

P.S. ARTS
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

P.S. ARTS
(A NONPROFIT ORGANIZATION)
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June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
P.S. ARTS
(A Nonprofit Organization)
Venice, California



We have audited the accompanying statement of financial position of P.S. ARTS (a nonprofit organization) (the "Organization") as of June 30, 2012, and the related statements of activities, functional expenses 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. The prior year's summarized comparative information has been derived from the Organization's 2011 financial statements and, in our report dated November 4, 2011, we expressed an unqualified opinion on those financial statements.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 P.S. ARTS as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



SingerLewak LLP

Los Angeles, California
November 6, 2012

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(with Comparative Totals for June 30, 2011)

| | ASSETS | |
|---|---------------------|---------------------|
| | 2012 | 2011 |
| Assets | | |
| Cash and cash equivalents | \$ 1,350,653 | \$ 638,318 |
| Accounts receivable, net | 359,338 | 549,501 |
| Endowment pledge receivable | 274,488 | - |
| Endowment investments | 420,479 | - |
| Inventory, net | 26,202 | 10,325 |
| Prepaid expenses and other assets | 16,092 | 21,767 |
| Property and equipment, net | 102,131 | 111,867 |
| Total assets | \$ 2,549,383 | \$ 1,331,778 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 237,761 | \$ 225,016 |
| Total liabilities | 237,761 | 225,016 |
| Net assets | | |
| Unrestricted | 786,754 | 574,269 |
| Temporarily restricted | 830,380 | 532,493 |
| Permanently restricted | 694,488 | - |
| Total net assets | 2,311,622 | 1,106,762 |
| Total liabilities and net assets | \$ 2,549,383 | \$ 1,331,778 |

The accompanying notes are an integral part of these financial statements.

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012
(with Comparative Totals for the Year Ended June 30, 2011)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
|--|-------------------|---------------------------|---------------------------|---------------------|---------------------|
| | | | | 2012 | 2011 |
| Support, revenue and other income | | | | | |
| Contributions | \$ 471,520 | \$ 1,105,614 | \$ 694,488 | \$ 2,271,622 | \$ 1,589,986 |
| Special events, net of related costs | 440,248 | - | - | 440,248 | 511,883 |
| In-kind contributions | 50,022 | - | - | 50,022 | 26,256 |
| School programs | 363,355 | - | - | 363,355 | 323,511 |
| Investment income | 1,211 | 479 | - | 1,690 | 2,707 |
| Net assets released from restrictions | 808,206 | (808,206) | - | - | - |
| Total support, revenue and other income | 2,134,562 | 297,887 | 694,488 | 3,126,937 | 2,454,343 |
| Expenses | | | | | |
| Program services | 1,523,644 | - | - | 1,523,644 | 1,528,413 |
| General and administrative | 178,907 | - | - | 178,907 | 257,576 |
| Fundraising | 219,526 | - | - | 219,526 | 202,370 |
| Total expenses | 1,922,077 | - | - | 1,922,077 | 1,988,359 |
| Increase (decrease) in net assets | 212,485 | 297,887 | 694,488 | 1,204,860 | 465,984 |
| Net assets, beginning of year | 574,269 | 532,493 | - | 1,106,762 | 640,778 |
| Net assets, end of year | \$ 786,754 | \$ 830,380 | \$ 694,488 | \$ 2,311,622 | \$ 1,106,762 |

The accompanying notes are an integral part of these financial statements.

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012
(with Comparative Totals for the Year Ended June 30, 2011)

| | Program Services | General and Administrative | Fundraising | Total | |
|-------------------------------|---------------------|-------------------------------|-------------------|---------------------|---------------------|
| | | | | 2012 | 2011 |
| Salaries and related expenses | \$ 1,401,152 | \$ 125,921 | \$ 170,796 | \$ 1,697,869 | \$ 1,668,466 |
| Art supplies | 31,510 | - | - | 31,510 | 32,896 |
| Depreciation and amortization | 7,552 | 1,436 | 2,339 | 11,327 | 17,588 |
| Insurance | 2,477 | 5,211 | - | 7,688 | 20,869 |
| Occupancy expense | 36,451 | 14,767 | 22,711 | 73,929 | 82,549 |
| Office expenses | 2,994 | 1,014 | 915 | 4,923 | 24,579 |
| Professional services | 18,282 | 21,855 | 6,315 | 46,452 | 94,291 |
| Telephone | 3,847 | 920 | 2,209 | 6,976 | 11,968 |
| Travel | 9,132 | 4,240 | 584 | 13,956 | 6,215 |
| Other expenses | 10,247 | 3,543 | 13,657 | 27,447 | 28,938 |
| Total | \$ 1,523,644 | \$ 178,907 | \$ 219,526 | \$ 1,922,077 | \$ 1,988,359 |

The accompanying notes are an integral part of these financial statements.

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012
(with Comparative Totals for the Year Ended June 30, 2011)

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|--------------------------|
| Cash flow from operating activities | | |
| Increase (decrease) in net assets | \$ 1,204,860 | \$ 465,984 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 12,968 | 17,588 |
| Contributions restricted for investment in endowment | (420,000) | - |
| Sales of donated inventory | (15,877) | 10,789 |
| Net unrealized losses on investments | 8,089 | - |
| Change in operating assets and liabilities | | |
| Accounts receivable | 190,163 | (408,604) |
| Endowment fund receivable | (274,488) | - |
| Prepaid expenses and other assets | 5,675 | (9,284) |
| Accounts payable and accrued expenses | 12,745 | 26,138 |
| Deferred revenue | - | (100,000) |
| | <u>724,135</u> | <u>2,611</u> |
| Net cash provided by operating activities | | |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (3,232) | (17,263) |
| Purchase of endowment investments | (428,568) | - |
| | <u>(431,800)</u> | <u>(17,263)</u> |
| Net cash used in investing activities | | |
| Cash flows from financing activities | | |
| Contributions restricted for investment in endowment | <u>420,000</u> | - |
| | <u>420,000</u> | - |
| Net cash provided by financing activities | | |
| Net increase (decrease) in cash and cash equivalents | 712,335 | (14,652) |
| Cash and cash equivalents, beginning of year | <u>638,318</u> | <u>652,970</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,350,653</u> | <u>\$ 638,318</u> |

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION

P.S. ARTS (a nonprofit organization) (the “Organization”) was founded in 1991 to restore the arts to public education. P.S. ARTS’ school-based arts programs are regularly assessed by independent consultants and serve as a national model for arts education that other public schools can adopt.

Description of Programs

The Organization provides high-quality California Visual and Performing Arts (VAPA) standards-based education in music, dance, drama and visual arts for low-income, ethnically diverse children who attend public schools in the Los Angeles Unified, Lawndale Elementary, Lennox, Reef-Sunset, Santa Monica/Malibu Unified, and Wiseburn school districts, where arts programs have been reduced or eliminated. Currently, P.S. ARTS serves more than 12,000 K–8 students in 30 schools and 4,500 students through strategic partnerships. In addition to instruction, the Organization provides support for visual arts exhibits, public performances, field trips and professional development workshops for classroom teachers and teaching artists.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting. The Organization reports 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, as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.
- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organizations and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed restrictions requiring that the amounts contributed be invested in perpetuity. The investment income generated from these funds is available for general support of the Organization’s programs and operations.

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Contributions and Pledges

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenue in the period pledged by donors. Conditional contributions are recorded as support in the period in which the condition is met.

Conditional contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent. Pledges for future contributions are recorded as receivables and reported at their estimated realizable values.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid debt securities with maturities of three months or less at the time of purchase. Such investments are deemed to be cash equivalents on the statement of financial position and for the purposes of the statement of cash flows.

Endowment Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based on quoted market prices. Interest, dividends and realized and unrealized gains and losses have been netted on the statement of activities.

Property and Equipment

Property and equipment are stated at cost if purchased or fair market value if donated. The cost of assets purchased under \$1,000 is charged to expense.

Depreciation and Amortization

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets as follows:

| | |
|------------------------|--------------|
| Musical instruments | 7 years |
| Computers and software | 5 to 7 years |
| Portable classroom | 31 years |
| Website | 7 years |
| Furniture and fixtures | 3 to 7 years |
| Office equipment | 5 to 7 years |

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment or Disposal of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Measurement of an impairment loss is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell. The Organization did not recognize any impairment of long-lived asset losses in the fiscal year ended June 30, 2012.

In-kind Contributions

In-kind contributions include gifts-in-kind and contributed services. The gifts-in-kind are contributions of noncash assets that can be used or sold by the Organization. The contributed services received either create or enhance nonfinancial assets or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization recognizes all in-kind contributions at fair value.

The Organization also receives a significant amount of contributed time from volunteers, which does not meet the recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements.

Inventory

Inventory is made up of goods donated to the Organization for fundraising purposes and such goods are valued at fair market value at the date of donation. Obsolete inventory is charged to expense when identified.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs, general and administrative, and fundraising services. Expenses related to more than one function are allocated based on the proportion of total time spent by the staff of the Organization on the activity.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Organization is classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. Accordingly, a provision for federal or state income taxes has not been made in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Organization recognizes the impact of tax positions on the financial statements in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 740, “Accounting for Uncertainty in Income Taxes” (“ASC 740”). ASC 740 clarifies the uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statements No. 109, “Accounting for Income Taxes,” and prescribes a recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with ASC 740 the Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. The Organization recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the year ended June 30, 2012, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions. The Organization’s income tax returns remain subject to examination for all tax years ended on or after June 30, 2008 with regard to all tax positions and the results reported.

Use of Estimates

The preparation of financial statements 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. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash, money market accounts and accounts receivable. Cash and cash equivalents are placed with high-credit, quality financial institutions. At time, such investment balances may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000. The Organization has not incurred any losses related to cash and cash equivalents.

In addition, the Organization holds significant investments in the form of debt and equity securities. Credit risk is the failure of another party to perform in accordance with the contract terms. The Organization is exposed to credit risk for the amount of the investments. The Organization has never sustained a loss on any investment due to non-performance and does not anticipate any non-performance by the users of the securities.

Major Contributors

With respect to accounts receivable, the Organization routinely assesses the financial strength of its donors and, as a consequence, believes that credit risk exposure related to the accounts receivable is limited. At June 30, 2012, \$505,000 or 80% of accounts receivables of \$633,826 represented receivables from three donors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value

The Organization has adopted FASB ASC Topic No. 820 (formerly Statement of Financial Accounting Standards No. 157), “Fair Value Measurements and Disclosures” (“ASC 820”), which defines fair value, establishes a framework for consistent measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

The fair value hierarchy described by the standards is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and include the following:

- Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices as in Level 1. Fair value is determined through observable trading activity reported at net asset value or through the use of models or other valuation methodologies.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by the Organization.

In accordance with ASC 820, the Organization classified all its cash and endowment restricted investments as Level 1 as of June 30, 2012.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04, “Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU 2011-04”). This ASU amends the wording used to describe many of the requirements in US GAAP for measuring fair value and disclosing information about fair value measurements. The amendments in ASU 2011-04 achieve the objectives of developing common fair value measurement and disclosure requirements in US GAAP and IFRSs and improving their understandability. Some of the requirements clarify the FASB’s intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this ASU are effective prospectively for annual periods beginning after December 15, 2011, and nonpublic entities may elect to apply the amendments early, but no earlier than interim periods beginning after December 15, 2011. The adoption of this guidance is for disclosure purposes only and is not expected to have a material impact on the Foundation’s financial statements.

The Organization adopted FASB ASC Topic No. 985-205-45 (formerly known as Statement of Financial Auditing Standards No. 117-1, “Endowments of Not-for-Profit Organization: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds”), which provides guidance for non-for-profit organizations concerning the net asset classification of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). In addition, FSP 117-1 requires enhanced disclosures for all endowment funds. In December 2008, the State of California adopted UPMIFA, effective January 1, 2009. This accounting standard is effective for the Organization’s fiscal year ended June 30, 2012.

NOTE 3 – ENDOWMENT INVESTMENTS

The Organization maintains a custodial account with UBS Financial Services, Inc. The funds in these accounts are managed by investment managers who are given discretionary authority, subject to investment guidelines established by the Organization’s board of trustees, to invest the assets under their respective management.

P.S. ARTS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – ENDOWMENT INVESTMENTS (Continued)

Endowment investments held at fair value at June 30, 2012 consisted of the following:

| | 2012 | |
|------------------------------------|--------------------------|--------------------------|
| | Cost | Fair Value |
| Stocks and stock funds | \$ 170,627 | \$ 164,136 |
| Bond funds | 199,891 | 201,265 |
| Broad commodity funds | 39,344 | 36,372 |
| Cash | 18,706 | 18,706 |
| Total endowment investments | <u>\$ 428,568</u> | <u>\$ 420,479</u> |

NOTE 4 – ACCOUNTS AND ENDOWMENT PLEDGE RECEIVABLES

Accounts and endowment pledge receivable at June 30, 2012 and 2011 consisted of the following:

| | 2012 | 2011 |
|---|--------------------------|--------------------------|
| Future value of accounts and endowment pledge receivable | \$ 639,921 | \$ 549,501 |
| Less unamortized discount on accounts and endowment pledge receivable | 6,095 | - |
| Accounts and endowment pledge receivable, net | <u>\$ 633,826</u> | <u>\$ 549,501</u> |

The current discount rate for long-term accounts and endowment pledge receivables is 0.4% for the three-year receivable and 0.8% for the five-year receivable based on the Federal Reserve Risk Free Treasury Rate for an equivalent term, adjusted for credit risk.

| | |
|-----------------------------|--------------------------|
| Due in less than one year | \$ 373,826 |
| Due in one to five years | 260,000 |
| Due in more than five years | - |
| Total | <u>\$ 633,826</u> |

During the year, the Organization received a conditional \$1,000,000 matching-gift pledge for the purpose of developing a permanently restricted endowment. As of June 30, 2012, the Organization has received \$350,000 of this conditional pledge.

P.S. ARTS
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2012:

| | |
|--|--------------------------|
| Musical instruments | \$ 60,911 |
| Computers and software | 35,769 |
| Portable classroom | 114,000 |
| Website | 20,000 |
| Office equipment | <u>14,322</u> |
| | 245,002 |
| Less accumulated depreciation and amortization | <u>142,871</u> |
| Property and equipment, net | <u>\$ 102,131</u> |

Total depreciation and amortization expense for the fiscal year ended June 30, 2012 was \$12,968.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 were restricted by donors for specific programs of the Organization as follows:

| Restricted for | Available June 30, 2011 | Revenue | Expenditures | Balance at June 30, 2012 |
|--|-------------------------------|----------------------------|--------------------------|--------------------------------|
| Lawndale Program | \$ 125,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 |
| Camino Nuevo Charter Academy | 300,000 | 20,000 | 170,000 | 150,000 |
| Reef-Sunset School District | - | 227,326 | 227,326 | - |
| Playa del Rey Program | - | - | - | - |
| Los Angeles Unified School District | 25,000 | 178,000 | 88,000 | 115,000 |
| Take Part | 50,000 | 250,000 | 50,000 | 250,000 |
| Endowment | - | 479 | - | 479 |
| Others | <u>32,493</u> | <u>305,288</u> | <u>147,880</u> | <u>189,901</u> |
| Total temporarily restricted net assets | <u>\$ 532,493</u> | <u>\$ 1,107,299</u> | <u>\$ 809,412</u> | <u>\$ 830,380</u> |

NOTE 7 – ENDOWMENTS

During the current year, the Organization received two grants totaling \$700,000 from donors who specified that the funds would be used to create an endowment fund that will be invested in perpetuity, with income to be used for the support of the Organization. During the year, the Organization purchased investments with the funds received to date of \$420,000. At June 30, 2012, the fair value of the investments is \$420,479. The remaining grant amount not received is classified as an endowment pledge receivable at June 30, 2012.

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the endowment as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

NOTE 7 – ENDOWMENTS (Continued)

Interpretation of Relevant Law (Continued)

For the year ended June 30, 2012, the Organization endowment net assets changed as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------------|
| Endowment net assets, beginning of year | \$ - | \$ - | \$ - | \$ - |
| Contributions | - | - | 694,488 | 694,488 |
| Net investment return | - | 479 | - | 479 |
| Appropriation of endowment assets for expenditure | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Endowment net assets at year-end | <u>\$ -</u> | <u>\$ 479</u> | <u>\$ 694,488</u> | <u>\$ 694,967</u> |

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5–8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 7 – ENDOWMENTS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution that occurs on a yearly basis during the last month of the fiscal year. A recommendation for a transfer will be submitted to the Board of Trustees for approval. The amount of the transfer will be calculated based on the lesser of: 1) 5% of its endowment fund's fair value as of year-end or b) 95% of total return. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 8 – IN-KIND CONTRIBUTIONS

Unrestricted revenue totaling \$50,022 are recorded as in-kind contribution for the year ended June 30, 2012.

NOTE 9 – SPECIAL EVENTS

The Organization conducts several special events in order to assist with its mission. All revenue received from such events, which includes in-kind donations such as professional services, food and inventory merchandise, in excess of expenses is used for current program operations. Income from special events for the year ended June 30, 2012 was \$998,450. Related costs for such events for the year ended June 30, 2012 amounted to \$558,202.

NOTE 10 – LEASES

The expected future minimum lease payments for the office lease is as follows:

Year Ending June 30.

| | |
|--------------|--------------------------|
| 2013 | \$ 71,892 |
| 2014 | 74,049 |
| 2015 | 76,271 |
| 2016 | 78,558 |
| 2017 | <u>3,355</u> |
| Total | <u>\$ 304,125</u> |

Rent expense for office and storage was \$73,810 for the year ended June 30, 2012 and was included in occupancy expense on the statement of functional expenses.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Organization receives donations from its board of directors, members and other related parties throughout the year. For the year ended June 30, 2012, the Organization received \$1,342,131 of contributions including special events donations, merchandise sales, board member fees and other pledges from related parties.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 6, 2012, which is the date the financial statements were available to be issued.