



Creativity Explored
Consolidated Financial Statements
And Supplementary Information
June 30, 2020 and 2019

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
CONSOLIDATED FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities and Change in Net Assets	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 22
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	23
SUPPLEMENTARY INFORMATION	
Consolidating Statements of Activities and Change in Net Assets	24 - 25

Board of Directors
Creativity Explored
San Francisco, California



Certified
Public
Accountants

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, 2020 and 2019, 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 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, 2020 and 2019, 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
January 28, 2021

Creativity Explored
Consolidated Statements of Financial Position

	June 30,	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 226,519	\$ 168,858
Investments	1,332,009	1,105,259
Accounts receivable	283,579	481,539
Prepaid expenses and other current assets	51,040	28,610
Inventory	31,187	30,754
	<u>1,924,334</u>	<u>1,815,020</u>
Beneficial Interest in Use of Property	339,045	424,072
Accounts Receivable, net of current portion	95,000	165,000
Property and Equipment, net	181,379	214,128
Deposit	23,089	22,744
	<u>2,562,847</u>	<u>2,640,964</u>
Total assets	<u>\$ 2,562,847</u>	<u>\$ 2,640,964</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 20,643	\$ 37,101
Accrued expenses	108,983	176,926
	<u>129,626</u>	<u>214,027</u>
Total liabilities	129,626	214,027
Paycheck Protection Loan (Note 9)	341,900	-
Deferred Rent	10,076	6,514
Commitments (Notes 7 and 9)		
Net Assets		
Without donor restrictions	1,428,138	1,404,517
With donor restrictions	653,107	1,015,906
	<u>2,081,245</u>	<u>2,420,423</u>
Total net assets	2,081,245	2,420,423
Total liabilities and net assets	<u>\$ 2,562,847</u>	<u>\$ 2,640,964</u>

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Activities and Change in Net Assets
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue			
Art sales, net	\$ 95,915	\$ -	\$ 95,915
Royalty income, net	38,050	-	38,050
Foundation and corporate grants	12,125	53,474	65,599
Government grants	95,051	-	95,051
Government contract	1,627,730	-	1,627,730
Corporate contributions	114,205	-	114,205
Individual contributions	321,727	-	321,727
In-kind contributions	37,072	-	37,072
Miscellaneous income	656	-	656
Net assets released from restrictions	416,273	(416,273)	-
Total public support and revenue	2,758,804	(362,799)	2,396,005
Expenses			
Program services	2,277,786	-	2,277,786
Management and general	222,223	-	222,223
Fundraising	283,509	-	283,509
Total expenses	2,783,518	-	2,783,518
Change in Net Assets From Operations	(24,714)	(362,799)	(387,513)
Other Revenue			
Return on investments	48,335	-	48,335
Change in Net Assets	23,621	(362,799)	(339,178)
Net Assets, June 30, 2019	1,404,517	1,015,906	2,420,423
Net Assets, June 30, 2020	\$ 1,428,138	\$ 653,107	\$ 2,081,245

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
In-kind contributions	103,889	-	103,889
Special events, net	190,861	-	190,861
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
Change in Net Assets	104,279	72,372	176,651
Net Assets, June 30, 2018	1,300,238	943,534	2,243,772
Net Assets, June 30, 2019	\$ 1,404,517	\$ 1,015,906	\$ 2,420,423

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Creativity Explored Programs	Gallery Programs	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Personnel	\$ 1,193,115	\$ 476,526	\$ 1,669,641	\$ 114,080	\$ 209,007	\$ 323,087	\$ 1,992,728
Professional services	44,607	18,229	62,836	54,688	9,374	64,062	126,898
Occupancy	233,468	89,167	322,635	24,906	38,826	63,732	386,367
Equipment	10,230	4,374	14,604	498	419	917	15,521
Donated services	7,013	2,541	9,554	665	1,409	2,074	11,628
Depreciation and amortization	19,505	7,931	27,436	1,934	3,412	5,346	32,782
Office	19,138	10,361	29,499	8,152	11,479	19,631	49,130
Exhibits	11,015	120,633	131,648	2,334	25,041	27,375	159,023
Artists	56,034	128,478	184,512	405	130	535	185,047
Travel	2,280	1,298	3,578	1,060	189	1,249	4,827
Special events	-	-	-	-	7,059	7,059	7,059
Miscellaneous	10,411	8,187	18,598	13,501	1,869	15,370	33,968
Total expenses by function	1,606,816	867,725	2,474,541	222,223	308,214	530,437	3,004,978
Less expenses included with public support and revenue on the statement of activities							
Art sales cost of goods sales	(39,689)	(157,066)	(196,755)	-	-	-	(196,755)
Special event expenses	-	-	-	-	(24,705)	(24,705)	(24,705)
Total expenses on the statement of activities	\$ 1,567,127	\$ 710,659	\$ 2,277,786	\$ 222,223	\$ 283,509	\$ 505,732	\$ 2,783,518
Percentage of total expenses by function	53%	29%	82%	8%	10%	18%	100%

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	4,805	2,109	6,914	1,847	1,631	3,478	10,392
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	10,049	28,334	38,383	22,632	934	23,566	61,949
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 by function	51%	25%	76%	12%	12%	24%	100%

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ (339,178)	\$ 176,651
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,782	23,993
Gain on disposal of property and equipment	(33)	-
Change in beneficial interest in use of property	85,027	80,215
Realized and unrealized (gain) loss on investments	(22,232)	2,803
Changes in operating assets and liabilities:		
Accounts receivable	267,960	(189,698)
Prepaid expenses and other current assets	(22,430)	4,729
Inventory	(433)	2,072
Accounts payable	(16,458)	20,001
Accrued expenses	(67,943)	109,774
Deferred rent	3,562	6,514
Net cash provided by (used in) operating activities	(79,376)	237,054
Cash Flows from Investing Activities		
Purchase of investments	(850,352)	(937,774)
Proceeds from sale of investments	645,834	896,701
Change in deposit	(345)	-
Purchase of property and equipment	-	(175,214)
Net cash used in investing activities	(204,863)	(216,287)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Loan	341,900	-
Net cash provided by financing activities	341,900	-
Net Increase in Cash and Cash Equivalents	57,661	20,767
Cash and Cash Equivalents, beginning of year	168,858	148,091
Cash and Cash Equivalents, end of year	\$ 226,519	\$ 168,858

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:

The Organization segregates its assets, liabilities and operations into two categories: without donor restrictions and with 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 statements of activities as net assets released from restrictions.

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.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Revenue Recognition:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606).

Topic 606 became effective for the Organization as of July 1, 2019, at which time the Organization adopted the standard using a retrospective transition approach for its adoption to account for its revenue producing activities. The adoption of Topic 606 did not result in a material impact to the consolidated financial statements as the Organization's contracts and agreements with customers and grantors do not contain terms that could create additional performance obligations or contingent revenue to be accounted for under the new standard during the contract term.

The adoption of Topic 606 did result in changes in the criteria the Organization uses to account for its revenue recognition in fiscal 2020. The Organization determines revenue recognition under Topic 606 through the following steps:

- Identification of the contract or agreement with a customer or grantor
- Identification of the performance obligations in the contract or agreement
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract or agreement
- Recognition of revenue when, or as, the Organization satisfies a performance obligation

Results for the year ended June 30, 2019 have not been adjusted and continue to be reported in accordance with ASC Topic 605, *Revenue Recognition*. The Organization recognized revenue under Topic 605 when there was persuasive evidence of an arrangement existed, the services have been delivered, fees were fixed and determinable, collection was probable and when all other significant obligations have been fulfilled.

The Organization's revenue-producing activities consist of:

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 the GGRC agreement is recognized as services are provided.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

Art Sales:

The Organization recognizes revenue from the sale of original art, net of supplies and related payments to artists, and art products, net of product production costs, at the time of sale.

Leasing of Artwork:

Advance payments for the use of artwork to be displayed in various facilities is recorded as deferred revenue, which is a contract liability. Royalty income is recognized as the artwork is displayed.

Gift Cards:

Proceeds from the purchase of gift cards is recorded as deferred revenue. Revenue is recognized when the gift cards are redeemed.

Contributions:

In June 2018, the FASB issued Accounting Standards Update (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. The standard became effective for the Organization on July 1, 2019, at which date the Organization adopted ASU 2018-08 using a modified prospective transition approach with no impact on the financial statements or related disclosures.

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 net assets with donor restrictions and net assets without donor restrictions.

Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets without donor restrictions. When a restriction as to time or use expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 \$4,060 of donated goods, \$1,718 of donated legal services, \$5,850 of donated architecture services, and \$25,444 of contributed rent (Note 5) in fiscal 2020 (\$585 of donated art services, \$73,047 of donated interior design services and \$30,257 of contributed rent in fiscal 2019).

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.

Special Events

Revenue from special events is reported net of direct costs and expenses. Net revenue (expenses) from special events consists of the following in fiscal:

	<u>2020</u>	<u>2019</u>
Gala revenues	\$ 17,646	\$ 378,811
Gala expenses	<u>(24,705)</u>	<u>(187,950)</u>
	<u>\$ (7,059)</u>	<u>\$ 190,861</u>

Net expenses from special events in fiscal 2020 is reported in the consolidated statement of functional expenses.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

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 reports the return on its investments as a nonoperating activity within the consolidated statements of activities. Return on investments includes earned interest and dividend income and realized and unrealized gains and losses, net of investment-related expenses.

Concentration in Funding Sources:

In fiscal 2020, 69% of support and revenue was received through funding from GGRC, exclusive of income from the Subsidiary (58% in fiscal 2019, 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.

Cash and Cash Equivalents:

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

Investments and Fair Value of Financial Instruments:

The Organization's investments, consisting of certificates of deposit with maturities exceeding three months, mutual funds, and securities, are reported at fair value. Certificates of deposit are valued based on current market value and mutual funds and securities are valued based on quoted market prices.

The Organization presents its investments at fair value under FASB 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.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Investments and Fair Value of Financial Instruments: (continued)

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 are classified under Level I of the three-level hierarchy.

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 Securities Investor Protection Corporation (SIPC). To date, the Organization has not experienced any losses on its cash deposits or investments.

Accounts receivable are contract assets derived from providing goods and services to customers and grants and pledges receivable. 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, 2020 and 2019.

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.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

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' estimated useful lives 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. The Organization has not recorded an impairment of its long-lived assets as a result of this analysis through June 30, 2020.

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 income tax purposes. In addition, the Organization believes it has appropriate support for any income 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 used by the departments. 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 statement of financial position.

The standard is effective for the Organization as of July 1, 2022 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 leases 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.

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.

Credit Losses:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard replaces the incurred credit loss model for the measurement of credit losses on financial assets measured at amortized cost, including grants and pledges receivable, and requires entities to recognize an allowance for credit loss for the difference between a receivable's amortized cost basis and the amount the entity expects to collect. ASU 2016-13 is effective for the Organization as of July 1, 2021 and requires the use of a modified-retrospective approach for its adoption, with early adoption permitted. The Organization believes the effect of adopting ASU 2016-13 will not have a material effect 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)

Contributed Nonfinancial Assets:

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-For Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 was issued to increase the transparency for measuring contributed nonfinancial assets and is effective for the Organization as of July 1, 2021 requiring the use of the retrospective approach for its adoption. Early adoption is permitted. The Organization is evaluating the effect ASU 2020-07 will have on its consolidated financial statements.

ASU 2020-07 will require contributions from donors to be reported on the statements of financial position as either contributions of cash and financial assets or nonfinancial assets. Not-for-profit entities will be required to provide details as to the types of nonfinancial assets received, any donor-imposed restrictions on the assets, whether the contributed nonfinancial assets were either monetized or utilized during the reporting period, the entity's accounting policy for monetizing the assets instead of utilizing the assets, and a description of the valuation techniques and inputs used to arrive at a fair value measurement for the donated assets, in accordance with Topic 820, at initial recognition.

3. Liquidity and Availability of Resources

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

	2020	2019
Cash and cash equivalents	\$ 226,519	\$ 168,858
Grants and pledges receivable	378,579	646,539
Investments	<u>1,332,009</u>	<u>1,105,259</u>
Financial assets available to meet general expenditures	1,887,107	1,920,656
Less amounts not available to be used within one year:		
Accounts receivable due over one year	95,000	165,000
Funds received from donors restricted for purpose (Note 6)	<u>219,062</u>	<u>426,833</u>
	<u>\$ 1,573,045</u>	<u>\$ 1,328,823</u>

Creativity Explored
Notes to Consolidated Financial Statements

3. Liquidity and Availability of Resources (continued)

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.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 115,467	\$ 119,602
Leasehold improvements	<u>601,717</u>	<u>601,717</u>
	717,184	721,319
Accumulated depreciation and amortization	<u>(535,805)</u>	<u>(507,191)</u>
	<u>\$ 181,379</u>	<u>\$ 214,128</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 contributed rent expense. The beneficial interest in the use of facility is as follows at June 30:

	<u>2020</u>	<u>2019</u>
Total beneficial in interest in use of property	\$ 386,652	\$ 497,124
Less discount at 6% to net present value	<u>(47,607)</u>	<u>(73,051)</u>
	<u>\$ 339,045</u>	<u>\$ 424,073</u>

Creativity Explored
Notes to Consolidated Financial Statements

5. Beneficial Interest in Use of Property (continued)

The following amounts have been recognized in the consolidated statements of activities in connection with the beneficial interest in use of property in fiscal:

	<u>2020</u>	<u>2019</u>
Rent expense	\$ 110,471	\$ 110,472
Amortization of discount	<u>(25,444)</u>	<u>(30,257)</u>
	<u>\$ 85,027</u>	<u>\$ 80,215</u>

6. Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Beneficial interest in use of property	\$ 339,045	\$ 424,073
Creativity Explored programs	112,387	288,121
Licensing program	110,625	228,679
Gallery and marketing	62,425	41,283
Administrative	<u>28,625</u>	<u>33,750</u>
	<u>\$ 653,107</u>	<u>\$ 1,015,906</u>

Net assets were released from donor restrictions by the passage of time or incurring expenses satisfying the restricted purposes as follows in fiscal:

	<u>2020</u>	<u>2019</u>
Creativity Explored programs	\$ 134,494	\$ 98,089
Licensing program	118,053	105,424
Beneficial interest in use of property	85,028	80,214
Gallery and marketing	65,573	13,829
Administrative	<u>13,125</u>	<u>-</u>
	<u>\$ 416,273</u>	<u>\$ 297,556</u>

Creativity Explored

Notes to Consolidated Financial Statements

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 \$6,400 in fiscal 2020, which will increase by \$200 every two years. The Organization has the option to extend the term of the lease for an additional five-years twice through December 31, 2033.

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. There is an option to extend the term of the lease for additional terms of two, four and three-years.

Future minimum lease payments under the non-cancelable leases are as follows for fiscal years ending June 30:

2021	\$	195,000
2022		200,000
2023		101,000
2024		<u>41,000</u>
	\$	<u>537,000</u>

8. Employee Benefit Plan

The Organization has a defined contribution 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 of \$11,000 in fiscal 2020 (\$12,700 in fiscal 2019).

Creativity Explored

Notes to Consolidated Financial Statements

9. Paycheck Protection Loan

In May 2020, the Organization received an unsecured note for \$341,900 under the U.S. Small Business Administration (SBA) Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. Outstanding borrowings under the note bear interest at a rate of 1% per annum and matures in May 2022. Proceeds from the note are restricted to payment of employee salaries and rent. If the Organization adheres to the underlying note restrictions, there is the potential for the note to be forgiven by the SBA. While management believes this forgiveness is likely, it is contingent upon SBA approval. The Organization will recognize other income should the note be forgiven.

10. Subsequent Events

The global outbreak of the novel coronavirus in fiscal 2020 is a rapidly evolving situation. The virus has disrupted much of society, impacted global travel and supply chains, and adversely impacted global commercial activity in most industries. The rapid development and fluidity of this situation precludes any prediction as to its ultimate impact, which may have a continued adverse effect on economic and market conditions and trigger an extended period of global economic slowdown. Such conditions, which may be across industries, sectors or geographies, may impact the Organization's operating performance in the near term.

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, 2020 and 2019, and our report thereon dated January 28, 2021, 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 consolidated supplementary information for the years ended June 30, 2020 and 2019 on pages 24 and 25 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
January 28, 2021

Creativity Explored
Consolidating Statement of Activities and Change in Net Assets
Year Ended June 30, 2020

	Creativity Explored	Creativity Explored Licensing	Total
Public Support and Revenue			
Art sales, net	\$ 95,915	\$ -	\$ 95,915
Royalty income, net	-	38,050	38,050
Foundation and corporate grants	65,599	-	65,599
Government grants	95,051	-	95,051
Government contract	1,627,730	-	1,627,730
Corporate contributions	114,205	-	114,205
Individual contributions	321,727	-	321,727
In-kind contributions	37,072	-	37,072
Miscellaneous income	656	-	656
Total public support and revenue	2,357,955	38,050	2,396,005
Expenses			
Program services	2,144,588	133,198	2,277,786
Management and general	222,223	-	222,223
Fundraising	283,509	-	283,509
Total expenses	2,650,320	133,198	2,783,518
Change in Net Assets From Operations	(292,365)	(95,148)	(387,513)
Other Revenue			
Return on investments	48,335	-	48,335
Change in Net Assets	(244,030)	(95,148)	(339,178)
Net Assets, June 30, 2019	2,509,322	(88,899)	2,420,423
Net Assets, June 30, 2020	\$ 2,265,292	\$ (184,047)	\$ 2,081,245

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

	Creativity Explored	Creativity Explored Licensing	Total
	<u> </u>	<u> </u>	<u> </u>
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
In-kind contributions	103,889	-	103,889
Special events, net	190,861	-	190,861
Miscellaneous income	2,501	-	2,501
	<u>2,806,266</u>	<u>19,750</u>	<u>2,826,016</u>
Total public support and revenue			
Expenses			
Program services	2,093,185	35,361	2,128,546
Management and general	364,652	-	364,652
Fundraising	178,666	-	178,666
	<u>2,636,503</u>	<u>35,361</u>	<u>2,671,864</u>
Total expenses			
Change in Net Assets From Operations	<u>169,763</u>	<u>(15,611)</u>	<u>154,152</u>
Other Revenue			
Return on investments	22,499	-	22,499
	<u>22,499</u>	<u>-</u>	<u>22,499</u>
Change in Net Assets	192,262	(15,611)	176,651
Net Assets, June 30, 2018	2,317,060	(73,288)	2,243,772
Net Assets, June 30, 2019	<u>\$ 2,509,322</u>	<u>\$ (88,899)</u>	<u>\$ 2,420,423</u>