P.S. ARTS

(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)

P.S. ARTS
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2014

SingerLewak LLP

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of P.S. ARTS (a nonprofit organization) (the "Organization") which comprise the statement of financial position as of June 30, 2014, 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.

Auditor's 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 from 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 auditor's 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.

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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, 2014 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report originally dated October 3, 2013 (with the exception of Note 2 which is dated January 6, 2014). In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
September 23, 2014

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2014
(with Comparative Totals for June 30, 2013)

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	$ 905,208	$ 1,131,618
Investments	313,047	-
Accounts and pledges receivable, net	509,033	548,322
Endowment pledges receivable, net	239,499	217,293
Inventory, net	65,243	49,641
Prepaid expenses and other current assets	40,538	34,362
Total current assets	2,072,568	1,981,236
Endowment pledges receivable, net	73,200	136,151
Endowment investments	921,036	583,876
Property and equipment, net	101,569	102,430
Total assets	**$ 3,168,373**	**$ 2,803,693**

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities		
Accounts payable and accrued expenses	$ 302,390	$ 262,023
Total current liabilities	302,390	262,023
Net assets		
Unrestricted	965,085	844,924
Temporarily restricted	767,554	769,369
Permanently restricted	1,133,344	927,377
Total net assets	2,865,983	2,541,670
Total liabilities and net assets	**$ 3,168,373**	**$ 2,803,693**

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, 2014
(with Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Support, revenue and other income					
Contributions	$ 949,580	$ 667,164	$ 205,967	$ 1,822,711	$ 1,666,989
Special events, net of related costs	226,134	-	-	226,134	254,638
In-kind contributions	124,590	-	-	124,590	91,465
School program contributed income	457,837	-	-	457,837	462,096
Investment income	15,765	90,447	-	106,212	12,029
Net assets released from restrictions	759,426	(759,426)	-	-	-
Total support, revenue and other income	2,533,332	(1,815)	205,967	2,737,484	2,487,217
Expenses					
Program services	2,002,299	-	-	2,002,299	1,844,588
General and administrative	190,145	-	-	190,145	194,277
Fundraising	220,727	-	-	220,727	218,304
Total expenses	2,413,171	-	-	2,413,171	2,257,169
Increase (decrease) in net assets	120,161	(1,815)	205,967	324,313	230,048
Net assets, beginning of year	844,924	769,369	927,377	2,541,670	2,311,622
Net assets, end of year	**$ 965,085**	**$ 767,554**	**$ 1,133,344**	**$ 2,865,983**	**$ 2,541,670**

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, 2014
(with Comparative Totals for the Year Ended June 30, 2013)

	Program Services	General and Administrative	Fundraising	Total 2014	Total 2013
Salaries and related expenses	$ 1,775,363	$ 119,680	$ 171,620	$ 2,066,663	$ 1,889,403
Art supplies	50,645	-	-	50,645	66,195
Community outreach	13,956	-	-	13,956	31,037
Faculty development	9,840	-	-	9,840	7,114
Insurance	3,413	7,363	-	10,776	9,987
Occupancy expense	38,883	12,560	17,550	68,993	69,169
Office expenses	14,643	8,856	16,166	39,665	6,336
Other expenses	6,128	285	9,222	15,635	48,650
Professional services	8,747	35,847	32	44,626	48,658
Program evaluation	50,814	-	-	50,814	45,211
Telephone	5,589	-	3,089	8,678	8,878
Travel	12,385	4,738	1,743	18,866	15,373
Depreciation and amortization	11,893	816	1,305	14,014	11,158
Total	**$ 2,002,299**	**$ 190,145**	**$ 220,727**	**$ 2,413,171**	**$ 2,257,169**

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, 2014
(with Comparative Totals for the Year Ended June 30, 2013)

	2014	2013
Cash flow from operating activities		
Increase (decrease) in net assets	$ 324,313	$ 230,048
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	15,180	12,672
Contributions restricted for investment in endowment	(246,712)	(153,933)
Net unrealized (gain) losses on investments	(49,124)	24,555
Change in operating assets and liabilities		
Accounts receivable	102,240	(70,479)
Endowment pledges receivable	(22,206)	(197,461)
Inventory	(15,602)	(23,439)
Prepaid expenses and other current assets	(6,176)	(18,270)
Accounts payable and accrued expenses	40,367	24,262
Net cash provided by (used in) operating activities	142,280	(172,045)
Cash flows from investing activities		
Purchase of property and equipment	(14,319)	(12,971)
Purchase of investments	(300,000)	-
Purchase of endowment investments	(301,083)	(187,952)
Net cash used in investing activities	(615,402)	(200,923)
Cash flows from financing activities		
Contributions restricted for investment in endowment	246,712	153,933
Net cash provided by financing activities	246,712	153,933
Net increase (decrease) in cash and cash equivalents	(226,410)	(219,035)
Cash and cash equivalents, beginning of year	1,131,618	1,350,653
Cash and cash equivalents, end of year	**$ 905,208**	**$ 1,131,618**
Supplemental schedule of non-cash investing and financing activities		
In-kind contributions and related expenses	**$ 124,590**	**$ 91,465**

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 15,000 K–8 students in 32 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. Contributions with donor imposed restrictions which are satisfied in the year received are presented as unrestricted in the statement of activities.

- 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)
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 United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Reclassifications
Certain amounts included in the prior year have been reclassified to conform to the current-year presentation.

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.

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.

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.

Contributions with donor imposed restrictions are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent or when the condition is met in the year given. Pledges for future contributions are recorded as receivables and reported at their estimated realizable values.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is made up of goods donated to the Organization for fundraising purposes, and such goods are valued at fair value at the date of donation. Obsolete inventory is charged to expense when identified. The Organization has recorded a reserve of $79,822 for slow moving inventory for the year ended June 30, 2014.

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 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	3 to 7 years
Portable classroom	31 years
Website	7 years
Furniture and fixtures	7 years
Office equipment	5 to 7 years

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, 2014.

In-kind Contributions

In-kind contributions include gifts-in-kind and contributed services primarily utilized in conjunction with special events. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Contributions (Continued)
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.

Functional Allocation of Expenses
Directly identifiable expenses are charged to programs, general and administrative expense 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.

The Organization recognizes the impact of tax positions on the financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification 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 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, 2014, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

The following table summarizes the open tax years for each major jurisdiction:

Jurisdiction	Open Tax Years
Federal	2011 - 2014
California	2010 - 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and pledges receivable. Cash and cash equivalents are placed with high-credit, quality financial institutions. At times, such investment balances may be in excess of the Federal Deposit Insurance Corporation insurance limit of $250,000. As of June 30, 2014, bank balances totaling $548,866 were uninsured.

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 and pledges receivable, the Organization routinely assesses the financial strength of its donors and, as a consequence, believes that credit risk exposure related to the accounts and pledges receivable is limited. At June 30, 2014, $538,948 represented receivables from two donors.

Fair Value
The Organization has adopted FASB Accounting Standards Codification Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820"), which defines fair value, establishes a framework for consistent measuring of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value (Continued)
In accordance with ASC 820, the Organization classified all its cash and cash equivalents, investments and endowment restricted investments as Level 1 as of June 30, 2014.

Recently Adopted Accounting Pronouncements
In October 2012, the FASB issued Accounting Standards Update No. 2012-05, *Statement of Cash Flows (Topic 230)*. This amendment provides guidance on how not-for-profit entities should consistently classify cash receipts on the Statement of Cash Flows as they relate to the sale of certain donated financial assets. The changes are effective prospectively for the fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption for the beginning of the fiscal year of operation is permitted. The adoption of this guidance did not have a material financial impact on the Organization's financial statements.

Recently Issued Accounting Pronouncements
In April 2013, the FASB issued ASU No. 2013-06, "Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate" ("ASU 2013-06"), which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in this Update are effective prospectively for fiscal years beginning after June 15, 2014 and interim and annual periods thereafter. The adoption of this guidance is not expected to have a significant impact on the Organization's financial statements.

NOTE 3 – ACCOUNTS, PLEDGES AND ENDOWMENT PLEDGES RECEIVABLE

Accounts, pledges and endowment pledges receivable at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Future value of accounts and pledges receivable	$ 509,033	$ 553,710
Less allowance for doubtful accounts	-	5,000
Less unamortized discount on accounts and pledges receivable	-	388
Accounts and Pledges receivable, net	**$ 509,033**	**$ 548,322**

	2014	2013
Future value of endowment pledges receivable	$ 317,625	$ 358,400
Less unamortized discount on endowment pledges receivable	4,926	4,956
Endowment pledges receivable, net	**$ 312,699**	**$ 353,444**

The current discount rate for long-term accounts, pledges and endowment pledges receivable is based on the Federal Reserve Risk Free Treasury Rate for an equivalent term, adjusted for credit risk.

Due in less than one year	$ 748,532
Due in one to five years	73,200
Due in more than five years	-
Total	**$ 821,732**

At June 30, 2012, the Organization received a conditional $1,000,000 matching-gift pledge for the purpose of developing a permanently restricted endowment. As of June 30, 2014, the Organization has received $507,300 in cash and $48,850 as pledges receivable of this conditional pledge.

NOTE 4 –INVESTMENTS

The Organization invests in bond index funds. The purpose of investing in the bond index funds is to obtain a higher rate than the prevailing savings rate. These bond index funds offer a low-cost, low risk, diversified approach to bond investing, with investment-grade bonds that have maturities ranging from short, intermediate and long-term issues.

Investments held at fair value at June 30, 2014 consisted of the following:

	Cost	Fair Value
Bond funds	$ 300,000	$ 313,047
Total investments	**$ 300,000**	**$ 313,047**

NOTE 5 – ENDOWMENT INVESTMENTS

The Organization maintains a custodial account with UBS Financial Services, Inc. The funds in this account 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.

Endowment investments held at fair value at June 30, 2014 consisted of the following:

	Cost	Fair Value
Stocks and stock funds	$ 369,876	$ 395,479
Bond funds	388,024	379,934
Broad commodity funds	115,332	111,346
Cash	34,277	34,277
Total endowment investments	**$ 907,509**	**$ 921,036**

NOTE 6 – INVENTORY

Inventory at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Merchandise and handbags	$ 145,065	$ 79,615
Less inventory reserve	79,822	29,974
Inventory, net	**$ 65,243**	**$ 49,641**

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2014:

Portable classroom	$ 114,000
Musical instruments	60,911
Computers and software	65,366
Website	20,000
Office equipment	8,303
	268,580
Less accumulated depreciation and amortization	167,011
Property and equipment, net	**$ 101,569**

Total depreciation and amortization expense for the fiscal year ended June 30, 2014 was $15,180. Of this amount, $14,014 was included in functional expenses, and $1,166 was included in special events, net of related costs.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 were restricted by donors for specific programs of the Organization as follows:

Restricted for	Available June 30, 2013	Revenue	Expenditures	Balance at June 30, 2014
Los Angeles Unified School District	$ 125,000	$ 123,200	$ 125,000	$ 123,200
Central California Region	263,280	333,905	263,279	333,906
Take Part	125,000	26,050	125,000	26,050
Endowment	9,943	90,447	-	100,390
Others	246,146	184,009	246,147	184,008
Total temporarily restricted net assets	**$ 769,369**	**$ 757,611**	**$ 759,426**	**$ 767,554**

NOTE 9 – ENDOWMENTS

During the year ended June 30, 2014, the Organization received contributions totaling $205,967 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.

At June 30, 2014, the fair value of the investments was $921,036. The remaining grant amount not received is classified as an endowment pledge receivable at June 30, 2014.

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 9 – ENDOWMENTS (Continued)

Interpretation of Relevant Law (Continued)
For the year ended June 30, 2014, the Organization's endowment net assets changed as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 9,943	$ 927,377	$ 937,320
Contributions	-	205,967	205,967
Net investment return	90,447	-	90,447
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets at year-end	**$ 100,390**	**$ 1,133,344**	**$ 1,233,734**

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% to 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 9 – 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. During June 30, 2014, the Organization elected not to appropriate any earnings on the endowment.

NOTE 10 – 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, 2014 was $829,893. Related costs for such events for the year ended June 30, 2014 amounted to $603,759.

NOTE 11 – COMMITMENTS

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

Year Ending June 30,	
2015	$ 76,366
2016	78,655
2017	3,355
Total	**$ 158,376**

Rent expense was $70,869 for the year ended June 30, 2014. Of this amount, $58,121 was included in occupancy expense and $12,748 was included in special events, net of related costs.

NOTE 12 – 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, 2014, the Organization received $913,161 of contributions including special events donations, merchandise sales, board member fees and other pledges from related parties.

NOTE 13 – SUBSEQUENT EVENTS

On July 1, 2014, the Organization acquired certain assets of Inside Out Community Arts, a nonprofit organization. Upon completion of the acquisition, Inside Out Community Arts ceased operation. Both organizations historically share a common mission of supporting youth art education. Through the acquisition, P.S. ARTS seeks to further its mission by achieving greater economies of scale by integrating operational overhead and other organizational synergies.

Subsequent events have been evaluated through September 23, 2014, which is the date the financial statements were available to be issued.