P.S. ARTS

(A NONPROFIT ORGANIZATION)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

P.S. ARTS
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2015

SingerLewak LLP

www.SingerLewak.com

Orange County
Los Angeles
Woodland Hills
San Francisco
San Jose
Monterey Park
Denver

50+ YEARS SINCE 1959

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, 2015, 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.

2050 Main St. 7th Floor Irvine, CA 92614 T: 949.261.8600 F: 949.261.8610

877.754.4557

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, 2015 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

SingerLewak LLP

SingerLewak LLP

Irvine, California
September 22, 2015

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2015
(with Comparative Totals for June 30, 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	$ 709,037	$ 905,208
Investments	369,319	313,047
Accounts and pledges receivable	872,047	509,033
Endowment pledges receivable, net	124,062	239,499
Inventory, net	30,220	65,243
Prepaid expenses and other current assets	77,971	40,538
Total current assets	2,182,656	2,072,568
Endowment pledges receivable, net	2,750	73,200
Endowment investments	1,083,371	921,036
Property and equipment, net	141,968	101,569
Total assets	**$ 3,410,745**	**$ 3,168,373**

LIABILITIES AND NET ASSETS

	2015	2014
Current liabilities		
Accounts payable and accrued expenses	$ 303,827	$ 302,390
Deferred revenue	20,000	-
Total current liabilities	323,827	302,390
Commitments (Note 11)		
Net assets		
Unrestricted	972,333	965,085
Temporarily restricted	926,635	767,554
Permanently restricted	1,187,950	1,133,344
Total net assets	3,086,918	2,865,983
Total liabilities and net assets	**$ 3,410,745**	**$ 3,168,373**

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, 2015
(with Comparative Totals for the Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Support, revenue and other income					
Contributions	$ 1,301,552	$ 904,403	$ 54,606	$ 2,260,561	$ 1,822,711
Special events, net of related costs	290,491	-	-	290,491	226,134
In-kind contributions	50,000	-	-	50,000	124,590
Contribution received in donation of IOCA	65,581	-	-	65,581	-
School program contributed income	991,193	-	-	991,193	457,837
Investment income (loss)	8,929	(37,827)	-	(28,898)	106,212
Net assets released from restrictions	707,495	(707,495)	-	-	-
Total support, revenue and other income	3,415,241	159,081	54,606	3,628,928	2,737,484
Expenses					
Program services	2,720,684	-	-	2,720,684	2,002,299
General and administrative	353,402	-	-	353,402	190,145
Fundraising	333,907	-	-	333,907	220,727
Total expenses	3,407,993	-	-	3,407,993	2,413,171
Increase in net assets	7,248	159,081	54,606	220,935	324,313
Net assets, beginning of year	965,085	767,554	1,133,344	2,865,983	2,541,670
Net assets, end of year	**$ 972,333**	**$ 926,635**	**$ 1,187,950**	**$ 3,086,918**	**$ 2,865,983**

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, 2015
(with Comparative Totals for the Year Ended June 30, 2014)

	Program Services	General and Administrative	Fundraising	Total 2015	Total 2014
Salaries and related expenses	$ 2,386,905	$ 245,038	$ 251,693	$ 2,883,636	$ 2,066,663
Art supplies	75,660	-	-	75,660	50,645
Community outreach	95,289	-	-	95,289	13,956
Depreciation and amortization	23,573	2,152	1,824	27,549	14,014
Faculty development	6,847	-	-	6,847	9,840
Insurance	4,920	8,465	-	13,385	10,776
Occupancy	42,544	13,603	19,361	75,508	68,993
Office	21,532	16,105	13,567	51,204	39,665
Other	298	1,194	41,053	42,545	66,449
Professional services	46,635	56,666	120	103,421	44,626
Telephone	4,528	2,197	2,628	9,353	8,678
Travel	11,953	7,982	3,661	23,596	18,866
Total	**$ 2,720,684**	**$ 353,402**	**$ 333,907**	**$ 3,407,993**	**$ 2,413,171**

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, 2015
(with Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flow from operating activities		
Increase in net assets	$ 220,935	$ 324,313
Adjustments to reconcile increase (decrease) in net assets		
to net cash from operating activities		
Depreciation and amortization	28,201	15,180
Contributions restricted for investment in endowment	(240,492)	(246,712)
Net realized (gain) on investments	(69,559)	(74,244)
Net unrealized (gain) loss on investments	101,113	(29,251)
Inventory reserve	(28,822)	29,974
Receipt of donated other assets	(25,000)	(99,590)
Contribution received in donation of IOCA	(65,581)	-
Change in operating assets and liabilities		
Accounts and pledges receivable	(292,564)	102,240
Endowment pledges receivable	115,437	(22,206)
Inventory	63,845	54,014
Prepaid expenses and other current assets	(12,433)	(6,176)
Accounts payable and accrued expenses	1,437	40,367
Deferred revenue	20,000	-
Net cash from operating activities	(183,483)	87,909
Cash flows from investing activities		
Purchase of property and equipment	(39,020)	(14,319)
Purchase of investments	(150,000)	(300,000)
Sale of investments	100,000	-
Contributions from acquisition of IOCA	36,001	-
Purchase of endowment investments	(240,492)	(246,712)
Sale of endowment investments	40,331	-
Net cash from investing activities	(253,180)	(561,031)
Cash flows from financing activities		
Contributions restricted for investment in endowment	240,492	246,712
Net cash from financing activities	240,492	246,712
Net change in cash and cash equivalents	(196,171)	(226,410)
Cash and cash equivalents, beginning of year	905,208	1,131,618
Cash and cash equivalents, end of year	**$ 709,037**	**$ 905,208**

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, Hawthorne, Wiseburn, Reef-Sunset, Lost Hills, Wasco, Compton, Inglewood, Santa Monica/Malibu Unified school districts, where arts programs have been reduced or eliminated. Currently, P.S. ARTS serves more than 20,000 K–8 students in 50 schools, including the Inside Out Community Arts ("IOCA") program of P.S. Arts. In addition to instruction, the Organization provides support for visual arts exhibits, public performances, community arts events, 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, 2014, 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.

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:

Portable classroom	31 years
Musical instruments	7 years
Computers and software	3 to 7 years
Office equipment	5 to 7 years
Website	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, 2015 and 2014, respectively.

Deferred Revenue

Revenues from an exchange transaction that occurs in the next fiscal year are deferred and reported within the period when the exchange takes place.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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, 2015, 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	2012 - 2015
California	2011 - 2015

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, 2015 and 2014, bank balances totaling $471,604 and $548,866, respectively, 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, 2015 and 2014, $588,435 and $538,948, respectively, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value (Continued)
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 cash equivalents, investments and endowment restricted investments as Level 1 as of June 30, 2015 and 2014, respectively.

Recent Accounting Pronouncements
The Organization reviews new accounting standards as issued and the potential impact on the financial statements. Although some of these issued accounting standards are effective after the end of the previous fiscal year and may be applicable to the financial statements this year, the Organization has not identified any that it believes merit further discussion. The Organization believes that none of the new standards will have a significant impact on the Organization's financial statements.

NOTE 3 – 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, 2015 consisted of the following:

	Cost	Fair Value
Bond funds	$ 350,000	$ 369,319
Total investments	**$ 350,000**	**$ 369,319**

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 4 – ACCOUNTS, PLEDGES AND ENDOWMENT PLEDGES RECEIVABLE

Accounts, pledges and endowment pledges receivable at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Future value of accounts and pledges receivable	$ 872,047	$ 509,033
Accounts and pledges receivable	**$ 872,047**	**$ 509,033**

	2015	2014
Future value of endowment pledges receivable	$ 126,812	$ 317,625
Less unamortized discount on endowment pledges receivable	-	(4,926)
Endowment pledges receivable, net	**$ 126,812**	**$ 312,699**

NOTE 4 – ACCOUNTS, PLEDGES AND ENDOWMENT PLEDGES RECEIVABLE (Continued)

Receivables and pledges not designated as current are due in one to five years.

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.

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, 2015 and 2014, the Organization has received $580,050 and $507,300, respectively, in cash and $13,925 and $48,850, respectively, as pledges receivable of this conditional pledge.

NOTE 5 – INVENTORY

Inventory at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Merchandise and handbags	$ 81,220	$ 145,065
Less inventory reserve	(51,000)	(79,822)
Inventory, net	**$ 30,220**	**$ 65,243**

NOTE 6 – 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, 2015 consisted of the following:

	Cost	Fair Value
Stocks and stock funds	$ 469,448	$ 459,222
Bond funds	425,589	378,560
Broad commodity funds	147,840	128,609
Cash	116,980	116,980
Total endowment investments	**$ 1,159,857**	**$ 1,083,371**

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 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30,

	2015	2014
Portable classroom	$ 114,000	$ 114,000
Musical instruments	89,969	60,911
Computers and software	75,027	65,366
Office equipment	30,683	8,303
Website	27,500	20,000
	337,179	268,580
Less accumulated depreciation and amortization	(195,211)	(167,011)
Property and equipment, net	**$ 141,968**	**$ 101,569**

Total depreciation and amortization expense for the fiscal year ended June 30, 2015 and 2014 was $28,201 and $15,180, respectively. Of this amount, $27,549 and $14,014, respectively, was included in functional expenses, and $652 and $1,166, respectively, was included in special events, net of related costs.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 were restricted by donors for specific programs of the Organization as follows:

Restricted for	Available June 30, 2014	Revenue	Expenditures	Balance at June 30, 2015
Los Angeles Unified School District	$ 123,200	$ 208,830	$ 123,200	$ 208,830
Central California Region	333,906	324,873	333,906	324,873
Take Part	26,050	160,000	26,050	160,000
Endowment	100,390	(37,827)	40,331	22,232
IOCA	-	59,020	-	59,020
Others	184,008	151,680	184,008	151,680
Total temporarily restricted net assets	**$ 767,554**	**$ 866,576**	**$ 707,495**	**$ 926,635**

NOTE 9 – ENDOWMENTS

During the year ended June 30, 2015 and 2014, the Organization received contributions totaling $54,606 and $205,967, respectively, 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, 2015 and 2014, the fair value of the investments was $1,083,371 and $921,036, respectively. The remaining grant amount not received is classified as an endowment pledge receivable at June 30, 2015.

<u>Interpretation of Relevant Law</u>
The Board of Trustees of the Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 UPMIFA. In accordance with UPMIFA, 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

At June 30, 2015 the Organization's endowment net asset composition by type of fund was as follows:

NOTE 9 – ENDOWMENTS (Continued)

Interpretation of Relevant Law (Continued)

For the year ended June 30, 2015, the Organization's endowment net assets changed as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 100,390	$ 1,133,344	$ 1,233,734
Contributions	-	54,606	54,606
Net investment return	(37,827)	-	(37,827)
Appropriation of endowment assets for expenditure	(40,331)	-	(40,331)
Total endowment funds	**$ 22,232**	**$ 1,187,950**	**$ 1,210,182**

Earnings in the endowment are managed as endowment funds and are classified as temporarily restricted.

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 6% to 8% annually. Actual returns in any given year may vary from this amount.

NOTE 9 – ENDOWMENTS (Continued)

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.

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. 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 the years ended June 30, 2015 and 2014, the Organization elected to appropriate $40,331 and $0 of earnings on the endowment, respectively.

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 and food and inventory merchandise, in excess of expenses is used for current program operations. Income from special events for the years ended June 30, 2015 and 2014 was $825,868 and $829,893, respectively. Related costs for such events for the year ended June 30, 2015 and 2014 amounted to $535,377 and $603,759, respectively.

NOTE 11 – COMMITMENTS

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

Year Ending June 30,	
2016	$ 78,655
2017	3,355
Total	**$ 82,010**

NOTE 11 – COMMITMENTS (Continued)

Rent expense was $70,822 and $70,869 for the years ended June 30, 2015 and 2014, respectively. Of this amount, $61,968 and $58,121, respectively, was included in occupancy expense and $8,854 and $12,748, respectively, 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 years ended June 30, 2015 and 2014, the Organization received $813,732 and $913,161, respectively, of contributions including special events donations, merchandise sales, board member fees and other pledges from related parties.

NOTE 13 – ACQUISITION OF INSIDE OUT COMMUNITY ARTS

On July 1, 2014, the Organization acquired certain assets of Inside Out Community Arts ("IOCA"), a non-profit organization. Upon completion of the acquisition, P.S. Arts gained full control of IOCA and IOCA ceased to exist. Both organizations historically share a common mission of supporting youth art education and through the acquisition they can further their mission by achieving greater economies of scale by integrating operational overhead and other organizational synergies. As of the acquisition date, the Organization recorded the fair market value of fixed assets amounting to $29,580 and cash of $36,001, and there was neither consideration paid for assets transferred nor any liabilities assumed. All conditional promises to give were substantially met as of the date of acquisition.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 22, 2015, which is the date the financial statements were available to be issued.