



**Creativity Explored  
Consolidated Financial Statements  
And Supplementary Information  
June 30, 2021 and 2020**

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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, 2021 and 2020, 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 Consolidated 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, 2021 and 2020, 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 10, 2022

**Creativity Explored**  
**Consolidated Statements of Financial Position**

|   | June 30,            |                     |
|---|---------------------|---------------------|
|   | 2021                | 2020                |
| <b>ASSETS</b>                               |                     |                     |
| Current Assets                              |                     |                     |
| Cash and cash equivalents                   | \$ 278,486          | \$ 226,519          |
| Investments                                 | 1,706,717           | 1,332,009           |
| Accounts receivable                         | 243,988             | 283,579             |
| Prepaid expenses and other current assets   | 55,457              | 51,040              |
| Inventory                                   | 34,668              | 31,187              |
| Total current assets                        | 2,319,316           | 1,924,334           |
| Beneficial Interest in Use of Property      | 248,916             | 339,045             |
| Accounts Receivable, net of current portion | 25,000              | 95,000              |
| Property and Equipment, net                 | 194,806             | 181,379             |
| Intangible Asset                            | 7,500               | -                   |
| Deposit                                     | 21,336              | 23,089              |
| Total assets                                | <u>\$ 2,816,874</u> | <u>\$ 2,562,847</u> |
| <b>LIABILITIES AND NET ASSETS</b>           |                     |                     |
| Current Liabilities                         |                     |                     |
| Accounts payable                            | \$ 36,827           | \$ 20,643           |
| Accrued expenses                            | 134,141             | 108,983             |
| Total liabilities                           | 170,968             | 129,626             |
| Note Payable (Note 9)                       | 329,647             | 341,900             |
| Deferred Rent                               | 10,164              | 10,076              |
| Commitments (Notes 7 and 9)                 |                     |                     |
| Net Assets                                  |                     |                     |
| Without donor restrictions                  | 1,843,011           | 1,428,138           |
| With donor restrictions                     | 463,084             | 653,107             |
| Total net assets                            | 2,306,095           | 2,081,245           |
| Total liabilities and net assets            | <u>\$ 2,816,874</u> | <u>\$ 2,562,847</u> |

See Notes to Consolidated Financial Statements

**Creativity Explored**  
**Consolidated Statement of Activities and Change in Net Assets**  
**Year Ended June 30, 2021**

|                                       | Without<br>Donor Restrictions | With<br>Donor Restrictions | Total        |
|---------------------------------------|-------------------------------|----------------------------|--------------|
| Public Support and Revenue            |                               |                            |              |
| Art sales, net                        | \$ 132,486                    | \$ -                       | \$ 132,486   |
| Royalty income, net                   | 45,617                        | -                          | 45,617       |
| Foundation and corporate grants       | 147,243                       | 46,758                     | 194,001      |
| Government grants                     | 69,394                        | 72,411                     | 141,805      |
| Government contract                   | 1,537,016                     | -                          | 1,537,016    |
| Corporate contributions               | 41,068                        | -                          | 41,068       |
| Individual contributions              | 215,812                       | -                          | 215,812      |
| Special events, net                   | 78,060                        | -                          | 78,060       |
| In-kind contributions                 | 59,137                        | -                          | 59,137       |
| Miscellaneous income                  | 526                           | -                          | 526          |
| Net assets released from restrictions | 309,192                       | (309,192)                  | -            |
| Total public support and revenue      | 2,635,551                     | (190,023)                  | 2,445,528    |
| Expenses                              |                               |                            |              |
| Program services                      | 2,072,512                     | -                          | 2,072,512    |
| Management and general                | 195,778                       | -                          | 195,778      |
| Fundraising                           | 334,657                       | -                          | 334,657      |
| Total expenses                        | 2,602,947                     | -                          | 2,602,947    |
| Change in Net Assets From Operations  | 32,604                        | (190,023)                  | (157,419)    |
| Other Revenue                         |                               |                            |              |
| Gain on note forgiveness              | 341,900                       | -                          | 341,900      |
| Return on investments                 | 40,369                        | -                          | 40,369       |
| Change in Net Assets                  | 414,873                       | (190,023)                  | 224,850      |
| Net Assets, June 30, 2020             | 1,428,138                     | 653,107                    | 2,081,245    |
| Net Assets, June 30, 2021             | \$ 1,843,011                  | \$ 463,084                 | \$ 2,306,095 |

See Notes to Consolidated Financial Statements

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

|                                       | Without<br>Donor Restrictions | With<br>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 Functional Expenses**  
**Year Ended June 30, 2021**

|  | Creativity<br>Explored<br>Programs | Gallery<br>Programs | Total<br>Program<br>Services | Management<br>and General | Fundraising       | Total<br>Support<br>Services | Total               |
|--|------------------------------------|---------------------|------------------------------|---------------------------|-------------------|------------------------------|---------------------|
| Personnel  | \$ 1,219,538                       | \$ 408,785          | \$ 1,628,323                 | \$ 94,485                 | \$ 251,498        | \$ 345,983                   | \$ 1,974,306        |
| Occupancy  | 200,456                            | 56,874              | 257,330                      | 13,492                    | 33,824            | 47,316                       | 304,646             |
| Artists  | 30,718                             | 86,264              | 116,982                      | 350                       | 245               | 595                          | 117,577             |
| Exhibits   | 4,706                              | 78,058              | 82,764                       | -                         | 30,460            | 30,460                       | 113,224             |
| Professional services  | 32,725                             | 10,953              | 43,678                       | 59,185                    | 9,810             | 68,995                       | 112,673             |
| Miscellaneous  | 8,342                              | 6,766               | 15,108                       | 25,764                    | 1,871             | 27,635                       | 42,743              |
| Office   | 20,220                             | 11,507              | 31,727                       | 1,351                     | 9,012             | 10,363                       | 42,090              |
| Depreciation and amortization  | 16,334                             | 6,023               | 22,357                       | 1,246                     | 3,448             | 4,694                        | 27,051              |
| Donated services   | -                                  | -                   | -                            | -                         | 24,096            | 24,096                       | 24,096              |
| Travel   | 2,914                              | 604                 | 3,518                        | 100                       | 142               | 242                          | 3,760               |
| Equipment  | 2,334                              | 754                 | 3,088                        | 155                       | 447               | 602                          | 3,690               |
| <b>Total expenses by function</b>  | <b>1,538,287</b>                   | <b>666,588</b>      | <b>2,204,875</b>             | <b>196,128</b>            | <b>364,853</b>    | <b>560,981</b>               | <b>2,765,856</b>    |
| Less expenses included with public support<br>and revenue on the statement of activities |                                    |                     |                              |                           |                   |                              |                     |
| Art sales cost of goods sales  | (22,540)                           | (109,823)           | (132,363)                    | (350)                     | (236)             | (586)                        | (132,949)           |
| Special event expenses   | -                                  | -                   | -                            | -                         | (29,960)          | (29,960)                     | (29,960)            |
| <b>Total expenses on the statement of activities</b>                                     | <b>\$ 1,515,747</b>                | <b>\$ 556,765</b>   | <b>\$ 2,072,512</b>          | <b>\$ 195,778</b>         | <b>\$ 334,657</b> | <b>\$ 530,435</b>            | <b>\$ 2,602,947</b> |
| Percentage of total expenses by function   | 56%                                | 24%                 | 80%                          | 7%                        | 13%               | 20%                          | 100%                |

See Notes to Consolidated Financial Statements



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

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

See Notes to Consolidated Financial Statements

**Creativity Explored**  
**Consolidated Statements of Cash Flows**

|   | Years Ended June 30, |              |
|---|----------------------|--------------|
|   | 2021                 | 2020         |
| Cash Flows from Operating Activities  |                      |              |
| Change in net assets  | \$ 224,850           | \$ (339,178) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                      |              |
| Depreciation and amortization   | 27,052               | 32,782       |
| Gain on note forgiveness  | (341,900)            | -            |
| Gain on disposal of property and equipment  | -                    | (33)         |
| Change in beneficial interest in use of property  | 90,129               | 85,027       |
| Realized and unrealized gain on investment  | (24,308)             | (22,232)     |
| Changes in operating assets and liabilities:  |                      |              |
| Accounts receivable   | 109,591              | 267,960      |
| Prepaid expenses and other current assets   | (4,417)              | (22,430)     |
| Inventory   | (3,481)              | (433)        |
| Accounts payable  | 16,184               | (16,458)     |
| Accrued expenses  | 25,158               | (67,943)     |
| Deferred rent   | 88                   | 3,562        |
| Net cash provided by (used in) operating activities   | 118,946              | (79,376)     |
| Cash Flows from Investing Activities  |                      |              |
| Purchase of investments   | (360,016)            | (850,352)    |
| Proceeds from sale of investments   | 9,616                | 645,834      |
| Purchase of property and equipment  | (40,479)             | -            |
| Purchase of intangible asset  | (7,500)              | -            |
| Change in deposit   | 1,753                | (345)        |
| Net cash used in investing activities   | (396,626)            | (204,863)    |
| Cash Flows from Financing Activities  |                      |              |
| Proceeds from Paycheck Protection Loan  | 329,647              | 341,900      |
| Net cash provided by financing activities   | 329,647              | 341,900      |
| Net Increase in Cash and Cash Equivalents   | 51,967               | 57,661       |
| Cash and Cash Equivalents, beginning of year  | 226,519              | 168,858      |
| Cash and Cash Equivalents, end of year  | \$ 278,486           | \$ 226,519   |

See Notes to Consolidated Financial Statements

## **Creativity Explored**

### **Notes to Consolidated Financial Statements**

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#### 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**

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#### 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

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#### 2. Significant Accounting Policies (continued)

##### *Revenue Recognition:*

The Organization recognizes revenue from its revenue-generating activities under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). The Organization determines revenue recognition 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

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.

##### *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.

## Creativity Explored

### Notes to Consolidated Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Contributions:*

The Organization recognizes contributions and promises in accordance with FASB Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

The Organization accounts for contributions and promises to give in accordance with accounting standards for not-for-profit organizations. GAAP require contributions received, including unconditional promises to give (pledges), be recognized as support in the period the pledge is made. GAAP also requires the Organization to distinguish between contributions and pledges received that increase net assets with donor restrictions and net assets without donor restrictions, with recognition being made of expiration of donor-imposed restrictions in the period in which the restrictions expire.

##### *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 \$59,137 of donated goods, and \$20,343 of contributed rent (Note 5) in fiscal 2021 (\$4,060 of donated goods, \$1,718 of donated legal services, \$5,850 of donated architecture services and \$25,444 of contributed rent in fiscal 2020).

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.

## Creativity Explored

### Notes to Consolidated Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *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>2021</u>      | <u>2020</u>       |
|---------------|------------------|-------------------|
| Gala revenues | \$ 108,020       | \$ 17,646         |
| Gala expenses | <u>(29,960)</u>  | <u>(24,705)</u>   |
|               | <u>\$ 78,060</u> | <u>\$ (7,059)</u> |

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

##### *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 2021, 64% of support and revenue was received through funding from GGRC, exclusive of income from the Subsidiary (69% in fiscal 2020, 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.

## Creativity Explored

### Notes to Consolidated Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *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.

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.



## Creativity Explored

### Notes to Consolidated Financial Statements

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#### 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 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, 2021 and 2020.

##### *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' estimated useful lives or the remaining lease term.

##### *Intangible Assets:*

At June 30, 2021, intangible assets consist of \$7,500 of website development costs. The Organization accounts for website development costs in accordance with FASB ASC Topic 350-50, *Website Development Costs*. As such, the Organization expenses all costs incurred relating to the planning and post-implementation phases of development, as well as costs incurred related to content training and maintenance. Costs incurred in excess of \$1,500 in the development phase are subject to capitalization and amortization over an estimated useful life, generally three years. The Organization capitalized \$7,500 in website development costs in fiscal 2021 (none in fiscal 2020).

## Creativity Explored

### Notes to Consolidated Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *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, 2021.

##### *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

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#### 2. Significant Accounting Policies (continued)

##### *Recent Accounting Pronouncements Not Yet Effective:*

##### *Contributed Nonfinancial Assets:*

In September 2020, FASB issued 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, 2022, 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 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 at initial recognition.

##### *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 on its financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the lease discussed in Note 7 to the financial statements, will be capitalized together with the related lease obligations on the statement of financial position upon the adoption of Topic 842.

**Creativity Explored**  
**Notes to Consolidated Financial Statements**

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3. Liquidity and Availability of Resources

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

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| Cash and cash equivalents                                  | \$ 278,486          | \$ 226,519          |
| Grants and pledges receivable                              | 268,988             | 378,579             |
| Investments  | <u>1,706,717</u>    | <u>1,332,009</u>    |
| Financial assets available to meet general expenditures    | 2,254,191           | 1,887,107           |
| Less amounts not available to be used within one year:     |                     |                     |
| Accounts receivable due over one year                      | 25,000              | 95,000              |
| Funds received from donors restricted for purpose (Note 6) | <u>189,168</u>      | <u>219,062</u>      |
|  | <u>\$ 2,040,023</u> | <u>\$ 1,573,045</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.

4. Property and Equipment

Property and equipment consists of the following at June 30:

|   | <u>2021</u>       | <u>2020</u>       |
|---|-------------------|-------------------|
| Furniture and fixtures                    | \$ 159,530        | \$ 115,467        |
| Leasehold improvements                    | <u>601,717</u>    | <u>601,717</u>    |
|   | 761,247           | 717,184           |
| Accumulated depreciation and amortization | <u>(566,441)</u>  | <u>(535,805)</u>  |
|   | <u>\$ 194,806</u> | <u>\$ 181,379</u> |

**Creativity Explored**  
**Notes to Consolidated Financial Statements**

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5. Beneficial Interest in Use of Property

In fiscal 2014, the Organization entered into a nine-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>2021</u>       | <u>2020</u>       |
|---|-------------------|-------------------|
| Total beneficial in interest in use of property | \$ 276,180        | \$ 386,652        |
| Less discount at 6% to net present value        | <u>(27,264)</u>   | <u>(47,607)</u>   |
|   | <u>\$ 248,916</u> | <u>\$ 339,045</u> |

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

|                          | <u>2021</u>      | <u>2020</u>      |
|--------------------------|------------------|------------------|
| Rent expense             | \$ 110,472       | \$ 110,471       |
| Amortization of discount | <u>(20,343)</u>  | <u>(25,444)</u>  |
|                          | <u>\$ 90,129</u> | <u>\$ 85,027</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>2021</u>       | <u>2020</u>       |
|--|-------------------|-------------------|
| Beneficial interest in use of property | \$ 248,916        | \$ 339,045        |
| Creativity Explored programs           | 69,027            | 112,387           |
| Licensing program                      | 77,269            | 110,625           |
| Gallery and marketing                  | 42,269            | 62,425            |
| Administrative                         | <u>25,603</u>     | <u>28,625</u>     |
|  | <u>\$ 463,084</u> | <u>\$ 653,107</u> |

**Creativity Explored**  
**Notes to Consolidated Financial Statements**

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6. Net Assets With Donor Restrictions (continued)

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

|  | <u>2021</u>       | <u>2020</u>       |
|--|-------------------|-------------------|
| Creativity Explored programs           | \$ 99,888         | \$ 134,494        |
| Licensing program                      | 53,125            | 118,053           |
| Beneficial interest in use of property | 90,129            | 85,027            |
| Gallery and marketing                  | 49,925            | 65,573            |
| Administrative                         | <u>16,125</u>     | <u>13,125</u>     |
|  | <u>\$ 309,191</u> | <u>\$ 416,273</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 required monthly payments of \$6,600 in fiscal 2021, 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 though December 31, 2033.

The Organization is obligated under a non-cancelable operating lease agreement for its second facility in San Francisco, California. The lease expires on August 31, 2022 and required monthly payments of \$9,800 in fiscal 2021, which increase annually by various amounts. There is an option to extend the term of the lease for additional terms of two, three and four-years.

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

|      |                   |
|------|-------------------|
| 2022 | \$ 200,000        |
| 2023 | 101,000           |
| 2024 | <u>41,000</u>     |
|      | <u>\$ 342,000</u> |

## **Creativity Explored**

### **Notes to Consolidated Financial Statements**

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#### 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 \$12,900 in fiscal 2021 (\$11,000 in fiscal 2020).

#### 9. Notes Payable

In May 2020 the Organization received an unsecured note (the 2020 Note) for \$341,900 under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act. Outstanding borrowings under the 2020 Note bore interest at a rate of 1% per annum. Proceeds from the 2020 Note were restricted to payment of employee salaries and rent. The Organization received forgiveness for the full amount of the 2020 Note in June 2021, which was reported as a gain on note forgiveness. Accrued interest on the 2020 Note was not material to the consolidated financial statements.

In connection with the 2020 Note forgiveness, the SBA reserves the right to challenge its decision reached, and the resolution of such matter could result in the Organization being required to repay all or a portion of the amount forgiven, along with possible interest and penalties. In the opinion of management, the Organization used reasonable judgment in requesting the 2020 Note to be forgiven and its determination the requirements for forgiveness were met will be sustained upon further SBA examination.

In March 2021 the Organization received an unsecured note (the 2021 Note) for \$329,647 under the U.S. SBA PPP 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 March 2026. 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

Subsequent events have been evaluated through February 10, 2022, which is the date the financial statements were approved by management and available for issuance. No items requiring disclosure in the financial statements have been identified other than those presented.

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, 2021 and 2020, and our report thereon dated February 10, 2022, 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, 2021 and 2020 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.



Frank, Rimerman + Co. LLP  
San Francisco, California  
February 10, 2022



**Creativity Explored**  
**Consolidating Statement of Activities and Change in Net Assets**  
**Year Ended June 30, 2021**

|                                      | Creativity<br>Explored | Creativity<br>Explored<br>Licensing | Total               |
|--------------------------------------|------------------------|-------------------------------------|---------------------|
| Public Support and Revenue           |                        |                                     |                     |
| Art sales, net                       | \$ 132,486             | \$ -                                | \$ 132,486          |
| Royalty income, net                  | -                      | 45,617                              | 45,617              |
| Foundation and corporate grants      | 194,001                | -                                   | 194,001             |
| Government grants                    | 141,805                | -                                   | 141,805             |
| Government contract                  | 1,537,016              | -                                   | 1,537,016           |
| Corporate contributions              | 41,068                 | -                                   | 41,068              |
| Individual contributions             | 215,812                | -                                   | 215,812             |
| Special events, net                  | 78,060                 | -                                   | 78,060              |
| In-kind contributions                | 59,137                 | -                                   | 59,137              |
| Miscellaneous income                 | 526                    | -                                   | 526                 |
| Total public support and revenue     | <u>2,399,911</u>       | <u>45,617</u>                       | <u>2,445,528</u>    |
| Expenses                             |                        |                                     |                     |
| Program services                     | 2,006,917              | 65,595                              | 2,072,512           |
| Management and general               | 195,778                | -                                   | 195,778             |
| Fundraising                          | 334,657                | -                                   | 334,657             |
| Total expenses                       | <u>2,537,352</u>       | <u>65,595</u>                       | <u>2,602,947</u>    |
| Change in Net Assets From Operations | <u>(137,441)</u>       | <u>(19,978)</u>                     | <u>(157,419)</u>    |
| Other Revenue                        |                        |                                     |                     |
| Gain on note forgiveness             | 341,900                | -                                   | 341,900             |
| Return on investments                | 40,369                 | -                                   | 40,369              |
| Change in Net Assets                 | 244,828                | (19,978)                            | 224,850             |
| Net Assets, June 30, 2020            | <u>2,265,292</u>       | <u>(184,047)</u>                    | <u>2,081,245</u>    |
| Net Assets, June 30, 2021            | <u>\$ 2,510,120</u>    | <u>\$ (204,025)</u>                 | <u>\$ 2,306,095</u> |

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

|                                      | Creativity<br>Explored | Creativity<br>Explored<br>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 |