\$ 12,059,401</u>	<u>\$ 7,825,788</u>	<u>\$ (4,999,856)</u>	<u>\$ 14,885,333</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 108,716	\$ -	\$ -	\$ 108,716
Construction and retainage payable	70,865	-	-	70,865
Due to operating fund	-	4,999,856	(4,999,856)	-
Mortgage note payable, net	<u>2,788,013</u>	<u>-</u>	<u>-</u>	<u>2,788,013</u>
Total liabilities	2,967,594	4,999,856	(4,999,856)	2,967,594
Net assets:				
Without donor restrictions:				
Undesignated	8,610,424	1,418,432	-	10,028,856
Board designated endowment	<u>281,383</u>	<u>-</u>	<u>-</u>	<u>281,383</u>
	8,891,807	1,418,432	-	10,310,239
With donor restrictions	<u>200,000</u>	<u>1,407,500</u>	<u>-</u>	<u>1,607,500</u>
Total net assets	<u>9,091,807</u>	<u>2,825,932</u>	<u>-</u>	<u>11,917,739</u>
Total liabilities and net assets	<u>\$ 12,059,401</u>	<u>\$ 7,825,788</u>	<u>\$ (4,999,856)</u>	<u>\$ 14,885,333</u>

THE CENTER FOR CREATIVE EDUCATION, INC.

SCHEDULE OF ACTIVITIES, BY FUND

For the Year Ended September 30, 2022

	Operating Fund	Capital Fund	Total
Operating revenues and support:			
Government grants	\$ 789,938	\$ -	\$ 789,938
Private contributions and grants	469,146	2,825,932	3,295,078
Corporate and individual contributions	396,052	-	396,052
In-kind contributions	5,755	-	5,755
Programming	257,187	-	257,187
Special events	312,876	-	312,876
Net investment loss	(79,251)	-	(79,251)
Other income	6,892	-	6,892
Total operating revenues and support	<u>2,158,595</u>	<u>2,825,932</u>	<u>4,984,527</u>
Operating expenses:			
Program services	2,234,217	-	2,234,217
Supporting services:			
Management and general	143,293	-	143,293
Fundraising	220,149	-	220,149
Total operating expenses	<u>2,597,659</u>	<u>-</u>	<u>2,597,659</u>
Change in net assets from operating activities	(439,064)	2,825,932	2,386,868
Employee Retention Tax Credit	240,298	-	240,298
Change in net assets	(198,766)	2,825,932	2,627,166
Net assets at beginning of year	9,290,573	-	9,290,573
Net assets at end of year	<u>\$ 9,091,807</u>	<u>\$ 2,825,932</u>	<u>\$ 11,917,739</u>