

CENTER FOR CREATIVE EDUCATION, INC.
FINANCIAL STATEMENTS
JUNE 30, 2011

CENTER FOR CREATIVE EDUCATION, INC.
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TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
 <i>FINANCIAL STATEMENTS:</i>	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the Center for Creative Education, Inc. (a non-profit organization), as of June 30, 2011, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center for Creative Education, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center for Creative Education, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



EVELYN F. PARKES, CPA, P.A.
West Palm Beach, Florida

January 3, 2012

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

ASSETS

	<u>2011</u>
Current Assets:	
Cash and cash equivalents	\$ 12,402
Long-term certificate of deposit	678
Investments	674
Receivable:	
Pledges outstanding	407,000
Grants outstanding	<u>47,456</u>
Total current assets	468,210
Noncurrent assets:	
Pledges outstanding, less current portion	1,052,942
Property and equipment (net of accumulated depreciation)	1,071,388
Land	433,126
Capitalized construction and interest costs	<u>1,711,566</u>
Total noncurrent asset	<u>4,269,022</u>
TOTAL ASSETS	<u>\$ 4,737,232</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

LIABILITIES

	<u>2011</u>
Current Liabilities:	
Accrued expenses	\$ 135,681
Construction loan	650,113
Line of credit	<u>48,596</u>
Total current liabilities	834,390
 TOTAL LIABILITIES	 <u>834,390</u>

NET ASSETS

Unrestricted	364,776
Temporarily restricted	<u>3,538,066</u>
 TOTAL NET ASSETS	 <u>3,902,842</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,737,232</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Pledges	\$ -	\$ -	\$ -
Corporation grants	4,500	-	4,500
Foundation grants	430,100	-	430,100
Primetime Palm Beach	648,679	-	648,679
Governmental grants	-	-	-
Contributions	65,609	-	65,609
Special events	214,324	-	214,324
Investment income	208	-	208
Directors dues	15,870	-	15,870
Other	6,625	-	6,625
Net assets released from restriction	<u>93,292</u>	<u>(93,292)</u>	<u>-</u>
 TOTAL SUPPORT	 1,479,207	 (93,292)	 1,385,915
 Expenses:			
Program services	990,605	-	990,605
Supporting services:			
Management and general	166,681	-	166,681
Fund raising	<u>212,203</u>	<u>-</u>	<u>212,203</u>
 TOTAL EXPENSES	 <u>1,369,490</u>	 <u>-</u>	 <u>1,369,490</u>
 INCREASE (DECREASE) IN NET ASSETS	 109,717	 (93,292)	 16,425
 NET ASSETS AT BEGINNING OF YEAR	 <u>255,059</u>	 <u>3,631,358</u>	 <u>3,886,417</u>
 NET ASSETS (DEFICIT) AT END OF YEAR	 <u>\$ 364,776</u>	 <u>\$ 3,538,066</u>	 <u>\$ 3,902,842</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	<u>Total</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>
Accounting	\$ 13,187	\$ -	\$ 13,187	\$ -
Artists' fees	457,762	455,262	-	2,500
Artists' mileage	2,790	2,790	-	-
Supplies and materials	46,752	46,552	-	200
Artists' expenses – other	14,045	14,045	-	-
Conferences	7,482	-	7,482	-
Consulting	51,100	51,100	-	-
Depreciation	47,174	41,608	5,566	-
Development	167,816	32,611	-	135,205
Dues and subscriptions	1,009	-	1,009	-
Equipment	1,869	1,869	-	-
Employee benefits	4,723	3,023	1,039	661
Insurance	102,249	63,362	29,125	9,762
Interest	6,951	-	6,951	-
License and permits	1,283	962	321	-
Occupancy (rent)	50,400	32,256	11,088	7,056
Office expense	29,256	18,724	6,436	4,096
Payroll taxes	10,228	6,546	2,250	1,432
Payroll admin fees	5,842	3,740	1,285	818
Printing and postage	7,740	3,078	800	3,862
Property tax	3,870	-	3,870	-
Repair and maintenance	1,413	-	1,413	-
Salaries	310,558	198,757	68,323	43,478
Telephone	10,996	7,037	2,419	1,539
Other	1,613	-	1,613	-
Utilities	<u>11,381</u>	<u>7,284</u>	<u>2,504</u>	<u>1,593</u>
TOTAL	<u>\$ 1,369,490</u>	<u>\$ 990,605</u>	<u>\$ 166,681</u>	<u>\$ 212,203</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (Decrease) in Net Assets	\$ 16,425
Adjustments to reconcile decrease in net cash provided by operating activities:	
Depreciation	47,174
Increase in pledges outstanding	(225,000)
Decrease in grants outstanding	34,336
Increase in accrued expenses	<u>111,223</u>

NET CASH USED BY OPERATING ACTIVITIES (15,842)

CASH FLOWS (USED) PROVIDED BY INVESTING ACTIVITIES

Proceeds from Certificate of Deposits	1,032
Payments for property, equipment and capital construction	<u>(100,574)</u>

NET CASH (USED) BY INVESTING ACTIVITIES (99,542)

CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES

Payments on line of credit	<u>(574)</u>
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NET CASH (USED) BY FINANCING ACTIVITIES (574)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (115,958)

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 128,360

CASH AND CASH EQUIVALENTS – END OF YEAR \$ 12,402

SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES

Interest expense	<u>\$ 6,951</u>
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See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Center for Creative Education, Inc. (the “Organization”) is organized generally to develop, coordinate, and promote arts and cultural activities and school reform endeavors in Palm Beach County schools, community organizations, and other venues which serve youth. The Organization is supported through donor contributions and grants, including Primetime of Palm Beach. The Organization has conducted a capital building campaign to renovate a facility in downtown West Palm Beach for use in providing additional programming to local youth and the extension of arts and theatre to the community.

The Organization has established partnerships anchored by IRC Section 501 (c)(3) organizations regionally throughout Palm Beach County to carry out the “Learning Through Education and Arts Partnerships” (“LEAP”) program.

Basis of Accounting

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

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Net Assets

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

Accounting Estimates

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

Revenue Recognition

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

When a donor restriction expires, that is, when a stipulation time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Awards with a donor restriction that expires or is met in the same fiscal period that the award is received are reported as increases unrestricted net assets. All promises to give accounted for as capital campaign revenue are considered to be temporarily restricted since amounts are unconditional promises to give with payments due in future periods.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Revenue Recognition *(continued)*

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

Special events revenue is recognized when the event occurs.

Donated Services

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

Pledges Outstanding

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

Functional Allocation of Expenses

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

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Fair Value Measurement

The Organization implemented FASB ASC 820-10, formerly SFAS No. 157, “*Fair Value Measurements*” in fiscal year 2009. This statement defines “fair value” and establishes a framework for measuring fair value of a position in a financial instrument. Implementation of this standard has not had a significant impact on the Organization’s financial statement.

Property and Equipment

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

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

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

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value based on quoted prices in active markets (all Level 1 measurements) in the *Statement of Financial Position*.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Significant Concentrations of Cash or Credit Risk

Cash balances are maintained with financial institutions in South Florida. Accounts with financial institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At June 30, 2011, the Organization’s cash balances held at financial institutions did not exceed FDIC limits.

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

NOTE 2 -- PROMISES TO GIVE

Promises to give consist of the following:

	<u>June 30, 2011</u>
Restricted promises:	
Contributions to building campaign:	\$ 1,459,942
Unrestricted promises:	
Primetime Palm Beach	<u>47,456</u>
TOTAL	<u>\$ 1,507,398</u>
 Pledges and grants receivable within one year	 \$ 454,456
Pledges and grants receivable within two to five year	<u>1,052,942</u>
TOTAL	<u>\$ 1,507,398</u>

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 -- PROMISES TO GIVE *(continued)*

All promises to give are receivable within one to five years. No adjustment for the present value of estimated future cash flows has been made. Management assessed individually all pledges outstanding in the current year for collectability. It is their belief that all promises to give as of June 30, 2011, are collectible and there is no additional allowance for uncollectible accounts.

NOTE 3 -- CONCENTRATION OF REVENUE

The Organization currently receives a significant portion of its support from grants provided through Primetime Palm Beach. As of June 30, 2011, approximately 47% of funding came from this source.

NOTE 4 -- PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30, 2011</u>
Buildings	\$ 1,183,964
Program equipment	146,406
Office, furniture and equipment	15,150
Capitalized construction	1,644,439
Capitalized interest	32,911
Unamortized interest and loan cost	<u>34,215</u>
	3,057,085
Less: Accumulated depreciation	<u>(274,131)</u>
Land	<u>433,126</u>
TOTAL	<u>\$ 3,216,080</u>

Depreciation expense for the year ended June 30, 2011, was \$47,174.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 – OPERATING LEASE AGREEMENTS

The Organization rents temporary office space under a month-to-month operating lease with a related party. Rent expense under this lease was \$50,400 as of June 30, 2011. Other operating leases for office equipment totaled \$6,668, and are renewable on an annual basis.

NOTE 6 – CONSTRUCTION LOAN AND LINE OF CREDIT

In 2008, the Organization secured a construction loan with Bank of America for the renovation of a warehouse in West Palm Beach (the “Capital Campaign Project”). As of June 30, 2011, the balance on the loan totals \$650,113. The loan is due and payable in full on December 31, 2011, with interest accruing at a floating rate of LIBOR plus 2.75, totaling \$7,283 for the year.

Additionally, the Organization obtained an operating line of credit with PNC Bank, with a balance available of \$50,000. It is a revolving, unsecured line with no guarantors. Interest is assessed at a floating rate of Prime plus 4.75. Repayments are due monthly. As of June 30, 2011, the balance drawn on this line is \$48,596.

NOTE 7 – DONATED SERVICES, MATERIALS, AND FACILITIES

Donated services from artists have not been recognized because the amount was immaterial.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011, consist of funds and promises to give that have been allocated to the Capital Campaign Project. Net assets released from restriction by incurring expenses satisfying the restrictions totaled \$93,292 during the year ended June 30, 2011.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – RELATED PARTY TRANSACTIONS

Rent for the current administrative offices is paid month to month to an entity owned by a former employee of the Organization. Monthly rent is \$4,000, recently reduced to \$3,000; with no long-term commitments.

The Organization holds an unsecured line of credit with PNC Bank facilitated through a former member of the Board of Directors, who is also a Vice-President of the bank. Total available credit is \$50,000 for operational purposes set to mature on March 5, 2012.

NOTE 10 – SUBSEQUENT EVENTS

The Organization adopted FASB ASC 855-10, formerly SFAS No. 165, “Subsequent Events” in 2009. Subsequent events have been evaluated through January 3, 2012, the date which the financial statements were available to be issued.

The construction loan obtained through Bank of America was due to mature in December, 2011. Due to financial delays, construction was temporarily put on hold and the project was not completed as anticipated. Bank of America did not call the balance of the loan and issued an amendment, which extends the due date to July 31, 2012, at the existing interest rate of LIBOR plus 2.75. By November 15, 2011, the Organization had paid down an additional \$174,514 of principal making the new outstanding balance \$475,499. The additional principal payment was made available through pledges received towards the Capital Campaign Fund.

In November, 2010, Palm Beach County (the “County”) approved an agreement between the County and the Organization to provide funding up to \$800,000 for the construction of the building, which will become the future home of the Organization. This award will be provided on a reimbursement basis. As of December 31, 2011, funds from this grant have not been accessed.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 10 – SUBSEQUENT EVENTS *(continued)*

In October, 2011, the Board of Directors voted to change the Organization's fiscal year end to September 30. This will coincide with reporting periods used by local funding agencies providing significant sources of revenue to the Organization. The change in fiscal period was effective immediately and will result in a short-period audit to cover the months of July through September, 2011.

Effective November 17, 2011, the current Executive Director of the Organization retired for personal reasons. A temporary interim CEO was hired for a period of thirteen (13) months at minimum in order to allow the Organization to continue its efforts to regain financial stability and continue the capital campaign project with minimal interruption.

Utilization of a management consultant during the year resulted in the implementation of several new policies and the renegotiation of multiple operating agreements that allow for significant future cost savings of approximately \$164,268 per year.