



Creativity Explored

**Consolidated Financial Statements
And Supplementary Information**

June 30, 2016 and 2015

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Board of Directors
Creativity Explored
San Francisco, California

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Creativity Explored, which comprise the statement of financial position as of June 30, 2016, and the related consolidated statement of activities and change in net assets, and cash flows for the year 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Creativity Explored as of June 30, 2016, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The consolidated financial statements of Creativity Explored as of June 30, 2015, were audited by other auditors whose opinion dated November 30, 2015, expressed an unmodified opinion on those financial statements. As discussed in Note 3 to the consolidated financial statements, Creativity Explored has restated its 2015 consolidated financial statements during the current year to apply the change in accounting for the fair value of rent expense, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the financial statements before the restatement.

As part of our audit of the 2016 consolidated financial statements, we also audited the adjustments described in Note 3 that were applied to restate the 2015 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Creativity Explored's 2015 consolidated financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 consolidated financial statements as a whole.

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

San Francisco, California
November 16, 2016

Creativity Explored
Consolidated Statements of Financial Position

	June 30,	
	2016	2015 (Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 209,292	\$ 283,963
Investments	755,793	750,682
Accounts receivable	217,914	193,172
Prepaid expenses and other current assets	38,716	44,126
Inventory	27,932	23,679
Total current assets	<u>1,249,647</u>	<u>1,295,622</u>
Beneficial Interest in Use of Property	651,352	718,702
Property and Equipment, net	64,154	75,913
Deposit	22,744	21,880
Total assets	<u>\$ 1,987,897</u>	<u>\$ 2,112,117</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 32,678	\$ 49,622
Accrued expenses	45,294	47,512
Total liabilities	<u>77,972</u>	<u>97,134</u>
Net Assets		
Temporarily restricted	700,752	772,862
Unrestricted	1,209,173	1,242,121
Total net assets	<u>1,909,925</u>	<u>2,014,983</u>
Total liabilities and net assets	<u>\$ 1,987,897</u>	<u>\$ 2,112,117</u>

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statements of Activities and Change in Net Assets
Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Art sales, net	\$ 144,419	\$ -	\$ 144,419
LLC royalty income	31,322	-	31,322
Foundation and corporate grants	53,409	-	53,409
Government grants	-	47,500	47,500
Government contracts	1,481,601	-	1,481,601
Corporate gifts	23,778	-	23,778
Individual gifts	125,720	-	125,720
Special events, net	102,045	-	102,045
In-kind contributions	121,932	-	121,932
Miscellaneous income	836	-	836
Interest and dividend income	5,297	-	5,297
Net assets released from restriction	119,610	(119,610)	-
Total public support and revenue	2,209,969	(72,110)	2,137,859
Expenses			
Program services	1,869,217	-	1,869,217
General and administrative	235,725	-	235,725
Fundraising	137,975	-	137,975
Total expenses	2,242,917	-	2,242,917
Decrease in Net Assets	(32,948)	(72,110)	(105,058)
Net Assets, beginning of year	1,242,121	772,862	2,014,983
Net Assets, end of year	\$ 1,209,173	\$ 700,752	\$ 1,909,925

See Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Activities and Change in Net Assets (Restated)
Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Art sales, net	\$ 122,419	\$ -	\$ 122,419
LLC royalty income	32,999	-	32,999
Foundation and corporate grants	63,119	16,500	79,619
Government grants	-	81,520	81,520
Government contracts	1,459,915	-	1,459,915
Corporate gifts	13,311	-	13,311
Individual gifts	151,285	-	151,285
Special events, net	119,785	-	119,785
In-kind contributions	80,187	-	80,187
Miscellaneous income	3,965	-	3,965
Interest and dividend income	147	-	147
Unrealized gain	259	-	259
Net assets released from restriction	107,398	(107,398)	-
Total public support and revenue	2,154,789	(9,378)	2,145,411
Expenses			
Program services	1,686,825	-	1,686,825
General and administrative	187,263	-	187,263
Fundraising	203,815	-	203,815
Total expenses	2,077,903	-	2,077,903
Increase (Decrease) in Net Assets	76,886	(9,378)	67,508
Net Assets, beginning of year	1,165,235	782,240	1,947,475
Net Assets, end of year	\$ 1,242,121	\$ 772,862	\$ 2,014,983

See Independent Auditors' Report and Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Functional Expenses
Year ended June 30, 2016

	Creativity Explored Programs	Gallery Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Personnel expense	\$ 1,003,307	\$ 288,243	\$ 1,291,550	\$ 106,128	\$ 102,066	\$ 208,194	\$ 1,499,744
Professional services	3,976	70,955	74,931	46,542	3,294	49,836	124,767
Occupancy	240,175	70,172	310,347	20,084	15,339	35,423	345,770
Equipment	1,352	173	1,525	2,225	-	2,225	3,750
Donated services	-	51,612	51,612	15,332	11,867	27,199	78,811
Depreciation and amortization	7,072	5,577	12,649	4,111	-	4,111	16,760
General and administrative	20,141	43,933	64,074	40,991	5,409	46,400	110,474
Exhibits and artists	27,123	35,406	62,529	312	-	312	62,841
	<u>\$ 1,303,146</u>	<u>\$ 566,071</u>	<u>\$ 1,869,217</u>	<u>\$ 235,725</u>	<u>\$ 137,975</u>	<u>\$ 373,700</u>	<u>\$ 2,242,917</u>
Percentage of total expenses	<u>58%</u>	<u>25%</u>	<u>83%</u>	<u>11%</u>	<u>6%</u>	<u>17%</u>	<u>100%</u>

See Independent Auditors' Report and Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statement of Functional Expenses (Restated)
Year ended June 30, 2015

	Creativity Explored Programs	Gallery Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Personnel expenses	\$ 948,848	\$ 274,812	\$ 1,223,660	\$ 87,038	\$ 166,071	\$ 253,109	\$ 1,476,769
Professional services	1,518	29,171	30,689	33,756	4,072	37,828	68,517
Occupancy	234,767	65,457	300,224	17,653	14,770	32,423	332,647
Equipment	9,074	3,027	12,101	1,151	-	1,151	13,252
Donated services	-	5,373	5,373	17,754	10,124	27,878	33,251
Depreciation and amortization	9,149	4,265	13,414	2,817	-	2,817	16,231
General and administrative	18,982	44,068	63,050	26,809	8,313	35,122	98,172
Exhibits and artists	17,333	20,981	38,314	285	465	750	39,064
	<u>\$ 1,239,671</u>	<u>\$ 447,154</u>	<u>\$ 1,686,825</u>	<u>\$ 187,263</u>	<u>\$ 203,815</u>	<u>\$ 391,078</u>	<u>\$ 2,077,903</u>
Percentage of total expenses	<u>60%</u>	<u>21%</u>	<u>81%</u>	<u>9%</u>	<u>10%</u>	<u>19%</u>	<u>100%</u>

See Independent Auditors' Report and Notes to Consolidated Financial Statements

Creativity Explored
Consolidated Statements of Cash Flows

	Years Ended June 30,	
	2016	2015 (restated)
Cash Flows from Operating Activities		
Change in net assets	\$ (105,058)	\$ 67,508
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,759	16,231
In-kind contribution of investments	(1,324)	(152)
Change in beneficial interest in use of property	67,350	63,538
Realized and unrealized gain on investments	(2,997)	(294)
Changes in operating assets and liabilities:		
Accounts receivable	(24,742)	(34,055)
Prepaid expenses and other current assets	5,410	(9,002)
Inventory	(4,253)	(3,825)
Deposit	(864)	(1,727)
Accounts payable	(16,944)	6,902
Accrued expenses	(2,218)	(14,768)
Net cash provided by (used in) operating activities	(68,881)	90,356
Cash Flows from Investing Activities		
Purchase of investments	(561,000)	(655,288)
Proceeds from sale of investments	560,210	655,141
Purchase of property and equipment	(5,000)	(6,368)
Net cash used in investing activities	(5,790)	(6,515)
Net Increase (Decrease) in Cash and Cash Equivalents	(74,671)	83,841
Cash and Cash Equivalents, beginning of year	283,963	200,122
Cash and Cash Equivalents, end of year	\$ 209,292	\$ 283,963

See Independent Auditors' Report and 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:

Studio Arts Program:

The Organization provides studio artists workspace, instruction, and opportunities to explore a wide variety of media. Studio artists choose 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.

Community Arts Program:

The Organization provides studio artists 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.

Exhibitions/Art Services/ Licensing Program:

The Organization professionally exhibits and markets artwork created by the artists working in our studios. Exhibitions occur on a regular basis in our 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 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 therein.

Basis of Presentation:

The Organization presents its consolidated financial statements on the accrual basis of accounting. The Organization segregates its assets, liabilities and operations into three categories: unrestricted, temporarily restricted and permanently restricted. The Organization's net assets and changes therein are classified and reported as follows:

Unrestricted net assets consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous periods.

Temporarily restricted net assets consist of amounts receivable or received that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Donations in which restrictions are met in the period of contribution are recorded as unrestricted.

Permanently restricted net assets consist of all contributions receivable or received from donors that are subject to restrictions requiring the funds to be maintained permanently for the purpose of producing support for the Organization. The Organization has no permanently restricted net assets.

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:

The Organization recognizes contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the conditions are met. The Organization distinguishes among contributions that increase any of the three categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire. Contributions restricted by the donor that expire in the current year are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets.

Government Contracts:

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

Art Sales:

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

Leasing of Art Work:

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

Gift Cards:

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

Cash and Cash Equivalents:

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

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments:

The Organization uses a three-level hierarchy for fair value measurements 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 investing in those instruments.

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

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

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

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

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

Concentration in Funding Sources:

In fiscal 2016, 70% of support was received through funding from the GGRC, exclusive of income from the Subsidiary (69% in fiscal 2015, exclusive of income from the Subsidiary). Other support and revenue is received from various donors and grants; licensing royalties from artists' work; and from the sale of merchandise and art in its gallery.

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 \$2,000. Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to five years. Leasehold improvements are amortized over the shorter of the assets useful life or the remaining lease term.

Impairment of Long-Lived Assets:

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

In-kind Support:

Donated property and equipment is recorded at estimated fair value at the date of receipt. Contributed materials and art supplies have not been recognized in the accompanying 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. 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 contributed time is not reflected in the accompanying financial statements.

In-kind contributions consist of \$78,810 of donated legal services and \$43,122 of contributed rent (Note 5) for the year ended June 30, 2016 (\$33,253 of donated legal services and \$46,934 of contributed rent for the year ended June 30, 2015).

Income Taxes:

The Organization is exempt from federal and state income taxes under the Internal Revenue Code Section 501(c) (6) and State of California Section 23701(d), except on net income derived from unrelated business activities.

Creativity Explored

Notes to Consolidated Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes: (continued)

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

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 two financial institutions and a major brokerage firm. From time to time, cash and cash equivalents held in financial institutions exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). Investments, which consist of Certificates of Deposit, held at the brokerage firm are also insured by FDIC. To date, the Organization has not experienced any losses on its cash deposits or investments.

The Organization provides an allowance 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, 2016 and 2015.

Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard will impact the financial reporting for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restriction" and "without donor restriction"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU 2016-14 is effective for the Organization as of July 1, 2018 and requires a retrospective transition approach for its adoption. The Organization is currently evaluating the impact of ASU 2016-14 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)

Leases:

In February 2016, the FASB issued ASU 2016-02, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the consolidated statement of financial position. ASU 2016-02 is effective for the Organization as of July 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. The Organization is currently evaluating the effect ASU 2016-02 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 statement of financial position upon the adoption of ASU 2016-02.

3. Restatement of Net Assets

The Organization has restated its June 30, 2015 net assets to correct its asset recognition policy for recognizing the economic benefit of its below-market rent agreement. Prior to July 1, 2015, rent expense was recorded at the agreed-upon rate and not in accordance with market rates. The economic benefit of the favorable rental rate was determined and capitalized. The effect of this correction was to increase long term assets and net assets at June 30, 2015 by \$718,702.

The effect of the restatement will continue into future periods through increased rent expense on the statement of activities. The Organization recognized increased rent expense of \$67,350 (\$63,538 in fiscal 2015).

Creativity Explored
Notes to Consolidated Financial Statements

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 126,289	\$ 126,289
Leasehold improvements	<u>434,891</u>	<u>429,891</u>
	561,180	556,180
Accumulated depreciation and amortization	<u>(497,026)</u>	<u>(480,267)</u>
Property and equipment, net	<u>\$ 64,154</u>	<u>\$ 75,913</u>

5. Beneficial Interest in Use of Property

In fiscal 2014, the Organization entered into a seven year agreement to lease its primary facility for 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 lease at its inception. The asset is being amortized over the lease term to revenue as donated use of facility. The beneficial interest in the use of facility is as follows at June 30:

	<u>2016</u>	<u>2015</u>
Total beneficial in interest in use of property	\$ 828,540	\$ 939,012
Less discount at 6% to net present value	<u>(177,188)</u>	<u>(220,310)</u>
Net beneficial interest in use of facility	<u>\$ 651,352</u>	<u>\$ 718,702</u>

The following amounts have been recognized in the Statements of Activities and Change in Net Assets in connection with the beneficial interest in use of facility for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Rent expense	\$ 110,472	\$ 110,472
Amortization of discount	<u>(43,122)</u>	<u>(46,934)</u>
Net decrease in temporarily restricted net assets	<u>\$ 67,350</u>	<u>\$ 63,538</u>

Creativity Explored
Notes to Consolidated Financial Statements

6. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Gallery and marketing	\$ 47,500	\$ 44,410
Creativity Explored programs	1,900	9,750
Beneficial interest in use of property	<u>651,352</u>	<u>718,702</u>
	<u>\$ 700,752</u>	<u>\$ 772,862</u>

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

	<u>2016</u>	<u>2015</u>
Time and purpose restrictions accomplished based on stipulations of the donor:		
Creativity Explored programs	\$ 52,260	\$ 43,860
Beneficial interest in use of property	<u>67,350</u>	<u>63,538</u>
	<u>\$ 119,610</u>	<u>\$ 107,398</u>

7. Facility Arrangements

The Organization is obligated under a non-cancelable operating lease agreement for its main facility in San Francisco, California. The lease expires on December 31, 2023 and requires monthly payments of \$6,000, which will increase by \$200 every two years.

The Organization extended the lease at its second facility on July 1, 2012 which will expire on June 30, 2017. The lease requires monthly payments of \$9,150 which increase annually by various amounts. The security deposit collateralizing the lease will increase annually in proportion to the annual rent increase.

Creativity Explored

Notes to Consolidated Financial Statements

7. Facility Arrangements (continued)

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

2017	\$	183,000
2018		74,000
2019		76,000
2020		77,000
2021		78,000
Thereafter		<u>121,000</u>
Total	\$	<u>609,000</u>

8. Employee Benefit Plan

The Organization adopted a 401(k) plan for its employees. Employees can elect to participate at any time after employment and contribute up to 100% of their annual salary, not to exceed \$18,000 for employees under age 50, and \$24,000 for employees age 50 and above per year. The plan also allows discretionary employer contributions. No employer contributions were made to the 401(k) plan in fiscal 2016 or 2015.

9. Related Party Transactions

In fiscal 2016, contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were \$32,000 (\$33,000 in fiscal 2015).

10. Subsequent Events

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


The Board of Directors
Creativity Explored

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

We have audited the consolidated financial statements of Creativity Explored as of and for the year ended June 30, 2016, and our report thereon dated November 16, 2016, which expressed an unmodified opinion on those consolidated financial statements, is presented in this report. Our audit was conducted for the purpose of forming an opinion on such consolidated financial statements as a whole. The supplementary information for the year ended June 30, 2016 on page 20 is presented for purposes of additional analysis and is not a required part of the 2016 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 2016 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit 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 2016 consolidated financial statements, as a whole.

The accompanying supplementary information for the year ended June 30, 2015 presented on page 21, which is the responsibility of management, is presented for the purposes of additional analysis and is not a required part of the 2015 consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the 2015 consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Frank, Rimerman + Co. LLP

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

San Francisco, California
November 16, 2016

Creativity Explored
Consolidating Statement of Activities and Change in Net Assets
Year ended June 30, 2016

	Creativity Explored	Creativity Explored Licensing	Total
Public Support and Revenue			
Art sales, net	\$ 144,419	\$ -	\$ 144,419
LLC royalty income	-	31,322	31,322
Foundation and corporate grants	53,409	-	53,409
Government grants	47,500	-	47,500
Government contracts	1,481,601	-	1,481,601
Corporate gifts	23,778	-	23,778
Individual gifts	125,720	-	125,720
Special events, net	102,045	-	102,045
In-kind contributions	121,932	-	121,932
Miscellaneous income	836	-	836
Interest and dividend income	5,297	-	5,297
Total public support and revenue	2,106,537	31,322	2,137,859
Expenses			
Program services	1,796,325	72,892	1,869,217
General and administrative	235,725	-	235,725
Fundraising	137,975	-	137,975
Total expenses	2,170,025	72,892	2,242,917
Decrease in Net Assets	(63,488)	(41,570)	(105,058)
Net Assets, beginning of year	2,011,875	3,108	2,014,983
Net Assets, end of year	\$ 1,948,387	\$ (38,462)	\$ 1,909,925

See Independent Auditors' Report on Supplementary Information

Creativity Explored
Consolidating Statement of Activities and Change in Net Assets
Year ended June 30, 2015

	Creativity Explored	Creativity Explored Licensing	Total
Public Support and Revenue			
Art sales, net	\$ 122,419	\$ -	\$ 122,419
LLC royalty income	-	32,999	32,999
Foundation and corporate grants	79,619	-	79,619
Government grants	81,520	-	81,520
Government contracts	1,459,915	-	1,459,915
Corporate gifts	13,311	-	13,311
Individual gifts	151,285	-	151,285
Special events, net	119,785	-	119,785
In-kind contributions	80,187	-	80,187
Miscellaneous income	3,965	-	3,965
Interest and dividend income	147	-	147
Unrealized gain	259	-	259
Total public support and revenue	2,112,412	32,999	2,145,411
Expenses			
Program services	1,656,934	29,891	1,686,825
General and administrative	187,263	-	187,263
Fundraising	203,815	-	203,815
Total expenses	2,048,012	29,891	2,077,903
Increase in Net Assets	64,400	3,108	67,508
Net Assets, beginning of year	1,947,475	-	1,947,475
Net Assets, end of year	\$ 2,011,875	\$ 3,108	\$ 2,014,983

See Independent Auditors' Report on Supplementary Information