

COLLABORATIVE ARTS PROJECT 21, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

AUGUST 31, 2008

FK PARTNERS

FRIED AND KOWGIOS PARTNERS CPA'S LLP

COLLABORATIVE ARTS PROJECT 21, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Collaborative Arts Project 21, Inc.

We have audited the accompanying statement of financial position of Collaborative Arts Project 21, Inc. (a not-for-profit corporation) as of August 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Collaborative Arts Project 21, Inc. as of August 31, 2008, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Fried & Kowgios Partners CPAs LLP

New York, New York
June 18, 2009

COLLABORATIVE ARTS PROJECT 21, INC.

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Assets (Note 7b)			
Current Assets			
Cash and cash equivalents (Notes 1b and 3)	\$ 264,685	\$ 23,756	\$ 288,441
Investments (Notes 1c and 4)	2,342	-	2,342
Unconditional promises to give (Notes 1d and 5)	-	5,000	5,000
Prepaid expenses	24,705	-	24,705
Total Current Assets	<u>291,732</u>	<u>28,756</u>	<u>320,488</u>
Unconditional promises to give (Notes 1d and 5)	-	5,000	5,000
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 6)	328,207	-	328,207
Security deposits	66,200	-	66,200
Total Assets	<u>\$ 686,139</u>	<u>\$ 33,756</u>	<u>\$ 719,895</u>
Liabilities and Net Assets			
Liabilities			
Current Liabilities			
Lines of credit payable (Note 7b)	\$ 134,955	\$ -	\$ 134,955
Loan payable (Note 7c)	25,000	-	25,000
Accounts payable and accrued expenses	128,422	-	128,422
Deferred revenue (Note 1f)	219,921	-	219,921
Deferred rent credit - current portion (Note 7d)	42,632	-	42,632
Total Current Liabilities	<u>550,930</u>	<u>-</u>	<u>550,930</u>
Deferred rent credit - long-term portion (Note 7d)	78,163	-	78,163
Total Liabilities	<u>629,093</u>	<u>-</u>	<u>629,093</u>
Commitments and contingencies (Notes 7 and 8)			
Net Assets			
Unrestricted - fixed assets	328,207	-	328,207
Unrestricted - other	(271,161)	-	(271,161)
Total Unrestricted	<u>57,046</u>	<u>-</u>	<u>57,046</u>
Temporarily Restricted (Note 2)	-	33,756	33,756
Total Net Assets	<u>57,046</u>	<u>33,756</u>	<u>90,802</u>
Total Liabilities and Net Assets	<u>\$ 686,139</u>	<u>\$ 33,756</u>	<u>\$ 719,895</u>

See notes to financial statements.

COLLABORATIVE ARTS PROJECT 21, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Public Support and Other Revenue			
Public Support			
Government	\$ 4,000	\$ 3,900	\$ 7,900
Foundation	13,250	-	13,250
Individual	120,636	2,638	123,274
Corporation	9,496	-	9,496
Fundraising events, net of direct costs of \$8,289	10,891	-	10,891
Net assets released from restriction	12,000	(12,000)	-
	<u>170,273</u>	<u>(5,462)</u>	<u>164,811</u>
Conservatory tuition (Note 8)	2,229,084	-	2,229,084
Rental income	170,470	-	170,470
Miscellaneous revenue	48,047	-	48,047
Admission income	24,609	-	24,609
Outreach income	26,251	-	26,251
Investment loss (Notes 1c and 4)	(213)	-	(213)
	<u>2,668,521</u>	<u>(5,462)</u>	<u>2,663,059</u>
Expenses			
Program Services			
Artistic and Outreach	309,706	-	309,706
Conservatory	1,902,433	-	1,902,433
Studio Costs	169,982	-	169,982
Total Program Services	<u>2,382,121</u>	<u>-</u>	<u>2,382,121</u>
Supporting Services			
Management and General	220,227	-	220,227
Fundraising and Development	151,633	-	151,633
Total Supporting Services	<u>371,860</u>	<u>-</u>	<u>371,860</u>
Total Expenses	<u>2,753,981</u>	<u>-</u>	<u>2,753,981</u>
Decrease in net assets	(85,460) *	(5,462)	(90,922)
Net Assets, September 1, 2007	<u>142,506</u>	<u>39,218</u>	<u>181,724</u>
Net Assets, August 31, 2008	<u>\$ 57,046</u>	<u>\$ 33,756</u>	<u>\$ 90,802</u>

*Includes depreciation expense of \$70,165. The decrease in unrestricted net assets for the year ended August 31, 2008 before depreciation expense is \$15,295.

See notes to financial statements.

COLLABORATIVE ARTS PROJECT 21, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2008

Cash Flows From Operating Activities

Decrease in net assets	\$ (90,922)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	70,165
Donated securities	(21,031)
Unrealized loss on investments	1,455
(Increase) Decrease in:	
Unconditional promises to give	11,000
Prepaid expenses	8,362
Security deposits	(2,450)
Increase (Decrease) in:	
Accounts payable and accrued expenses	66,104
Deferred revenue	219,921
Deferred rent credit	(42,632)
Net Cash Provided By Operating Activities	<u>219,972</u>

Cash Flows From Investing Activities

Purchase of property and equipment	(8,100)
Proceeds from sale of donated securities	20,245
Net Cash Provided By Investing Activities	<u>12,145</u>

Cash Flows From Financing Activities

Loan received	25,000
Net change in lines of credit	31,324
Net Cash Provided By Financing Activities	<u>56,324</u>

Net increase in cash and cash equivalents	288,441
Cash and cash equivalents, September 1, 2007	<u>-</u>

Cash and Cash Equivalents, August 31, 2008	<u><u>\$ 288,441</u></u>
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Supplementary Information

Interest paid	<u><u>\$ 22,997</u></u>
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See notes to financial statements.

COLLABORATIVE ARTS PROJECT 21, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2008****Note 1 - Organization and Summary of Significant Accounting Policies****a - Nature of Activities**

Collaborative Arts Project 21, Inc. (the "Organization"), also known as CAP21, is a not-for-profit corporation incorporated under the laws of New York State. The Organization was founded in 1993 by Frank and Eliza Ventura to create a home where theatre artists could bring their work to life and continue honing their skills in a collaborative environment. As a professional theatre company with a conservatory, the Organization is dedicated to creating new works, developing new talent and building new audiences. The Organization replenishes the American musical theatre by training the next generation of performers and infusing the entertainment industry at large with talent and source material. The goal is to create programs that achieve substantial and lasting contributions to the future of the arts.

b - Cash and Cash Equivalents

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

c - Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

d - Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

e - Property and Equipment

Property and equipment acquired are recorded at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Building, equipment and furniture are being depreciated over the useful life of the related asset using a straight-line method, with a half of a year's depreciation recognized in the years of acquisition and disposal.

COLLABORATIVE ARTS PROJECT 21, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2008****Note 1 - Summary of Significant Accounting Policies (continued)**f - Deferred Revenue

Tuition fees are deferred and recognized in the period to which the fees relate.

g - Financial Statement Presentation

The Organization presents its financial statements under the guidelines of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met by actions of the Organization or by the passage of time.

Unrestricted net assets are not subject to donor-imposed stipulations.

h - Inventory

The Organization maintains scenery and costume inventories of past productions. The Organization is unable to determine future use of the scenery and costumes and therefore they are expensed over the run of the public performances of the original show.

i - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

j - Tax Status

The Organization is a not-for-profit corporation, exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 402 of the Not-for-Profit Corporation Law in New York State, and has been designated as an organization which is not a private foundation.

k - Advertising Costs

Advertising costs are charged to operations at the time the advertising occurs. Advertising expense for the year ended August 31, 2008 was \$20,598.

COLLABORATIVE ARTS PROJECT 21, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

I - Production Costs

Production costs are capitalized at cost and are amortized over the estimated life of the theatrical production. Since all productions that took place during the year ended August 31, 2008 closed prior to the issuance of the financial statements, all production costs were expensed in the year ended August 31, 2008.

Note 2 - Restriction on Net Assets

Temporarily restricted net assets are restricted for future programs and periods.

Note 3 - Concentration of Credit Risk

The Organization's cash and cash equivalents are held at Capital One and JPMorgan Chase and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, the cash accounts were in excess of FDIC limits. The Organization has not experienced any losses in such accounts.

Note 4 - Investments

Investments as of August 31, 2008 consist of mutual funds with a fair market value of \$2,342. Investment losses on the investments and cash equivalents consist of the following for the year ended August 31, 2008:

Interest and dividend income, less fees	\$ 1,242
Unrealized loss on sale of investments	<u>(1,455)</u>
Total Investment Loss	<u>\$ (213)</u>

Note 5 - Unconditional Promises to Give

As of August 31, 2008 unconditional promises to give of \$5,000 are due during the year ending August 31, 2009 and \$5,000 during the year ending August 31, 2010. Uncollectible promises are expected to be insignificant.

COLLABORATIVE ARTS PROJECT 21, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

Note 6 - Property and Equipment

Property and equipment consist of the following at August 31, 2008:

	<u>Life/Years</u>	
Leasehold improvements	Term of lease	\$ 836,064
Furniture and equipment	5-16	229,550
Library materials	-	<u>16,085</u>
		1,081,699
Less: accumulated depreciation		<u>(753,492)</u>
		<u>\$ 328,207</u>

Depreciation expense for the year ended August 31, 2008 was \$70,165.

Note 7 - Commitments and Contingencies

- a) Government supported programs are subject to audit by the granting agency.
- b) At August 31, 2008 the Organization had a line of credit with a financial institution with a maximum availability of \$125,000, which is due on demand at an annual interest rate of .50% plus prime. The financial institution has filed a secured interest in the Organization's assets. As of August 31, 2008 \$121,000 was outstanding.

In addition, the Organization has a credit agreement with a financial institution to cover the costs of several insurance premiums. As of August 31, 2008 \$13,955 was outstanding.

- c) During the year ended August 31, 2008 the Organization borrowed \$25,000 from a Board Member for cash flow purposes. The loan was non-interest bearing and repaid during the year ended August 31, 2009.
- d) The Organization leases its office and studio space under a non-cancelable operating lease that expires May 31, 2011. As a signing incentive the Organization received twenty months of free rent, all of which was received prior to September 1, 2007. In addition, the Organization received \$280,800 from the landlord towards leasehold improvements. The lease provides for approximate minimum annual lease payments as follows:

For the year ending August 31, 2009	\$ 255,000
“ “ “ “ August 31, 2010	255,000
For the nine months ended May 31, 2011	<u>191,250</u>
Total	<u>\$ 701,250</u>

COLLABORATIVE ARTS PROJECT 21, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2008****Note 7 - Commitments and Contingencies (continued)**

d) Continued

Rent expense under the above lease for the year ended August 31, 2008 was \$240,211. The Organization has reflected the variance between actual lease payments provided under the operating lease and the straight-line amortization of that lease for financial statement purposes. The balance of the cumulative variance or deferred rent credit as of August 31, 2008 was \$120,795.

e) The Organization has entered into various contracts with playwrights in order to develop, produce, promote, and present plays on the stage in the presence of an audience. If a play produced by the Organization generates royalties to the author or composer, then the Organization will generally be entitled to a certain percentage of the net proceeds received by the author and/or composer.

f) The actors' and stage managers' employment are governed by a union contract with Actors' Equity Association. The Organization is required to pay weekly minimum salaries based on a combination of theater seating capacity and gross box office receipts, and make contributions to the Union Pension and Health Fund.

g) Subsequent to August 31, 2008, the Organization obtained a bridge loan of \$300,000 from the The Fund for the City of New York. The funds were designated for additional space.

Note 8 - New York University Contract

The Organization entered into an agreement with New York University ("NYU") to provide training to matriculated NYU students. The contract is renewed annually. In the event that either party terminates the agreement, the Organization is obligated to train any students to completion who are already enrolled in their program, and NYU agrees to continue to make capitation payments for such students in accordance with the terms of their agreement. In May of 2009 NYU decided that it would not renew the contract, and instead would phase out the program over the next two years. During the year ended August 31, 2008 more than 78% of the Organization's conservatory income came from NYU.

Note 9 - Functional Allocation of Expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

ADDITIONAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of
Collaborative Arts Project 21, Inc.

Our report on our audit of the basic financial statements of Collaborative Arts Project 21, Inc. for the year ended August 31, 2008 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended August 31, 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fried & Kowgios Partners CPA's LLP

New York, New York
June 18, 2009

COLLABORATIVE ARTS PROJECT 21, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2008

	Program Services				Supporting Services			Total Expenses
	Artistic and Outreach	Conservatory	Studio Costs	Total	Management and General	Fundraising and Development	Total	
Salaries, benefits and payroll taxes	\$ 206,655	\$ 1,420,202	\$ 126,894	\$ 1,753,751	\$ 147,237	\$ 113,197	\$ 260,434	\$ 2,014,185
Professional fees	3,650	25,083	2,241	30,974	2,600	1,999	4,599	35,573
Advertising and promotion	2,112	14,524	1,298	17,934	1,506	1,158	2,664	20,598
Rent	24,646	169,373	15,133	209,152	17,559	13,500	31,059	240,211
Utilities, maintenance and repairs	10,483	72,041	6,437	88,961	7,469	5,742	13,211	102,172
Equipment rental and repairs	10,673	73,352	6,554	90,579	7,605	5,846	13,451	104,030
Insurance	2,621	18,013	1,609	22,243	1,867	1,436	3,303	25,546
Office supplies, telephone and internet	2,648	18,197	1,626	22,471	1,886	1,450	3,336	25,807
Printing, copying, postage and delivery	1,179	8,102	724	10,005	840	646	1,486	11,491
Interest and bank charges	-	-	-	-	22,997	-	22,997	22,997
Dues and subscriptions	355	2,439	218	3,012	253	194	447	3,459
Studio repairs and maintenance	527	3,623	324	4,474	376	289	665	5,139
Production expenses	32,882	-	-	32,882	-	-	-	32,882
Travel and transportation	627	4,307	385	5,319	445	343	788	6,107
Hospitality	1,549	10,647	951	13,147	1,104	849	1,953	15,100
Miscellaneous	1,900	13,057	1,167	16,124	1,354	1,041	2,395	18,519
Total expenses before depreciation	302,507	1,852,960	165,561	2,321,028	215,098	147,690	362,788	2,683,816
Depreciation	7,199	49,473	4,421	61,093	5,129	3,943	9,072	70,165
Total Expenses	\$ 309,706	\$ 1,902,433	\$ 169,982	\$ 2,382,121	\$ 220,227	\$ 151,633	\$ 371,860	\$ 2,753,981

See independent auditor's report on additional information.