

CENTER FOR CREATIVE EDUCATION, INC.
FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2011

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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) for the three (3) month period ended September 30, 2011, and the related statement of activities, functional expenses, and cash flows for the same period then ended. These financial statements are the responsibility of the Center for Creative Education, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center for Creative Education, Inc. as of September 30, 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

October 22, 2012

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

ASSETS

**For the Three Months
Ended September 30, 2011**

Current Assets:

Cash and cash equivalents	\$ 120,030
Long-term certificate of deposit	683
Investments	674
Receivable:	
Pledges outstanding	199,942
Grants outstanding	50,888
Prepaid assets	<u>14,993</u>

Total current assets	387,210
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Noncurrent assets:

Pledges outstanding, less current portion	985,000
Property and equipment (net of accumulated depreciation)	1,039,042
Land	433,126
Capitalized construction and interest costs	<u>1,794,353</u>

Total noncurrent asset	<u>4,251,521</u>
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TOTAL ASSETS	<u>\$ 4,638,731</u>
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See accompanying notes and independent auditors' report.

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

LIABILITIES

For the Three Months
Ended September 30, 2011

Current Liabilities:

Accrued expenses	\$ 47,789
Construction loan	550,113
Line of credit	<u>44,620</u>
Total current liabilities	642,522

TOTAL LIABILITIES	<u>642,522</u>
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NET ASSETS

Unrestricted	2,174,341
Temporarily restricted	<u>1,821,868</u>

TOTAL NET ASSETS	<u>3,996,209</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,638,731</u>
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See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF ACTIVITIES
For the Three Months Ended September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support:			
Pledges	\$ 100,000	\$ -	\$ 100,000
Corporation grants	20,374	-	20,374
Foundation grants	4,902	-	4,902
Primetime Palm Beach	194,349	-	194,349
Governmental grants	3,431	-	3,431
Contributions	8,460	-	8,460
Special events	5,000	-	5,000
Board contributions	2,740	-	2,740
Other	26,482	-	26,482
Net assets released from restriction	<u>1,716,198</u>	<u>(1,716,198)</u>	<u>-</u>
 TOTAL SUPPORT	 2,081,936	 (1,716,198)	 365,738
Expenses:			
Program services	125,063	-	125,063
Supporting services:			
Management and general	134,134	-	134,134
Fund raising	<u>13,174</u>	<u>-</u>	<u>13,174</u>
 TOTAL EXPENSES	 <u>272,371</u>	 <u>-</u>	 <u>272,371</u>
 INCREASE (DECREASE) IN NET ASSETS	 1,809,565	 (1,716,198)	 93,367
 NET ASSETS AT BEGINNING OF YEAR	 <u>364,776</u>	 <u>3,538,066</u>	 <u>3,902,842</u>
 NET ASSETS (DEFICIT) AT END OF YEAR	 <u>\$ 2,174,341</u>	 <u>\$ 1,821,868</u>	 <u>\$ 3,996,209</u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Three Months Ended September 30, 2011

	<u>Total</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>
Artist fees	\$ 88,187	\$ 88,187	\$ -	\$ -
Artist supplies	16,471	16,471	-	-
Other expenses	(3,076)	-	(3,076)	-
Special events	516	-	-	516
Professional fees	17,084	-	8,584	8,500
Accounting	128	-	128	-
Consulting	18,935	-	18,935	-
Dues and subscriptions	410	-	410	-
Depreciation expense	25,107	-	25,107	-
Insurance expense	11,113	2,777	8,336	-
Licenses and permits	460	-	-	460
Interest and fees	6,067	-	6,067	-
Office expense	2,190	-	2,190	-
Repairs and maintenance	159	-	159	-
Rent expense	13,537	1,800	11,737	-
Payroll expense	72,777	14,906	54,234	3,637
Phone and utilities	<u>2,306</u>	<u>922</u>	<u>1,323</u>	<u>61</u>
TOTAL	<u><u>\$ 272,371</u></u>	<u><u>\$ 125,063</u></u>	<u><u>\$ 134,134</u></u>	<u><u>\$ 13,174</u></u>

See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
STATEMENT OF CASH FLOWS
For the Three Months Ended September 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (Decrease) in Net Assets	\$ 93,367
Adjustments to reconcile decrease in net cash provided by operating activities:	
Depreciation	25,107
Loss on write down of asset	22,093
 Decrease in pledges outstanding	 275,000
Increase in grants outstanding	(3,432)
Increase in prepaid expenses	(14,993)
Decrease in accrued expenses	<u>(87,892)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 309,250

CASH FLOWS (USED) PROVIDED BY INVESTING ACTIVITIES

Certificate of Deposits	(5)
Payments for property, equipment and capital construction	<u>(97,641)</u>

NET CASH (USED) BY INVESTING ACTIVITIES (97,646)

CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES

Payments on debt	<u>(103,976)</u>
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NET CASH (USED) BY FINANCING ACTIVITIES (103,976)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 107,628

CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR 12,402

CASH AND CASH EQUIVALENTS – END OF YEAR \$ 120,030

SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES

Interest expense (net of capitalized amounts)	<u>\$ 1,203</u>
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See accompanying notes and independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 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.

The Board of Directors recently voted to change its fiscal year as part of a focused effort to improve the financial performance of the organization. Previously the fiscal year ran from July 1 – June 30 of each year, with the last full year audit ending June 30, 2011. Currently, the largest funder of programming funds to the organization does not award contracts until August or September of each year with a start date of October 1. This required management to prepare and submit to the Board a budget that not only spanned two contract years, but required the organization to create a budget without definitive knowledge of spending capacity. This change will also sync the fiscal year to the school calendar. As a result, the organization has completed a short year audit for the current period, June 30, 2011 through September 31, 2011.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

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

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.

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.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

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

Revenue Recognition

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

When a donor restriction expires, that is, when a 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 a specific purpose intended

The Organization receives various grants from state, local and private agencies for program and supporting services. These grants are often 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.

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.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

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

Pledges Outstanding

Pledges outstanding are recorded as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. The Organization uses the allowance method to determine estimated uncollectible amounts. The provision is based upon previous years' experience and management's current 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 program and support services based on estimates made by management.

Certain functional expenses were allocated and capitalized to the capital construction account on the balance sheet as allowable during pre-construction and construction phases of project implementation. This amount included \$15,750 of salaries and \$19,820 of other operating expenses for the three month period ended September 30, 2011, and \$63,090 of salaries and \$33,202 of other operating expenses in the year ended June 30, 2011. All capitalized expenditures represent time and costs attributable to the construction project.

Fair Value Measurement

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

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

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

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 and constructed 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
For the Three Months Ended September 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. As of September 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>September 30, 2011</u>
Restricted promises:	
Contributions to building campaign:	\$ 1,184,942
Unrestricted promises:	
Primetime Palm Beach	<u>50,888</u>
TOTAL	<u>\$ 1,235,830</u>
 Pledges and grants receivable within one year	 \$ 250,830
Pledges and grants receivable within two to five year	<u>985,000</u>
TOTAL	<u>\$ 1,235,830</u>

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

NOTE 2 – PROMISES TO GIVE *(continued)*

All promises to give are receivable within one to five years. Due to immateriality, no adjustment for the present value of estimated future cash flows has been made. Management is in the process of contacting donors and assessing individually all pledges outstanding in the current year for collectability. As the majority of promises outstanding pertain to the capital construction project, a final assessment will be made to coincide with the completion of Phase 1 of the project in 2013.

NOTE 3 – CONCENTRATION OF REVENUE

The Organization currently receives a significant portion of its support from grants provided through Primetime Palm Beach. During the three (3) month period ended September 30, 2011, approximately 53% of funding came from this source.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>September 30, 2011</u>
Buildings	\$ 1,183,964
Program equipment	15,123
Office, furniture and equipment	139,193
Capitalized construction	1,707,637
Unamortized interest and loan cost	<u>86,716</u>
	3,132,633
Less: Accumulated depreciation	<u>(299,238)</u>
Land	<u>433,126</u>
TOTAL	<u>\$ 3,266,521</u>

Depreciation expense for the period ended September 30, 2011, was \$25,107.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 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 \$11,000 for the three (3) month period ended September 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 September 30, 2011, the balance on the loan totals \$550,113. The loan is due and payable in full on December 31, 2011, with interest accruing at a floating rate of LIBOR plus 2.75. Interest paid totaled \$9,984 for the period.

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 September 30, 2011, the balance drawn on this line is \$44,620.

NOTE 7 – DONATED SERVICES, MATERIALS, AND FACILITIES

Donated services from artists are not generally recognized because the amount is immaterial. In the current period, technical services were provided to the Organization totaling \$8,440. These services were recorded as consulting expense with a corresponding recognition of donated services in the same amount.

See independent auditors’ report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 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 \$1,716,198.

The breakdown of assets released from restriction is as follows:

Allocation of period salaries and operational costs to capital construction	\$ 35,570
Construction costs	80,628
Pay down of debt, Bank of America	100,000
Release of restriction from original gift**	<u>1,500,000</u>
	<u>\$ 1,716,198</u>

** In 2006, a Board member made two (2) donations to CCE totaling \$2.0 million. These were given in increments of \$1.5 million and \$500,000. The donations were both categorized as temporarily restricted by management when the intent behind the \$1.5 million was that the Organization could continue to meet its operational needs during the construction period as necessary. While the organization did use the funds to close operational gaps as intended, there was never documentation to support the nature of the gift, thus it remained temporarily restricted. During the three (3) month period ended September 31, 2011, management obtained a signed letter from the original donor to clarify the designation of the original gift and support the use of funds. As a result, \$1,500,000 was released from restriction. This transfer in classification does not affect the operational results of the organization in any way.

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 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 totaling \$11,000 for the period.

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.

A current member of the Board of Directors contributes time to the Organization providing technical consulting skills. No payments were made to the individual, however, the organization did recognize revenues for donated services totaling \$8,440 and consulting fees of the same amount.

NOTE 10 – SUBSEQUENT EVENTS

Management's Assessment

The Organization adopted FASB ASC 855-10, formerly SFAS No. 165, "Subsequent Events" in 2009. Subsequent events have been evaluated through October 22, 2012, the date which the financial statements were available to be issued.

Capital Construction Project

CCE hired a consultant in March, 2011, to establish a path forward relative to the stalled construction project. CCE realized that the Organization could not support the additional debt required to complete the entire building. Based on that understanding, the Board established a revised approach to the construction project which was a phased approach completing the building in three (3) separate projects. In addition, the Board developed several planning maxims for the construction projects:

- Build only what can be afforded to operate
- No additional long-term debt

See independent auditors' report.

CENTER FOR CREATIVE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2011

NOTE 10 – SUBSEQUENT EVENTS *(continued)*

- Focus construction on the East end of the building first to accommodate in-house programming and to relocate the administrative offices back into the building
- Complete the exterior of the building so that from a community prospective the building looks entirely complete.

Phase I – Complete 35% of the interior of the building and allow for the administrative offices to move into the new building. This phase also completes the entire exterior of the building so that from a community perspective it enhances the neighborhood as the building appears finished. The total cost for this phase is \$800,000 and CCE currently has the funding in place for completion. Phase I is scheduled for September 15, 2012, with anticipated completion by February, 2013, with Phase II commencing immediately at that time.. Planning for Phase II has already started and a budget has been established.

The construction loan obtained through Bank of America was due to mature April 30, 2011. Bank of America authorized an amendment dated October 17, 2012, which extends the due date to June 30, 2013, at the existing interest rate of LIBOR plus 2.75. As of October 16, 2012, the Organization had paid down an additional \$107,509 of principal making the new outstanding principal balance \$442,604.

See independent auditors' report.