P.S. ARTS

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR
THE YEAR ENDED JUNE 30, 2017)

P.S. ARTS

CELEBRATING 25 YEARS!

P.S. ARTS
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June 30, 2018 and 2017

SingerLewak
Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
P.S. ARTS

Report on the Financial Statements

We have audited the accompanying financial statements of P.S. ARTS (the "Organization") which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements (collectively, 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 Organization'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 Organization'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, 2018, 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 June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Singer Lewak LLP

September 12, 2018

P.S. ARTS
STATEMENT OF FINANCIAL POSITION
June 30,2018 and 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	$ 984,493	$ 871,008
Investments	235,047	236,432
Contributions receivable	196,786	244,737
Inventory, net	4,535	19,105
Prepaid expenses and other current assets	49,806	112,680
Total current assets	1,470,667	1,483,962
Property and equipment, net	78,457	92,689
Security deposit	105,634	80,126
Endowment contributions receivable	49,937	146,695
Endowment investments	2,413,023	2,241,396
Total assets	**$ 4,117,718**	**$ 4,044,868**

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Accounts payable	$ 29,531	$ 11,405
Accrued expenses	144,457	116,118
Total current liabilities	173,988	127,523
Deferred rent incentive	25,780	34,141
Total liabilities	199,768	161,664
Net assets		
Unrestricted	1,146,470	1,021,113
Temporarily restricted	717,910	808,521
Permanently restricted	2,053,570	2,053,570
Total net assets	3,917,950	3,883,204
Total liabilities and net assets	**$ 4,117,718**	**$ 4,044,868**

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

P.S. ARTS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018
(with Summarized Totals for the Year Ended June 30, 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support, revenue and other income					
Contributions	$ 1,316,554	$ 213,270	$ -	$ 1,529,824	$ 1,694,481
Special events, net of direct benefit to donors of $302,590 and $430,861, respectively	296,670	-	-	296,670	308,914
In-kind contributions	50,290	-	-	50,290	25,000
School program contributed income	1,393,793	-	-	1,393,793	1,613,095
Miscellaneous revenue	69	-	-	69	1,011
Investment (loss) income	(1,105)	159,869	-	158,764	286,700
Net assets released from restrictions	463,750	(463,750)	-	-	-
Total support, revenue and other income	3,520,021	(90,611)	-	3,429,410	3,929,201
Expenses					
Program services	2,546,290	-	-	2,546,290	2,990,775
General and administrative	347,691	-	-	347,691	258,339
Fundraising	500,683	-	-	500,683	321,294
Total expenses	3,394,664	-	-	3,394,664	3,570,408
Change in net assets	125,357	(90,611)	-	34,746	358,793
Net assets, beginning of year	1,021,113	808,521	2,053,570	3,883,204	3,524,411
Net assets, end of year	**$ 1,146,470**	**$ 717,910**	**$ 2,053,570**	**$ 3,917,950**	**$ 3,883,204**

P.S. ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018
(with Summarized Totals for the Year Ended June 30, 2017)

	2018				2017
	Program Services	General and Administrative	Fundraising	Total	Total
Salaries and related expenses	$ 2,251,294	$ 229,154	$ 396,705	$ 2,877,153	$ 3,050,347
Art supplies	55,376	-	278	55,654	88,474
Community outreach	45,194	5,500	-	50,694	62,883
Depreciation and amortization	16,684	2,809	3,827	23,320	26,480
Faculty development	2,657	-	-	2,657	2,235
Insurance	5,625	12,149	-	17,774	17,617
Occupancy	109,933	32,937	54,586	197,456	157,387
Office	12,604	24,078	19,744	56,426	58,834
Other	7,655	5,475	21,832	34,962	7,599
Professional services	25,000	31,926	2,000	58,926	69,714
Telephone	-	-	-	-	9,377
Travel	14,268	3,663	1,711	19,642	19,461
Total	**$ 2,546,290**	**$ 347,691**	**$ 500,683**	**$ 3,394,664**	**$ 3,570,408**

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

P.S. ARTS

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
Cash flow from operating activities		
Increase in net assets	$ 34,746	$ 358,792
Adjustments to reconcile increase in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	23,321	27,153
Contributions restricted for investment in endowment	-	(55,367)
Net realized gain on investments	(4,911)	(4,378)
Net realized gain on endowment investments	(48,304)	(105,242)
Net unrealized (gain) loss on investments	6,296	5,031
Net unrealized (gain) loss on endowment investments	(9,940)	(181,938)
Inventory reserve	29,017	6,002
(Increase) decrease in:		
Accounts and contributions receivable	241,467	392,226
Inventory	(14,447)	(8,086)
Prepaid expenses and other current assets	62,874	(23,619)
Security deposits	(25,508)	33,000
Increase (decrease) in:		
Accounts payable	18,126	6,618
Accrued expenses	28,339	(57,020)
Deferred rent incentive	(8,361)	(8,360)
Net cash flows from operating activities	332,715	384,812
Cash flows from investing activities		
Purchase of property and equipment	(9,089)	(1,228)
Purchases of endowment securities	-	(234,852)
Proceeds from sale of endowment investments	(198,383)	187,761
Withdrawal from endowment	85,000	-
Purchase of investment securities	(651,877)	(155,809)
Proceeds from sale of investment securities	588,213	141,545
Reinvested interest and dividends	63,664	14,264
Net cash flows from investing activities	(122,472)	(48,319)
Cash flows from financing activities		
Collections of endowment contributions receivable	(96,758)	51,152
Net cash flows from financing activities	(96,758)	51,152
Net change in cash and cash equivalents	113,485	387,645
Cash and cash equivalents, beginning of year	871,008	483,363
Cash and cash equivalents, end of year	**$ 984,493**	**$ 871,008**

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

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NOTE 1 – ORGANIZATION

P.S. ARTS (the "Organization"), a nonprofit California 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 El Segundo Unified, Hawthorne, Inglewood, Klamath-Trinity Joint Unified, Lawndale Elementary, Lennox, Los Angeles Unified, Lost Hills Union, Lynwood Unified, Pasadena Unified, Santa Monica/Malibu Unified, and Wiseburn 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.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)
The financial statements include certain prior-year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications
Certain reclassifications have been made to the prior year's balances in order to conform to the current year's presentation. Such reclassifications or title changes had no effect on change in net assets as previously reported.

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
The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to permanent endowment or other long-term purposes are excluded from this definition.

Contributions
The Organization records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Organization determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2018 and 2017, the Organization deemed no allowance was required.

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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. The Organization has established an inventory reserve of $250 and $29,267 as of June 30, 2018 and 2017, respectively.

Investments

Investments are reflected on the statement of financial position at fair value. Realized and unrealized gains and losses have been reflected in the statement of activities as increases or decreases in unrestricted net assets. The Organization's investments consist of stock and stock funds, bond index funds and money market funds that have active and liquid markets. Management establishes fair value of publicly traded securities based on quoted market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. Dividend and interest income is accrued when earned. Dividend and interest income earned in all net asset classifications, except permanently restricted net assets, is recorded in the net asset class owning the assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise and when such amounts have been appropriated for expenditure.

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 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

Repair and maintenance costs are charged to expense as incurred.

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 years ended June 30, 2018 and 2017, respectively.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Rent Incentive
The Organization amortizes its tenant allowance on a straight-line basis over the term of the related lease. The accounting results in a deferred liability recorded on the statement of financial position.

Donated Services and 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 on the date of donation.

During the years ended June 30, 2018 and 2017, contributed services amounted to $28,740 and $25,000, respectively. During the years ended June 30, 2018 and 2017, noncash contributions amounted to $21,550 and $0, respectively.

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
The expenses of providing various programs and other activities have been presented on a functional basis. 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 (IRC) and Section 23701(d) of the California Revenue and Taxation Code. The Organization is classified as an organization that is not a private foundation under Section 509(a)(2) of the IRC. Accordingly, no provision has been made for income taxes in the accompanying financial statements. The Organization recognizes the effect 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. The Organization would recognize accrued interest and penalties related to uncertain tax positions in income tax expense if such interest and penalties are incurred. To date, the Organization has not recorded any uncertain tax positions and have not noted any matters that would require recognition in the statement of activities or which may have an effect on its tax-exempt status. During the years ended June 30, 2018 and 2017, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

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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 contributions receivable. The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts.

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 nonperformance and does not anticipate any nonperformance by the users of the securities.

Major Contributors

With respect to accounts and contributions 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 contributions receivable is limited. At June 30, 2018, two donors represented $93,970 of the receivable balance. At June 30, 2017, two donors represented $200,000 of the receivable balance and one donor represented $70,000 of the endowment receivable balance.

Estimated Fair Value of Financial Instruments

As defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 820, “Fair Value Measurements and Disclosures” (ASC 820), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses the market or income approach. Based on this approach, the Organization utilizes certain assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments (Continued)
As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the years ended June 30, 2018, and 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The basis of fair value for stocks and stock funds, and bond index funds differs depending on the investment. The following is a description of the valuation methodologies used for such instruments measured at fair value:

- *Stocks and Stock Funds* – The basis of fair value for stocks and stock funds is market value based on quoted market prices; these are classified within Level 1 of the valuation hierarchy.

- *Bond Index Funds* – The fair value of bond funds is the market value based on quoted market prices; they are classified within Level 1 of the fair value hierarchy.

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, 2018 and 2017, respectively. Financial instruments included in the Organization’s statement of financial position include cash and cash equivalents, accounts and contributions receivable, accounts payable and accrued expenses. The carrying amounts represent a reasonable estimate of fair values due to their short-term maturity.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and management is currently evaluating the effect that the updated standards will have on the financial statements.

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. Management does not believe the adoption of the updated standards will have a material effect on the 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* (ASU 2016-14), which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. Management does not believe the adoption of the updated standards will have a material effect on the financial statements.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)
In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force)* (ASU 2016-18), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. For public companies, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For nonpublic companies, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. Management does not believe the adoption of the updated standards will have a material effect on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides clarification and improvement on the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after June 15, 2018. Early adoption is permitted. The Organization has not yet selected a transition method and management is currently evaluating the effect that the updated standards will have 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, 2018 consisted of the following:

	Cost	Fair Value
Money market funds	$ 3,092	$ 3,092
Bond funds	239,402	231,955
Total investments	**$ 242,494**	**$ 235,047**

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NOTE 3 – INVESTMENTS (Continued)

Investments held at fair value at June 30, 2017 consisted of the following:

	Cost	Fair Value
Money market funds	$ 3,054	$ 3,054
Bond funds	234,455	233,378
Total investments	**$ 237,509**	**$ 236,432**

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, 2018 consisted of the following:

	Cost	Fair Value
Cash	$ 124,024	$ 124,024
Stocks and stock funds	1,109,525	1,274,114
Bond funds	762,951	773,961
Closed end funds	211,657	240,924
Total endowment investments	**$ 2,208,157**	**$ 2,413,023**

Endowment investments held at fair value at June 30, 2017 consisted of the following:

	Cost	Fair Value
Cash	$ 76,524	$ 76,524
Stocks and stock funds	1,010,730	1,145,643
Bond funds	687,743	702,111
Closed end funds	284,440	317,118
Total endowment investments	**$ 2,059,437**	**$ 2,241,396**

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NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30,

	2018	2017
Portable classroom	$ 116,500	$ 116,500
Musical instruments	89,969	89,969
Computers and software	88,046	77,627
Office equipment	26,119	30,683
Website	15,000	15,000
	335,634	329,779
Less accumulated depreciation and amortization	(257,177)	(237,090)
Property and equipment, net	**$ 78,457**	**$ 92,689**

Total depreciation and amortization expense for the fiscal year ended June 30, 2018 and 2017 was $23,321 and $27,153, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 were restricted by donors for specific programs of the Organization as follows:

Restricted for	Available June 30, 2017	New Revenue	Releases/ Expenditures	Available June 30, 2018
Inglewood Unified School District	$ 177,500	$ -	$ 82,250	$ 95,250
General Classroom Studio	100,000	45,000	100,000	45,000
Los Angeles Unified School District	100,000	-	100,000	-
Unappropriated but accumulated earnings on endowment	334,521	159,869	85,000	409,390
Other	96,500	168,270	96,500	168,270
Total temporarily restricted net assets	**$ 808,521**	**$ 373,139**	**$ 463,750**	**$ 717,910**

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NOTE 6 – ENDOWMENTS

The Organizations Endowment consists of a pool of funds established by donors to provide annual funding for specific activities and general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 funds for distribution:

(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

<u>Return Objectives and Risk Parameters</u>
The Organization has adopted an investment policy for the Endowment that attempts to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. The target annual rate of return of 7% over a market cycle (3 – 5 years) with an emphasis on total return irrespective of source. 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.

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NOTE 6 – ENDOWMENTS (Continued)

Return Objectives and Risk Parameters

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.

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2018 and 2017, there were no deficiencies of this nature.

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, 2018 and 2017, the Organization elected to not appropriate any of the earnings on the endowment, respectively.

For the year ended June 30, 2018, the Organization's endowment net assets changed as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 334,521	$ 2,053,570	$ 2,388,091
Investment return			
Interest and dividends	101,625	-	101,625
Net realized appreciation	48,304	-	48,304
Net unrealized appreciation	9,940	-	9,940
	159,869	-	159,869
Distributions			
Appropriation of endowment assets	(85,000)	-	(85,000)
Endowment net assets, end of year	**$ 409,390**	**$ 2,053,570**	**$ 2,462,960**

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NOTE 6 – ENDOWMENTS (Continued)

For the year ended June 30, 2017, the Organization's endowment net assets changed as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 47,341	$ 2,053,570	$ 2,100,911
Investment income, net of fees	90,163	-	90,163
Net realized appreciation	15,079	-	15,079
Net unrealized appreciation	181,938	-	181,938
Endowment net assets, end of year	**$ 334,521**	**$ 2,053,570**	**$ 2,388,091**

Endowment assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Investments	$ 2,413,023	$ 2,241,396
Uncollected endowment receivables	49,937	146,695
Total endowment assets	**$ 2,462,960**	**$ 2,338,091**

NOTE 7 – COMMITMENTS

Operating Leases

The Organization leases its office space in Los Angeles, California that requires minimum escalating monthly payments of $12,013 and expires on July 31, 2021. Provided the Organization is not in default, the security deposit will be reduced by $33,300 per year effective 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 next coming rental payment due. As of June 30, 2018 and 2017, the Organization was not in default, respectively.

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NOTE 7 – COMMITMENTS (Continued)

Operating Leases (Continued)
The following is a schedule by years of future minimum lease payments under non-cancellable operating leases:

Year Ending June 30,	Total
2019	$ 145,537
2020	149,836
2021	167,567
Total	**$ 462,940**

Rent expense was $142,427 and $138,995 for the years ended June 30, 2018 and 2017, respectively. Of this amount, $131,981 and $128,034, respectively, was included in occupancy expense, on the statement of functional expenses.

Legal Matters
In the normal course of business, the Organization may become a party to litigation. Management believes there are no asserted or unasserted claims or contingencies that would have a significant impact on the financial statements of the Organization as of June 30, 2018 and 2017.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Organization receives donations from its board of trustees, members and other related parties throughout the year. For the years ended June 30, 2018 and 2017, the Organization received $393,025 and $414,146, respectively, of contributions including special events donations, merchandise sales, board member fees and other pledges from related parties. As of June 30, 2018 and 2017, $32,188 and $133,763 of these donations from related parties, respectively, are outstanding and are included in the accompanying statement of financial position.

NOTE 9 – SUBSEQUENT EVENTS

Management evaluated all activity through September 12, 2018 (the issue date of the financial statements) and concluded that no subsequent events, have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.