

The Center for Arts Education, Inc.

Financial Statements

June 30, 2019

Independent Auditors' Report

Board of Directors The Center for Arts Education, Inc.

We have audited the accompanying financial statements of The Center for Arts Education, Inc. ("CAE"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of CAE as of June 30, 2019, and the changes 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019 CAE adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of CAE as of June 30, 2018, were audited by other auditors whose report dated February 7, 2019, expressed an unmodified opinion on those statements.

PKF O'Connor Davies, LLP

March 12, 2020

The Center for Arts Education, Inc.

Statement of Financial Position

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 177,331	\$ 191,075
Investments	634,320	1,011,031
Contributions and grants receivable	272,523	459,109
Prepaid and other assets	79,183	84,923
Property and equipment, net	<u>2,271</u>	<u>4,498</u>
	<u>\$ 1,165,628</u>	<u>\$ 1,750,636</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 80,859	\$ 140,951
Deferred revenue	14,500	-
Deferred rent obligation	<u>-</u>	<u>94,651</u>
Total Liabilities	<u>95,359</u>	<u>235,602</u>
Net Assets		
Without donor restrictions	1,070,269	1,444,332
With donor restrictions	<u>-</u>	<u>70,702</u>
Total Net Assets	<u>1,070,269</u>	<u>1,515,034</u>
	<u>\$ 1,165,628</u>	<u>\$ 1,750,636</u>

See notes to financial statements

The Center for Arts Education, Inc.

Statement of Activities

	For the Year Ended June 30, 2019			For the Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Foundations, corporations, individuals and other	\$ 511,599	\$ 52,500	\$ 564,099	\$ 487,589	\$ 155,401	\$ 642,990
Special events, net of direct benefit to donors of \$28,294 and \$37,517	172,764	-	172,764	246,947	-	246,947
Contributions in-kind	262,389	-	262,389	5,481	-	5,481
Government support	376,979	-	376,979	418,313	-	418,313
Interest and investment income, net	49,464	-	49,464	1,130	-	1,130
Other revenue	18,924	-	18,924	5,738	-	5,738
Fee income	467,343	-	467,343	404,222	-	404,222
Net assets released from restrictions	123,202	(123,202)	-	460,661	(460,661)	-
Total Support and Revenue	<u>1,982,664</u>	<u>(70,702)</u>	<u>1,911,962</u>	<u>2,030,081</u>	<u>(305,260)</u>	<u>1,724,821</u>
EXPENSES						
Program services	1,400,229	-	1,400,229	1,649,564	-	1,649,564
Management and general	583,227	-	583,227	309,494	-	309,494
Fundraising expenses	373,271	-	373,271	323,850	-	323,850
Total Expenses	<u>2,356,727</u>	<u>-</u>	<u>2,356,727</u>	<u>2,282,908</u>	<u>-</u>	<u>2,282,908</u>
Change in Net Assets	(374,063)	(70,702)	(444,765)	(252,827)	(305,260)	(558,087)
NET ASSETS						
Beginning of year	<u>1,444,332</u>	<u>70,702</u>	<u>1,515,034</u>	<u>1,697,159</u>	<u>375,962</u>	<u>2,073,121</u>
End of year	<u>\$ 1,070,269</u>	<u>\$ -</u>	<u>\$ 1,070,269</u>	<u>\$ 1,444,332</u>	<u>\$ 70,702</u>	<u>\$ 1,515,034</u>

See notes to financial statements

The Center for Arts Education, Inc.

Statement of Functional Expenses

	For the Year Ended June 30, 2019					For the Year Ended June 30, 2018				
	Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total	Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries	\$ 790,221	\$ 74,562	\$ 201,052	\$ -	\$ 1,065,835	\$ 926,486	\$ 100,611	\$ 192,971	\$ -	\$ 1,220,068
Payroll taxes and employee benefits	135,682	12,802	34,521	-	183,005	168,111	18,256	35,015	-	221,382
School based programming	98,563	-	-	-	98,563	115,359	-	-	-	115,359
School based programming (Scholarship)	35,000	-	-	-	35,000	30,000	-	-	-	30,000
Conferences	24,877	3,365	615	27,794	56,651	20,740	3,393	-	37,267	61,400
Occupancy	98,120	9,258	24,964	-	132,342	161,365	17,523	33,609	-	212,497
Travel	14,631	1,030	184	-	15,845	17,646	2,349	68	-	20,063
Professional fees	97,074	205,353	70,332	-	372,759	91,355	143,486	26,077	-	260,918
Performance fees	8,664	-	-	-	8,664	13,486	-	-	-	13,486
Program supplies	15,308	-	-	-	15,308	25,430	-	-	-	25,430
Office expenses	18,772	1,640	4,551	-	24,963	25,629	7,754	5,631	-	39,014
Telephone	13,262	1,251	3,374	-	17,887	11,557	1,255	2,407	-	15,219
Insurance	-	6,855	-	-	6,855	-	6,683	-	-	6,683
Equipment rental and maintenance	36,933	3,485	9,397	500	50,315	26,216	2,847	5,460	250	34,773
Fundraising and hospitality	-	-	20,942	-	20,942	-	-	19,241	-	19,241
Depreciation and amortization	1,651	156	420	-	2,227	1,717	187	358	-	2,262
Bad debt	-	-	-	-	-	-	3,579	-	-	3,579
Miscellaneous expense	11,471	1,081	2,919	-	15,471	14,467	1,571	3,013	-	19,051
Total Functional Expenses before in-kind legal expenses	1,400,229	320,838	373,271	28,294	2,122,632	1,649,564	309,494	323,850	37,517	2,320,425
In-kind legal expenses	-	262,389	-	-	262,389	-	-	-	-	-
Less direct benefit to donors	-	-	-	(28,294)	(28,294)	-	-	-	(37,517)	(37,517)
Total Expenses	<u>\$ 1,400,229</u>	<u>\$ 583,227</u>	<u>\$ 373,271</u>	<u>\$ -</u>	<u>\$ 2,356,727</u>	<u>\$ 1,649,564</u>	<u>\$ 309,494</u>	<u>\$ 323,850</u>	<u>\$ -</u>	<u>\$ 2,282,908</u>

See notes to financial statements

The Center for Arts Education, Inc.

Statement of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (444,765)	\$ (558,087)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,227	2,262
Bad debt expense	-	3,579
Deferred rent obligation	(94,651)	(11,171)
Realized and unrealized (gain) loss on investments	(14,890)	49,372
Changes in operating assets and liabilities		
Contributions and grants receivable	186,586	51,668
Accounts receivable	-	3,900
Prepaid and other assets	5,740	11,931
Accounts payable and accrued expenses	(60,092)	44,579
Deferred revenue	14,500	-
Net Cash from Operating Activities	<u>(405,345)</u>	<u>(401,967)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(7,852)	(50,502)
Proceeds from investment sales	399,453	325,000
Purchase of property and equipment	-	(4,614)
Net Cash from Investing Activities	<u>391,601</u>	<u>269,884</u>
Net Change in Cash and Cash Equivalents	(13,744)	(132,083)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>191,075</u>	<u>323,158</u>
End of year	<u>\$ 177,331</u>	<u>\$ 191,075</u>

See notes to financial statements

The Center for Arts Education, Inc.

Notes to Financial Statements

June 30, 2019

1. Organization

The Center for Arts Education, Inc. ("CAE") was organized in 1996 under the Not-For-Profit Corporation Law of the State of New York, and is dedicated to ensuring that public school students have quality arts learning as an essential part of their K-12 education. In fiscal year 2019, CAE provided after-school and summer arts programming, school-day arts residencies, parent engagement programs, and professional development and capacity-building programs in approximately 70 New York City public schools. In addition, CAE has developed a robust career development program that provides internships in arts organizations and post-secondary financial assistance for more than 20 high school seniors annually.

Since its founding, CAE has implemented sustainable arts programs in hundreds of schools; provided high-quality professional development to teachers, artists, and administrators; created long-term partnerships between schools and cultural institutions; implemented programs that involve parents in arts education; opened doors for high school students exploring careers in the creative industries; published resources for educators and parents to replicate the success of their peers, and engaged with elected officials and decision makers providing topical information and reports on arts education issues and concerns.

CAE has been granted exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. CAE receives a significant portion of its support and revenue from private foundations, corporations, individuals and government funding sources.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions - those resources that are not subject to donor-imposed restrictions and are available for the support of operations.

With donor restrictions - represent amounts restricted by donors to be used for specific activities or at some future date, or which require CAE to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the "without donor restrictions" or "with donor restrictions" net asset classes based upon stipulations by the donors.

The Center for Arts Education, Inc.

Notes to Financial Statements

June 30, 2019

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principle

On July 1, 2018, CAE adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires CAE to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires CAE to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for temporarily restricted net assets were reclassified as net assets with donor restrictions and unrestricted net assets were reclassified as net assets without donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and money market funds with maturities of three months or less at the time of purchase, except cash equivalents held in brokerage accounts as part of CAE's investments.

Fair Value Measurements

CAE follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted market prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation and Investment Income Recognition

Investments are stated at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of investments are computed on the specific identification basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Property and Equipment

Property, equipment and leasehold improvements are recorded at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or the remaining lease term, whichever is shorter. All assets in excess of \$1,000 are capitalized.

The Center for Arts Education, Inc.

Notes to Financial Statements

June 30, 2019

2. Summary of Significant Accounting Policies (continued)

Contributions

CAE recognizes contributions when the donor makes an unconditional promise to give and records contributions as with or without donor restricted support depending upon the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished or the time restriction has ended, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. The primary sources of revenue are grants and contributions from governments, foundations, individuals and corporations.

In-kind Contributions

Contributions of services are recognized at fair value when they are received if the services either create or enhance nonfinancial assets, or require specialized skills, and those skills are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Donated goods are recorded as income and expense at the time they are received which is normally also the time they are placed into service or distributed.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on CAE's historical experience, review of account balances and expectations relative to collections. Management has determined no allowance was necessary at June 30, 2019 and 2018.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services in reasonable ratios determined by management. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. For example, program expenses include school based programming and scholarships, performance fees and program supplies among others. Certain expenses attributable to more than one program or supporting function have been allocated among programs, management and general and fundraising. These expenses include salaries, payroll taxes and employee benefits, professional fees, office expenses and equipment rental and maintenance among others, which are allocated based on estimates of time and effort and building space occupied.

Accounting for Uncertainty in Income Taxes

CAE recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that CAE had no uncertain tax positions that would require financial statement recognition or disclosure. CAE is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2016.

The Center for Arts Education, Inc.

Notes to Financial Statements

June 30, 2019

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 12, 2020.

3. Concentration of Credit Risk

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of receivables, which are expected to be collected in the normal course of business, cash and cash equivalents, and investments. CAE maintains its cash and cash equivalents and investments in what it believes are quality financial institutions. At times, these accounts exceed the federal and securities protection insurance limits and subject CAE to a concentration of credit risk. CAE has not experienced any losses in such accounts due to such concentrations. Investments are managed by professional investment advisors and managers and with an objective of diversifying by type of investments and industry concentrations in order that no individual investment or group of investments represents a significant concentration of market risk.

4. Fair Value Measurements

Fair values of assets measured by the fair value hierarchy at June 30 are as follows:

	2019		
	Level 1	Level 2	Total
Fixed Income Securities			
Asset backed securities	\$ -	\$ 23,555	\$ 23,555
Municipal bonds	-	50,095	50,095
Corporate bonds	-	494,989	494,989
Total Investments Measured at Fair Value	<u>\$ -</u>	<u>\$568,639</u>	568,639
Temporary cash investments, at cost			65,681
Total Investments			<u>\$ 634,320</u>
	2018		
	Level 1	Level 2	Total
Fixed Income Securities			
Asset backed securities	\$ -	\$ 28,157	\$ 28,157
Municipal bonds	-	50,068	50,068
Corporate bonds	-	864,745	864,745
Total Investments Measured at Fair Value	<u>\$ -</u>	<u>\$942,970</u>	942,970
Temporary cash investments, at cost			68,061
Total Investments			<u>\$ 1,011,031</u>

The Center for Arts Education, Inc.

Notes to Financial Statements
June 30, 2019

5. Property and Equipment

Property and equipment consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Computer software	\$ 6,921	\$ 6,921
Leasehold improvements	<u>4,372</u>	<u>4,372</u>
	11,293	11,293
Less accumulated depreciation and amortization	<u>9,022</u>	<u>6,795</u>
	<u><u>\$ 2,271</u></u>	<u><u>\$ 4,498</u></u>

6. Net Assets with Donor Restrictions

CAE has received contributions that are subject to time restrictions and purpose restrictions that can be fulfilled by actions of CAE. Net assets with donor restrictions at June 30 consist of:

	<u>2019</u>	<u>2018</u>
Professional development	\$ -	\$ 7,001
Administrative - Executive Search	-	13,000
School based residency	-	5,415
Career development	<u>-</u>	<u>45,286</u>
	<u><u>\$ -</u></u>	<u><u>\$ 70,702</u></u>

Net assets with donor restrictions released from restrictions consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Professional development	\$ 8,501	\$ 104,948
School based residency	5,415	9,585
Administrative - Executive Search	18,000	-
Parents as arts partners	5,000	2,500
Career development	86,286	77,498
Advocacy / communications	-	216,630
Teaching and learning	<u>-</u>	<u>49,500</u>
	<u><u>\$ 123,202</u></u>	<u><u>\$ 460,661</u></u>

The Center for Arts Education, Inc.

Notes to Financial Statements

June 30, 2019

7. Lease Commitment

CAE had a ten year operating lease agreement for office space located at 520 Eighth Avenue, New York City that commenced on July 1, 2012. During fiscal year 2019, CAE amended the operating lease, which now expires June 30, 2020. Future minimum annual lease payments required under the lease are \$102,405 for fiscal year 2020.

Rent expense for the years ended June 30, 2019 and 2018 was \$106,085 and \$183,770.

8. Retirement Plan

CAE maintains a retirement plan in accordance with the provisions of Section 403(b) of the Internal Revenue Code. This plan is available to all eligible employees. CAE contributes 4% of each employee's gross compensation and matches each employee's tax deferred annuity contribution, subject to a maximum of 8% of gross compensation. CAE contributed \$11,409 and \$14,441 to the retirement for the years ended June 30, 2019 and 2018, respectively. Such amounts are included in payroll taxes and employee benefits in the accompanying financial statements.

9. Liquidity and Availability of Financial Assets

The following reflects CAE's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions or internal designations.

	<u>2019</u>
Financial Assets	
Cash and cash equivalents	\$ 177,331
Investments	634,320
Contributions and grants receivable	<u>272,523</u>
Total Financial Assets available to meet general expenditures over the next twelve months	<u>\$ 1,084,174</u>

As part of CAE's liquidity management strategy, CAE structures its financial assets to be available as general expenditures, liabilities and other obligations come due. CAE's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of grants and contributions from donors. A majority of general expenditures over the next twelve months are financed through cash and cash equivalents, investments, contributions and grants receivable and future grants and pledges.

10. Donated services

The accompanying statement of activities includes donated legal services of \$262,389 classified as management and general for the year ending June 30, 2019.

The Center for Arts Education, Inc.

Notes to Financial Statements
June 30, 2019

11. Subsequent Event

The Board of Directors of CAE has authorized CAE to enter into an affiliation agreement with Partnership with Children, Inc. ("PWC"). PWC is a not-for-profit corporation organized for the purpose of placing full-time social workers and community school directors in schools across New York City, providing trauma-informed care and critical mental health services, and engaging families in the school community and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As of December 12, 2019 PWC became the sole member of CAE.

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