



Creativity Explored

**Consolidated Financial Statements
And Supplementary Information**

June 30, 2019 and 2018

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Board of Directors
Creativity Explored
San Francisco, California

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Creativity Explored, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Creativity Explored as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frank, Rimmerman & Co. LLP

San Francisco, California
February 19, 2020

Creativity Explored
Consolidated Statements of Financial Position

	June 30,	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 168,858	\$ 148,091
Investments	1,105,259	1,066,989
Accounts receivable	481,539	456,841
Prepaid expenses and other current assets	28,610	33,339
Inventory	30,754	32,826
Total current assets	1,815,020	1,738,086
Beneficial Interest in Use of Property	424,072	504,287
Accounts Receivable, net of current portion	165,000	-
Property and Equipment, net	214,128	62,907
Deposit	22,744	22,744
Total assets	<u>\$ 2,640,964</u>	<u>\$ 2,328,024</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 37,101	\$ 17,100
Accrued expenses	176,926	67,152
Total liabilities	214,027	84,252
Deferred Rent	6,514	-
Commitments (Note 7)		
Net Assets		
Without donor restrictions	1,404,517	1,300,238
With donor restrictions	1,015,906	943,534
Total net assets	<u>2,420,423</u>	<u>2,243,772</u>
Total liabilities and net assets	<u>\$ 2,640,964</u>	<u>\$ 2,328,024</u>

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Activities and Change in Net Assets
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Art sales, net	\$ 102,997	\$ -	\$ 102,997
Royalty income, net	19,750	-	19,750
Foundation and corporate grants	55,462	218,928	274,390
Government grants	165,764	26,000	191,764
Government contract	1,631,394	-	1,631,394
Corporate contributions	9,014	-	9,014
Individual contributions	174,456	125,000	299,456
Special events, net	190,861	-	190,861
In-kind contributions	103,889	-	103,889
Miscellaneous income	2,501	-	2,501
Net assets released from restrictions	297,556	(297,556)	-
Total public support and revenue	2,753,644	72,372	2,826,016
Expenses			
Program services	2,128,546	-	2,128,546
Management and general	364,652	-	364,652
Fundraising	178,666	-	178,666
Total expenses	2,671,864	-	2,671,864
Change in Net Assets From Operations	81,780	72,372	154,152
Other Revenue			
Return on investments	22,499	-	22,499
Total other revenue	22,499	-	22,499
Change in Net Assets	104,279	72,372	176,651
Net Assets, beginning of year	1,300,238	943,534	2,243,772
Net Assets, end of year	\$ 1,404,517	\$ 1,015,906	\$ 2,420,423

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Activities and Change in Net Assets
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Art sales, net	\$ 133,950	\$ -	\$ 133,950
Royalty income, net	19,542	-	19,542
Foundation and corporate grants	89,228	325,000	414,228
Government grants	18,616	73,838	92,454
Government contract	1,528,250	-	1,528,250
Corporate contributions	11,448	-	11,448
Individual contributions	106,065	55,000	161,065
Special events, net	170,161	-	170,161
In-kind contributions	65,270	-	65,270
Miscellaneous income	3,911	-	3,911
Net assets released from restrictions	215,464	(215,464)	-
Total public support and revenue	2,361,905	238,374	2,600,279
Expenses			
Program services	1,780,602	-	1,780,602
Management and general	321,720	-	321,720
Fundraising	113,937	-	113,937
Total expenses	2,216,259	-	2,216,259
Change in Net Assets From Operations	145,646	238,374	384,020
Other Revenue			
Return on investments	7,878	-	7,878
Total other revenue	7,878	-	7,878
Change in Net Assets	153,524	238,374	391,898
Net Assets, beginning of year	1,146,714	705,160	1,851,874
Net Assets, end of year	<u>\$ 1,300,238</u>	<u>\$ 943,534</u>	<u>\$ 2,243,772</u>

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Creativity Explored Programs	Gallery Programs	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Personnel	\$ 1,125,850	\$ 373,765	\$ 1,499,615	\$ 236,288	\$ 130,794	\$ 367,082	\$ 1,866,697
Professional services	8,299	40,016	48,315	63,410	184,694	248,104	296,419
Occupancy	259,688	73,486	333,174	19,760	36,495	56,255	389,429
Equipment	4,806	2,109	6,915	1,847	1,631	3,478	10,393
Donated services	36,524	26,152	62,676	3,652	7,305	10,957	73,633
Depreciation and amortization	13,414	6,663	20,077	3,916	-	3,916	23,993
Office	8,754	22,754	31,508	11,229	3,758	14,987	46,495
Exhibits	5,120	63,586	68,706	-	244	244	68,950
Artists	68,320	105,219	173,539	-	-	-	173,539
Travel	1,673	4,134	5,807	1,918	396	2,314	8,121
Miscellaneous	10,048	28,334	38,382	22,632	934	23,566	61,948
Total expenses by function	1,542,496	746,218	2,288,714	364,652	366,251	730,903	3,019,617
Less expenses included with public support and revenue on the statement of activities							
Art sales cost of goods sales	(26,940)	(132,619)	(159,559)	-	(244)	(244)	(159,803)
Special event expenses	-	(609)	(609)	-	(187,341)	(187,341)	(187,950)
Total expenses on the statement of activities	\$ 1,515,556	\$ 612,990	\$ 2,128,546	\$ 364,652	\$ 178,666	\$ 543,318	\$ 2,671,864
Percentage of total expenses	51%	25%	76%	12%	12%	24%	100%

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Creativity Explored Programs	Gallery Programs	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Personnel	\$ 1,023,197	\$ 246,802	\$ 1,269,999	\$ 220,632	\$ 83,916	\$ 304,548	\$ 1,574,547
Professional services	1,967	32,910	34,877	53,226	126,921	180,147	215,024
Occupancy	250,659	70,212	320,871	17,907	35,949	53,856	374,727
Equipment	2,427	947	3,374	2,182	2,189	4,371	7,745
Donated services	1,580	28,892	30,472	-	-	-	30,472
Depreciation and amortization	4,552	3,567	8,119	2,087	411	2,498	10,617
Office	9,773	26,332	36,105	11,602	5,353	16,955	53,060
Exhibits	25	52,714	52,739	-	85	85	52,824
Artists	52,989	116,999	169,988	-	-	-	169,988
Travel	894	616	1,510	574	195	769	2,279
Miscellaneous	10,550	11,651	22,201	18,577	1,420	19,997	42,198
Total expenses by function	1,358,613	591,642	1,950,255	326,787	256,439	583,226	2,533,481
Less expenses included with public support and revenue on the statement of activities							
Art sales cost of goods sales	(27,869)	(138,453)	(166,322)	-	(85)	(85)	(166,407)
Special event expenses	-	(3,331)	(3,331)	(5,067)	(142,417)	(147,484)	(150,815)
Total expenses on the statement of activities	\$ 1,330,744	\$ 449,858	\$ 1,780,602	\$ 321,720	\$ 113,937	\$ 435,657	\$ 2,216,259
Percentage of total expenses	54%	23%	77%	13%	10%	23%	100%

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 176,651	\$ 391,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,993	10,617
Change in beneficial interest in use of property	80,215	75,674
Realized and unrealized loss on investments	2,803	1,928
Changes in operating assets and liabilities:		
Accounts receivable	(189,698)	(180,073)
Prepaid expenses and other current assets	4,729	(6,696)
Inventory	2,072	(6,932)
Accounts payable	20,001	3,711
Accrued expenses	109,774	(1,267)
Deferred rent	6,514	-
Net cash provided by operating activities	237,054	288,860
Cash Flows from Investing Activities		
Purchase of investments	(937,774)	(970,272)
Proceeds from sale of investments	896,701	610,173
Purchase of property and equipment	(175,214)	(12,259)
Net cash used in investing activities	(216,287)	(372,358)
Net Increase (Decrease) in Cash and Cash Equivalents	20,767	(83,498)
Cash and Cash Equivalents, beginning of year	148,091	231,589
Cash and Cash Equivalents, end of year	\$ 168,858	\$ 148,091

See Notes to Consolidated Financial Statements

Creativity Explored

Notes to Consolidated Financial Statements

1. Organization and Nature of Business

Creativity Explored (the Organization) was incorporated in 1982 as a nonprofit organization under the laws of the State of California and is located in San Francisco, California. The Organization's mission is to advance the value and diversity of artistic expression by providing artists with developmental disabilities the means to create, exhibit, and sell their art.

The Organization develops and implements an environment where artists with developmental disabilities can work and have a creative outlet. The Organization accomplishes this through its two art center locations where artists can work and receive instruction.

The Organization maintains the following programs:

Creativity Explored Programs (Studio and Community Arts):

The Organization provides studio artists with a workspace, instruction, and opportunities to explore a wide variety of media. Studio artists choose the media and subject matter, and trained professional artists are available to assist each studio artist in exploring the creative process. Printmaking, painting, drawing, sculpture, ceramics, and fabric art are included in a program designed to meet the needs, choices, and preferences of each studio artist.

The Organization provides studio artists with opportunities to visit Bay Area museums, galleries, and local artists' studios. Groups of four studio artists are accompanied by an art instructor to experience and participate in the Bay Area arts community.

Gallery Programs (Exhibitions, Art Services and Licensing):

The Organization professionally exhibits and markets artwork created by the artists working in its studios. Exhibitions occur on a regular basis in an on-site gallery, off-site in private and public galleries, and in corporate and community spaces throughout the Bay Area. Revenue generated by these program activities is shared equally between the Organization and the studio artist. When the Organization licenses art to be reproduced on products manufactured and sold by others, royalty income is shared 60%/40% between the Organization and the studio artist.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of the Organization and its subsidiary Creativity Explored Licensing (the Subsidiary). The Subsidiary was incorporated in July 2014 as a Single Member Limited Liability Company for the purpose of engaging in the business of owning, controlling, licensing, selling, promoting, and monetizing artwork or rights thereon.

Basis of Presentation:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 became effective for the Organization as of July 1, 2018, at which time the Organization adopted the standard using a retrospective transition approach and has adjusted the presentation of its consolidated financial statements as follows:

- Unrestricted net assets have been renamed net assets without donor restrictions.
- Temporarily and permanently restricted net assets have been renamed net assets with donor restrictions
- The consolidated financial statements include new disclosures about liquidity and availability of resources (Note 3).
- Investment-related expenses are reported net as part of return on investments.

The Organization segregates its assets, liabilities and operations into two categories: with donor restrictions and without donor restrictions. The Organization's net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or such donor-imposed restrictions were temporary in nature and expired during the current or previous years.

Net assets with donor restrictions consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

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, disclosure of contingent assets and liabilities and the reported amounts of support, revenue and expenses in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition:

Contributions:

The Organization recognizes contributions and unconditional promises to give (pledges) as revenue in the period the donor makes the contribution or pledge that is, in substance, unconditional. Pledges are stated at their net present value based on the expected future cash flows using a discount rate. Conditional promises to give and support are not recognized until the conditions are met. The Organization distinguishes between contributions that increase any of the two categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire. Contributions restricted by the donor that expire in the current year are reported as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions.

Government Contract:

The Organization recognizes financial support from Golden Gate Regional Center (GGRC) through an agreement under which the Organization receives funding based on the hours spent by artists (program participants) at an agreed-upon funding rate (varying among three levels). Detailed records are maintained on program participants and invoices are submitted to GGRC monthly. Revenue from GGRC is recognized when earned.

Art Sales:

The Organization reports the sale of original art, net of supplies and related payments to artists, and art products, net of product production costs.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

Leasing of Art Work:

The Organization receives advance payments for the use of artwork to be displayed in various facilities. Advance payments are recorded as deferred revenue and revenue is recorded as the artwork is displayed.

Gift Cards:

Deferred revenue is recorded when the gift cards are purchased. Revenue is recognized on gift cards when the gift cards are redeemed.

Measure of Operations:

The Organization's measure of operations as presented in the consolidated statements of activities includes revenue from the government contract, contributions, grants, art sales, leasing of art work, special events, and gift cards. Operating expenses are reported on the consolidated statement of activities by natural classification.

The Organization's nonoperating activity within the consolidated statement of activities includes investment income, gains and losses, net of investment related expenses.

Special Events

Revenue from special events is reported net of direct costs and expenses. Revenue and expenses associated with special events are as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Gala revenues	\$ 378,811	\$ 320,976
Gala expenses	<u>(187,950)</u>	<u>(150,815)</u>
Special events, net	<u>\$ 190,861</u>	<u>\$ 170,161</u>

Concentration in Funding Sources:

In fiscal 2019, 58% of support was received through funding from GGRC, exclusive of income from the Subsidiary (59% in fiscal 2018, exclusive of income from the Subsidiary). Other support and revenue is received from various donors and grantors, licensing royalties from artists' work, and from the sale of merchandise and art.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents:

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments and Fair Value of Financial Instruments:

The Organization presents its investments at fair value under FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. The Organization uses a three-level hierarchy for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with those instruments.

The three-level hierarchy for fair value measurement is defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III: Inputs to the valuation methodology, which are significant to the fair value measurement, are unobservable.

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Organization's investments, consisting of certificates of deposit with maturities exceeding three months, and mutual funds, are classified under Level I of the three-level hierarchy.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Concentration of Credit Risk:

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist primarily of cash and cash equivalents, investments, and accounts receivable. The Organization maintains its cash and cash equivalents and investments with one financial institution and a major brokerage firm. From time to time, cash and cash equivalents held with the financial institution exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). Investments, which consist of certificates of deposit, money market funds, and securities, held at the brokerage firm are also insured by the FDIC and SIPC. To date, the Organization has not experienced any losses on its cash deposits or investments.

The Organization provides an allowance, as needed, for losses arising from uncollectible accounts receivable based upon the historical collection experience and management's evaluation of collectability of outstanding balances. There was no allowance for doubtful accounts deemed necessary at June 30, 2019 and 2018.

Inventory:

Inventory consists primarily of books, note cards and tee-shirts and is stated at the lower of cost or market, using the first-in first-out methodology.

Property and Equipment:

The Organization capitalizes property and equipment acquisitions over \$1,500. Property and equipment is recorded at cost or fair value at the donated date. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to five years. Leasehold improvements are amortized over the shorter of the assets' useful life or the remaining lease term.

Impairment of Long-Lived Assets:

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When it is determined the carrying value of long-lived assets may not be recoverable, the Organization measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operating model. To date, the Organization has not recorded an impairment of its long-lived assets as a result of this analysis.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

In-Kind Contributions:

Donated property and equipment and investments are recognized as revenue at estimated fair value at the date of receipt. Donated materials and art supplies have not been recognized in the accompanying consolidated financial statements because the amounts are immaterial.

Donated services are recognized as contributions at their fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would otherwise be purchased by the Organization if not provided by donations.

In-kind contributions consists of \$585 of donated art services, \$73,048 of donated interior design services, and \$30,257 of contributed rent (Note 5) in fiscal 2019 (\$30,472 of donated legal services and \$34,798 of contributed rent in fiscal 2018).

The Organization receives a significant amount of donated time from volunteers that promote the Organization's programs, but do not meet the criteria for recognition as donated services. Accordingly, the value of this valuable contributed time is not reflected in the accompanying consolidated financial statements.

Income Taxes:

The Organization is exempt from federal and state income taxes under the Internal Revenue Code (Code) Section 501(c) (3) and State of California Section 23701(d), except on net income derived from unrelated business activities.

The Organization does not believe it has unrelated business income to be reported for tax purposes. In addition, the Organization believes that it has appropriate support for any tax positions taken to date and, therefore, has no related income tax due for all years where the statute of limitations remains open, which is generally three years for Federal filings and four years for California filings.

Functional Expenses:

The costs of providing the Organization's various programs and services have been summarized on a functional basis in the consolidated statements of functional expenses. Personnel expenses are allocated based on their estimated level of effort, where employee expenses may be allocated across multiple departments. Occupancy, depreciation and amortization, and office expenses are allocated indirectly by square footage. The remaining natural expenses are directly expensed to the department based on the activity associated with the expense.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective:

Leases:

In February 2016, the FASB issued ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the consolidated statement of financial position.

The standard is effective for the Organization as of July 1, 2021 and requires the use of a modified retrospective transition approach for its adoption. The Organization is currently evaluating the effect Topic 842 will have in its consolidated financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the lease disclosed in Note 7 to the consolidated financial statements, will be capitalized together with the related lease obligations on the consolidated statement of financial position upon the adoption of Topic 842.

Contributions Received and Contributions Made

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction, and provides guidance for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for the Organization as of July 1, 2019. ASU 2018-08 allows for retrospective or modified prospective transition approach for its adoption. The Organization believes ASU 2018-08 will have a minimal impact on its consolidated financial statements and related disclosures.

Revenue:

In May 2014, the FASB issued ASC Topic 606, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. The standard will replace most existing revenue recognition guidance generally accepted in the United States of America. Topic 606 is effective for the Organization as of July 1, 2019, and permits the use of either a retrospective or cumulative effect transition method for its adoption. The Organization is currently evaluating the effect Topic 606 will have on its consolidated financial statements and related disclosures.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Fair Value Disclosures:

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The standard eliminates certain disclosures and modifies others about recurring and nonrecurring fair value measurements that are required by Topic 820. ASU 2018-13 is expected to reduce cost of preparing Topic 820 disclosures, while providing more decision-useful information for financial statements users. The standard is effective for the Organization as of July 1, 2020 and early adoption is permitted. The Organization is currently evaluating the impact of ASU 2018-13 on its fair value measurement disclosures.

Reclassifications:

Certain prior period amounts within the consolidated financial statements have been reclassified to conform to the current year presentation.

Creativity Explored

Notes to Consolidated Financial Statements

3. Liquidity and Availability of Resources

The table below represents financial assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$ 164,857
Accounts and contributions receivable	646,539
Investments	<u>1,105,259</u>
Financial assets available to meet general expenditures	1,916,655
Less amounts not available to be used within one year	
Accounts receivable due over one year	165,000
Funds received from donors restricted for use	<u>426,833</u>
	<u>591,833</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,324,822</u>

The Organization's management monitors liquidity and availability of the Organization's resources on an ongoing basis to ensure adherence to donor restrictions, contractual commitments and legal requirements for use of funds. The Organization has certain donor-restricted assets limited to use which are not available for general operations. Accordingly, these assets have been included above as unavailable for general expenditure within one year.

Creativity Explored
Notes to Consolidated Financial Statements

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 119,602	\$ 139,990
Leasehold improvements	<u>601,717</u>	<u>441,391</u>
	721,319	581,381
Accumulated depreciation and amortization	<u>(507,191)</u>	<u>(518,474)</u>
Property and equipment, net	<u>\$ 214,128</u>	<u>\$ 62,907</u>

5. Beneficial Interest in Use of Property

In fiscal 2014, the Organization entered into a seven-year agreement to lease its primary facility at a below market rate. The Organization has recorded an asset to reflect a beneficial interest in the use of the facility, representing the estimated fair value of the beneficial lease at its inception. The asset is being amortized over the lease term to in-kind contribution and revenue contributed to rent expense. The beneficial interest in the use of facility is as follows at June 30:

	<u>2019</u>	<u>2018</u>
Total beneficial in interest in use of property	\$ 497,124	\$ 607,595
Less discount at 6% to net present value	<u>(73,051)</u>	<u>(103,308)</u>
Net beneficial interest in use of property	<u>\$ 424,073</u>	<u>\$ 504,287</u>

The following amounts have been recognized in the Consolidated Statements of Activities and Change in Net Assets in connection with the beneficial interest in use of property in fiscal:

	<u>2019</u>	<u>2018</u>
Rent expense	\$ 110,471	\$ 110,472
Amortization of discount	<u>(30,257)</u>	<u>(34,798)</u>
Net decrease in net assets with donor restrictions	<u>\$ 80,214</u>	<u>\$ 75,674</u>

Creativity Explored

Notes to Consolidated Financial Statements

6. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or future periods at June 30:

	<u>2019</u>	<u>2018</u>
Beneficial interest in use of property	\$ 424,073	\$ 504,287
Licensing program	228,679	265,352
Creativity Explored programs	288,121	137,229
Administrative	33,750	10,000
Gallery and marketing	41,283	6,666
Fundraising	<u>-</u>	<u>20,000</u>
	<u>\$ 1,015,906</u>	<u>\$ 943,534</u>

Net assets were released from donor restrictions by the passage of time or incurring expenses satisfying the restricted purposes as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Creativity Explored programs	\$ 98,089	\$ 60,075
Gallery and marketing	13,829	53,400
Licensing program	105,424	26,315
Beneficial interest in use of property	<u>80,214</u>	<u>75,674</u>
	<u>\$ 297,556</u>	<u>\$ 215,464</u>

7. Facility Arrangements

The Organization is obligated under a non-cancelable operating lease agreement for its main facility in San Francisco, California. The lease expires on December 31, 2023 and requires monthly payments of \$6,200, which will increase by \$200 every two years.

The Organization's lease at its second facility was on a month-to-month basis with monthly payments of \$9,150 through August 2019. In September 2019, the Organization entered into a non-cancelable operating lease agreement for its second facility. The lease expires on August 31, 2022 and requires monthly payments of \$9,500, which increase annually by various amounts.

Creativity Explored

Notes to Consolidated Financial Statements

7. Facility Arrangements (continued)

Future minimum lease payments are as follows for fiscal years ending June 30:

2020	\$	163,000
2021		195,000
2022		199,000
2023		111,000
2024		<u>41,000</u>
Total	\$	<u>709,000</u>

8. Employee Benefit Plan

The Organization adopted a 401(k) plan for its employees. Employees can elect to participate at any time after employment and contribute up to 100% of their annual salary, subject to Code limitations. The plan also allows discretionary Organization contributions. The Organization made contributions to the 401(k) plan for \$12,700 in fiscal 2019 (none in fiscal 2018).

9. Related Party Transactions

In fiscal 2019, contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were \$222,000 (\$19,000 in fiscal 2018).


10. Subsequent Events

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the consolidated financial statements were approved by the Organization and available to be issued.

Board of Directors
Creativity Explored
San Francisco, California

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

We have audited the consolidated financial statements of Creativity Explored as of and for the years ended June 30, 2019 and 2018, and our report thereon dated February 19, 2020, which expressed an unmodified opinion on those consolidated financial statements, is presented in this report. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information for the years ended June 30, 2019 and 2018 on pages 23 and 24 is presented for purpose of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of those consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements, as a whole.

A handwritten signature in black ink that reads "Frank, Rimerman & Co. LLP". The signature is written in a cursive, flowing style.

Frank, Rimerman + Co. LLP
San Francisco, California
February 19, 2020

Creativity Explored
Consolidating Statement of Activities and Change in Net Assets
Year Ended June 30, 2019

	Creativity Explored	Creativity Explored Licensing	Total
Public Support and Revenue			
Art sales, net	\$ 102,997	\$ -	\$ 102,997
Royalty income, net	-	19,750	19,750
Foundation and corporate grants	274,390	-	274,390
Government grants	191,764	-	191,764
Government contract	1,631,394	-	1,631,394
Corporate contributions	9,014	-	9,014
Individual contributions	299,456	-	299,456
Special events, net	190,861	-	190,861
In-kind contributions	103,889	-	103,889
Miscellaneous income	2,501	-	2,501
Total public support and revenue	2,806,266	19,750	2,826,016
Expenses			
Program services	2,093,185	35,361	2,128,546
Management and general	364,652	-	364,652
Fundraising	178,666	-	178,666
Total expenses	2,636,503	35,361	2,671,864
Change in Net Assets From Operations	169,763	(15,611)	154,152
Other Revenue			
Return on investments	22,499	-	22,499
Total other revenue	22,499	-	22,499
Change in Net Assets	192,262	(15,611)	176,651
Net Assets, beginning of year	2,317,060	(73,288)	2,243,772
Net Assets, end of year	\$ 2,509,322	\$ (88,899)	\$ 2,420,423

See Independent Auditors' Report on Supplementary Information

Creativity Explored
Consolidating Statement of Activities and Change in Net Assets
Year Ended June 30, 2018

	Creativity Explored	Creativity Explored Licensing	Total
Public Support and Revenue			
Art sales, net	\$ 133,950	\$ -	\$ 133,950
Royalty income, net	-	19,542	19,542
Foundation and corporate grants	414,228	-	414,228
Government grants	92,454	-	92,454
Government contract	1,528,250	-	1,528,250
Corporate contributions	11,448	-	11,448
Individual contributions	161,065	-	161,065
Special events, net	170,161	-	170,161
In-kind contributions	65,270	-	65,270
Miscellaneous income	3,911	-	3,911
Total public support and revenue	2,580,737	19,542	2,600,279
Expenses			
Program services	1,761,864	18,738	1,780,602
Management and general	321,720	-	321,720
Fundraising	113,937	-	113,937
Total expenses	2,197,521	18,738	2,216,259
Change in Net Assets From Operations	383,216	804	384,020
Other Revenue			
Return on investments	7,878	-	7,878
Total other revenue	7,878	-	7,878
Change in Net Assets	391,094	804	391,898
Net Assets, beginning of year	1,925,966	(74,092)	1,851,874
Net Assets, end of year	\$ 2,317,060	\$ (73,288)	\$ 2,243,772

See Independent Auditors' Report on Supplementary Information