P.S. ARTS

(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

P.S. ARTS
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
P.S. ARTS
(A Nonprofit Organization)
Los Angeles, 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, 2016, the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, (collectively, 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, 2016 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Singer Lewak LLP

September 27, 2016

P.S. ARTS
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2016
(with Comparative Totals for June 30, 2015)

ASSETS

	2016	2015
Current assets		
Cash and cash equivalents	$ 483,363	$ 709,037
Investments	237,085	369,319
Accounts and pledges receivable	585,656	872,047
Endowment pledges receivable, net	123,867	124,062
Inventory, net	17,021	30,220
Prepaid expenses and other current assets	89,061	77,971
Total current assets	1,536,053	2,182,656
Endowment pledges receivable	69,920	2,750
Endowment investments	1,907,125	1,083,371
Property and equipment, net	118,614	141,968
Security deposit	113,126	-
Total assets	**$ 3,744,838**	**$ 3,410,745**

LIABILITIES AND NET ASSETS

	2016	2015
Current liabilities		
Accounts payable and accrued expenses	$ 177,925	$ 303,827
Deferred revenue	-	20,000
Total current liabilities	177,925	323,827
Deferred rent incentives	42,501	-
Total liabilities	220,426	323,827
Commitments (Note 11)		
Net assets		
Unrestricted	828,064	972,333
Temporarily restricted	642,778	926,635
Permanently restricted	2,053,570	1,187,950
Total net assets	3,524,412	3,086,918
Total liabilities and net assets	**$ 3,744,838**	**$ 3,410,745**

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, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Support, revenue and other income					
Contributions	$ 768,438	$ 568,337	$ 865,620	$ 2,202,395	$ 2,260,561
Special events, net of related costs	249,492	-	-	249,492	290,491
In-kind contributions	121,545	-	-	121,545	50,000
Contribution received in donation of IOCA	-	-	-	-	65,581
School program contributed income	1,200,452	-	-	1,200,452	991,193
Investment income (loss)	19,477	60,643	-	80,120	(28,898)
Net assets released from restrictions	912,837	(912,837)	-	-	-
Total support, revenue and other income	3,272,241	(283,857)	865,620	3,854,004	3,628,928
Expenses					
Program services	2,793,649	-	-	2,793,649	2,720,684
General and administrative	307,817	-	-	307,817	353,402
Fundraising	315,044	-	-	315,044	333,907
Total expenses	3,416,510	-	-	3,416,510	3,407,993
Change in net assets	(144,269)	(283,857)	865,620	437,494	220,935
Net assets, beginning of year	972,333	926,635	1,187,950	3,086,918	2,865,983
Net assets, end of year	**$ 828,064**	**$ 642,778**	**$ 2,053,570**	**$ 3,524,412**	**$ 3,086,918**

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, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	Program Services	General and Administrative	Fundraising	Total 2016	Total 2015
Salaries and related expenses	$ 2,520,070	$ 141,807	$ 256,304	$ 2,918,181	$ 2,883,636
Art supplies	77,477	-	-	77,477	75,660
Community outreach	63,852	-	-	63,852	95,289
Depreciation and amortization	26,540	1,980	2,170	30,690	27,549
Faculty development	5,514	-	-	5,514	6,847
Insurance	5,519	11,339	-	16,858	13,385
Occupancy	58,363	14,954	28,853	102,170	75,508
Office	20,318	13,279	11,119	44,716	51,204
Other	2,353	1,998	12,845	17,196	42,545
Professional services	39	115,294	-	115,333	103,421
Telephone	6,518	1,641	3,070	11,229	9,353
Travel	7,086	5,525	683	13,294	23,596
Total	**$ 2,793,649**	**$ 307,817**	**$ 315,044**	**$ 3,416,510**	**$ 3,407,993**

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, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	2016	2015
Cash flow from operating activities		
Increase in net assets	$ 437,494	$ 220,935
Adjustments to reconcile increase in net assets		
to net cash from operating activities		
Depreciation and amortization	31,428	28,201
Contributions restricted for investment in endowment	(798,645)	(240,492)
Net realized gain on investments	(28,808)	(69,559)
Net unrealized (gain) loss on investments	(49,501)	101,113
Inventory reserve	(27,735)	(28,822)
Receipt of donated property and equipment	(2,500)	-
Receipt of donated other assets	(10,165)	(25,000)
Contribution received in donation of IOCA	-	(65,581)
Loss on disposal of property and equipment	3,298	-
(Increase) decrease in		
Accounts and pledges receivable	219,221	(292,564)
Endowment pledges receivable	195	115,437
Inventory	40,934	63,845
Prepaid expenses and other current assets	(925)	(12,433)
Increase (decrease) in		
Accounts payable and accrued expenses	(125,902)	1,437
Deferred revenue	(20,000)	20,000
Deferred rent incentive	42,501	-
Net cash from operating activities	(289,110)	(183,483)
Cash flows from investing activities		
Purchase of property and equipment	(8,872)	(39,020)
Purchase of investments	(100,000)	(150,000)
Payment of security deposits	(113,126)	-
Sale of investments	250,000	100,000
Contributions from acquisition of IOCA	-	36,001
Purchase of endowment investments	(1,348,472)	(240,492)
Sale of endowment investments	585,261	40,331
Net cash from investing activities	(735,209)	(253,180)
Cash flows from financing activities		
Contributions restricted for investment in endowment	798,645	240,492
Net cash from financing activities	798,645	240,492
Net change in cash and cash equivalents	(225,674)	(196,171)
Cash and cash equivalents, beginning of year	709,037	905,208
Cash and cash equivalents, end of year	**$ 483,363**	**$ 709,037**

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 improve the lives of children by providing arts education to underserved public schools and communities. P.S. ARTS' school-based arts programs are regularly assessed by independent consultants and serve as a national model for arts education.

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 children in 58 schools throughout the Los Angeles Unified, Lawndale Elementary, Hawthorne, Wiseburn, Reef-Sunset, Lost Hills, Wasco, Compton, Inglewood, Lynwood and Santa Monica/Malibu Unified school districts where arts programs have been reduced or eliminated. Currently, P.S. ARTS in-school Classroom Studio programs and the P.S. ARTS after school program, Inside Out Community Arts, serves approximately 25,000 K–8 students, the great majority of whom live below the Federal Poverty line. 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 prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). 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 Organization 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, 2015, from which the summarized information was derived.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP 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 consists 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	3 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, 2016 and 2015, respectively.

Deferred Rent

The Company accounts for deferred rent on a straight line basis over the terms of the related leases. At June 30, 2016 and 2015, the Company reported a deferred liability of $2,977 and $8,337, respectively and is included in accounts payable and accrued expenses in the accompanying statement of financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Rent Incentives
The Company amortizes tenant allowances on a straight line basis over the term of the related leases. The accounting results in deferred liability is recorded on the statement of financial position.

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.

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.

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 U.S. GAAP and 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. 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, 2016, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

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, 2016 and 2015, bank balances totaling $188,832 and $471,604, 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, 2016 and 2015, $300,000 and $588,435, respectively, represented receivables from two donors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016 and 2015, respectively.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU No. 2016-01 will be effective for the Company for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of the adoption of this standard on its financial statements. The Company elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and, as such, these disclosures are not included herein.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)
In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the adoption of this standard on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which focuses on improving the current net asset classification requirements and information presented in financial statements and notes that are useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017 and early application is permitted. ASU No. 2016-14 should be applied on a retrospective basis in the year that it is first applied. Management is currently evaluating the impact of its pending adoption of the new standard on the 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, 2016 consisted of the following:

	Cost	Fair Value
Bond funds	$ 232,787	$ 237,085
Total investments	**$ 232,787**	**$ 237,085**

NOTE 3 – INVESTMENTS (Continued)

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**

NOTE 4 – ACCOUNTS, PLEDGES AND ENDOWMENT PLEDGES RECEIVABLE

Accounts, pledges and endowment pledges receivable at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Future value of accounts and pledges receivable	$ 585,656	$ 872,047
Accounts and pledges receivable	**$ 585,656**	**$ 872,047**

	2016	2015
Future value of endowment pledges receivable	$ 193,787	$ 126,812
Endowment pledges receivable	**$ 193,787**	**$ 126,812**

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. The $1,000,000 matching grant goal was met in December 2015. In excess of the $1,000,000, the donor agreed to match dollar for dollar every donation received under the campaign. As of June 30, 2016 and 2015, the Organization has received cumulative amount of $1,026,535 and $593,975 in relation to the matching-gift pledge from the donor.

NOTE 5 – INVENTORY

Inventory at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Merchandise and handbags	$ 40,286	$ 81,220
Less inventory reserve	(23,265)	(51,000)
Inventory, net	**$ 17,021**	**$ 30,220**

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, 2016 consisted of the following:

	Cost	Fair Value
Stocks and stock funds	$ 1,060,118	$ 1,035,868
Bond funds	631,538	632,406
Broad commodity funds	208,287	206,274
Cash	32,577	32,577
Total endowment investments	**$ 1,932,520**	**$ 1,907,125**

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**

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30,

	2016	2015
Portable classroom	$ 116,500	$ 114,000
Musical instruments	89,969	89,969
Computers and software	76,399	75,027
Office equipment	30,683	30,683
Website	15,000	27,500
	328,551	337,179
Less accumulated depreciation and amortization	(209,937)	(195,211)
Property and equipment, net	**$ 118,614**	**$ 141,968**

Total depreciation and amortization expense for the fiscal year ended June 30, 2016 and 2015 was $31,428 and $28,201, respectively. Of this amount, $30,690 and $27,549, respectively, was included in functional expenses, and $738 and $652, respectively, was included in special events, net of related costs.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 were restricted by donors for specific programs of the Organization as follows:

Restricted for	Available June 30, 2015	Revenue	Expenditures	Balance at June 30, 2016
Los Angeles Unified School District	$ 208,830	$ 50,000	$ 183,693	$ 75,137
Central California Region	324,873	-	324,873	-
Take Part	160,000	227,100	160,000	227,100
Endowment	22,232	60,643	35,534	47,341
IOCA	59,020	-	59,020	-
Others	151,680	291,237	149,717	293,200
Total temporarily restricted net assets	**$ 926,635**	**$ 628,980**	**$ 912,837**	**$ 642,778**

NOTE 9 – ENDOWMENTS

During the years ended June 30, 2016 and 2015, the Organization received contributions totaling $798,645 and $240,492, 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, 2016 and 2015, the fair value of the investments was $1,907,125 and $1,083,371, respectively. The remaining grant amount not received is classified as an endowment pledge receivable at June 30, 2016 and 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, 2016 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, 2016, the Organization's endowment net assets changed as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 22,232	$ 1,187,950	$ 1,210,182
Contributions	-	865,620	865,620
Net investment return	60,643	-	60,643
Appropriation of endowment assets for expenditure	(35,534)	-	(35,534)
Total endowment funds	**$ 47,341**	**$ 2,053,570**	**$ 2,100,911**

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

Return Objectives and Risk Parameters
The Organization has adopted an investment policy that targets an annual rate of return of 7% over a market cycle (3-5 years) with an emphasis on total return irrespective of source. 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. The Organization has designated an investment policy, which has been approved by the board of trustees that establishes guidelines for management of the Endowment and asset class allocations. 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. A recommendation for maximum amount to 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, 2016 and 2015, the Organization elected to appropriate $35,534 and $40,331 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. In-kind donations related to special events amounted to $58,045 and $25,000 for the years ended June 30, 2016 and 2015, respectively. Income from special events for the years ended June 30, 2016 and 2015 was $743,132 and $825,868, respectively. Related costs for such events for the year ended June 30, 2016 and 2015 amounted to $493,640 and $535,377, respectively.

NOTE 11 – COMMITMENTS

The Foundation leases its office space in Los Angeles, California that requires minimum monthly payments of $11,322 and expires on July 31, 2021. Provided the Organization is not in in default, the security deposit will be reduced by $33,300 in August 2017, August 2018 and August 2019, respectively. At the lessor's option, reduction in security deposit will either be paid by the lessor as check payable to the Organization or as credit reduction against the in the next coming rental payment due.

NOTE 11 – COMMITMENTS (Continued)

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

Year Ending June 30,	
2017	$ 137,247
2018	141,392
2019	145,537
2020	149,836
2021	167,567
Total	**$ 741,579**

Rent expense was $93,303 and $70,822 for the years ended June 30, 2016 and 2015, respectively. Of this amount, $79,160 and $61,968, respectively, was included in occupancy expense and $14,143 and $8,854, 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, 2016 and 2015, the Organization received $939,119 and $813,732, respectively, of contributions including special events donations, merchandise sales, board member fees and other pledges from related parties. As of June 30, 2016 and 2015, $357,292 and $99,575 of these donations from related parties are outstanding and are included in the accompanying statement of financial position.

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 27, 2016, which is the date the financial statements were available to be issued.