



**FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**P.S. ARTS**  
**CONTENTS**  
**June 30, 2019 and 2018**

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	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 – 2
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Functional Expenses	6 – 7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 21

## 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 statements of financial position as of June 30, 2019 and 2018, the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

**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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a matter**

As disclosed in Note 3 to the financial statements, in 2019 the Organization adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "SingerLewak LLP".

SingerLewak LLP

August 30, 2019

**P.S. ARTS**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2019 and 2018**

**ASSETS**

	2019	2018
<b>Current assets</b>		
Cash and cash equivalents	\$ 380,185	\$ 984,493
Investments	1,176,013	235,047
Contributions and accounts receivable, net	399,768	196,786
Prepaid expenses and other current assets	114,224	54,341
Total current assets	2,070,190	1,470,667
<b>Noncurrent assets</b>		
Property and equipment, net	62,084	78,457
Security deposit	46,000	105,634
Endowment contributions receivable	24,488	49,937
Endowment investments	2,566,318	2,413,023
Total noncurrent assets	2,698,890	2,647,051
<b>Total assets</b>	<b>\$ 4,769,080</b>	<b>\$ 4,117,718</b>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities</b>		
Accounts payable	\$ 26,884	\$ 29,531
Accrued expenses	133,929	144,457
Deferred revenue	91,290	-
Total current liabilities	252,103	173,988
<b>Deferred rent incentive</b>	33,164	25,780
Total liabilities	285,267	199,768
<b>Net assets</b>		
Without donor restrictions		
Undesignated	438,700	1,146,470
Board designated	1,271,308	-
Total without donor restrictions	1,710,008	1,146,470
With donor restrictions	2,773,805	2,771,480
Total net assets	4,483,813	3,917,950
<b>Total liabilities and net assets</b>	<b>\$ 4,769,080</b>	<b>\$ 4,117,718</b>

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

**P.S. ARTS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, support, and gains</b>			
Contributions	\$ 2,046,839	\$ 170,239	\$ 2,217,078
School program income	1,401,301	-	1,401,301
Special events, net of direct benefits to donors of \$309,492	229,768	-	229,768
In-kind contributions	25,000	-	25,000
Net investment return	17,078	140,606	157,684
Net assets released from restrictions	308,520	(308,520)	-
	4,028,506	2,325	4,030,831
<b>Expenses</b>			
Program services	2,607,212	-	2,607,212
General and administrative	333,998	-	333,998
Fundraising	523,758	-	523,758
	3,464,968	-	3,464,968
<b>Change in net assets</b>	563,538	2,325	565,863
<b>Net assets, beginning of year</b>	1,146,470	2,771,480	3,917,950
<b>Net assets, end of year</b>	<b>\$ 1,710,008</b>	<b>\$ 2,773,805</b>	<b>\$ 4,483,813</b>

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

**P.S. ARTS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, support, and gains</b>			
Contributions	\$ 1,316,554	\$ 213,270	\$ 1,529,824
School program income	1,393,793	-	1,393,793
Special events, net of direct benefits to donors of \$283,449	315,811	-	315,811
In-kind contributions	50,290	-	50,290
Miscellaneous revenue	69	-	69
Net investment return (loss)	(1,105)	159,869	158,764
Net assets released from restrictions	463,750	(463,750)	-
Total revenue, support and gains	3,539,162	(90,611)	3,448,551
<b>Expenses</b>			
Program services	2,553,333	-	2,553,333
General and administrative	347,691	-	347,691
Fundraising	512,781	-	512,781
Total expenses	3,413,805	-	3,413,805
<b>Change in net assets</b>	125,357	(90,611)	34,746
<b>Net assets, beginning of year</b>	1,021,113	2,862,091	3,883,204
<b>Net assets, end of year</b>	<b>\$ 1,146,470</b>	<b>\$ 2,771,480</b>	<b>\$ 3,917,950</b>

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

**P.S. ARTS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2019**

	Program Services	Supporting Services		Total Supporting Services	Total
		General and Administrative	Fundraising		
Salaries, taxes and benefits	\$ 2,308,616	\$ 230,654	\$ 406,893	\$ 637,547	\$ 2,946,163
Art supplies	49,799	-	-	-	49,799
Community outreach	44,888	-	-	-	44,888
Depreciation	11,638	2,011	2,723	4,734	16,372
Faculty development	5,703	468	-	468	6,171
Insurance	5,603	13,394	-	13,394	18,997
Occupancy	101,505	30,247	58,994	89,241	190,746
Office	23,279	18,609	30,041	48,650	71,929
Other	3,259	6,583	23,065	29,648	32,907
Professional services	25,690	28,203	300	28,503	54,193
Program evaluation	19,350	-	-	-	19,350
Cost of direct benefits to donors	-	-	309,492	309,492	309,492
Travel	7,882	3,829	1,742	5,571	13,453
<b>Total expenses by function</b>	<b>2,607,212</b>	<b>333,998</b>	<b>833,250</b>	<b>1,167,248</b>	<b>3,774,460</b>
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	(309,492)	(309,492)	(309,492)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 2,607,212</b>	<b>\$ 333,998</b>	<b>\$ 523,758</b>	<b>\$ 857,756</b>	<b>\$ 3,464,968</b>

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



**P.S. ARTS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2018**

	Supporting Services				Total
	Program Services	General and Administrative	Fundraising	Total Supporting Services	
Salaries, taxes and benefits	\$ 2,251,294	\$ 229,154	\$ 396,703	\$ 625,857	\$ 2,877,151
Art supplies	54,769	-	278	278	55,047
Community outreach	45,194	5,500	-	5,500	50,694
Depreciation	16,684	2,809	3,828	6,637	23,321
Faculty development	2,656	-	-	-	2,656
Insurance	5,626	12,149	-	12,149	17,775
Occupancy	109,933	32,937	54,585	87,522	197,455
Office	12,604	24,078	28,676	52,754	65,358
Other	7,655	5,475	24,292	29,767	37,422
Professional services	25,000	31,926	2,000	33,926	58,926
Program evaluation	7,650	-	-	-	7,650
Cost of direct benefits to donors	-	-	283,449	283,449	283,449
Travel	14,268	3,663	2,419	6,082	20,350
	<u>2,553,333</u>	<u>347,691</u>	<u>796,230</u>	<u>1,143,921</u>	<u>3,697,254</u>
Total expenses by function					
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	(283,449)	(283,449)	(283,449)
	<u>-</u>	<u>-</u>	<u>(283,449)</u>	<u>(283,449)</u>	<u>(283,449)</u>
<b>Total expenses included in the expense section on the statement of activities</b>	<b><u>\$ 2,553,333</u></b>	<b><u>\$ 347,691</u></b>	<b><u>\$ 512,781</u></b>	<b><u>\$ 860,472</u></b>	<b><u>\$ 3,413,805</u></b>

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

**P.S. ARTS**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
<b>Cash flow from operating activities</b>		
Change in net assets	\$ 565,863	\$ 34,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	16,373	23,321
Net (gain) loss on investments	(17,078)	1,385
Net gain on endowment investments	(34,991)	(58,244)
Inventory reserve	-	29,017
Deferred rent incentive	7,384	(8,361)
Changes in operating assets and liabilities:		
Contributions and accounts receivable	(152,084)	241,467
Inventory	-	(14,447)
Prepaid expenses and other current assets	(59,883)	62,874
Security deposits	59,634	(25,508)
Accounts payable	(2,647)	18,126
Accrued expenses	(10,528)	28,339
Deferred revenue	91,290	-
Net cash provided by operating activities	463,333	332,715
<b>Cash flows from investing activities</b>		
Purchase of equipment	-	(9,089)
Purchases of endowment securities	(283,793)	(651,877)
Proceeds from sale of endowment investments	61,948	588,213
Withdrawal from endowment	-	85,000
Purchase of investment securities	(975,000)	(198,383)
Proceeds from sale of investment securities	51,000	-
Reinvested interest and dividends	103,653	63,664
Net cash used in investing activities	(1,042,192)	(122,472)
<b>Cash flows from financing activities</b>		
Collections of endowment contributions receivable	(25,449)	(96,758)
Net cash used in financing activities	(25,449)	(96,758)
<b>Net change in cash and cash equivalents</b>	(604,308)	113,485
<b>Cash and cash equivalents, beginning of year</b>	984,493	871,008
<b>Cash and cash equivalents, end of year</b>	<b>\$ 380,185</b>	<b>\$ 984,493</b>

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

**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. Each week, the Organization provides high-quality arts education to nearly 25,000 students in 57 underserved schools across Los Angeles County and California’s Central Valley.

The Organization offers the following programs:

- *Classroom studio* – provides weekly arts instruction in dance, music, theater, and/or visual arts to every child in its partner schools for the entire school year. P.S. ARTS provides two models of its Classroom Studio program: *Arts Intensive*, and *Arts Rotation*.
- *Extended Learning – Inside Out Community Arts* is focused on empowering underserved middle school youth with the tools, confidence, and inspiration to make a positive difference in their lives and their communities through the arts.
- *Community Engagement* – P.S. ARTS coordinates with schools and parent groups to provide intergenerational arts programming for the entire school community. These events feature free, hands-on family themed arts projects and reach nearly 10,000 students and family members annually. In addition to arts projects, families are given information about their students’ arts classes, how to volunteer with the organization, and additional resources to bring art-making into the home. These events also give families an opportunity to bond through creative activities while getting to know each other as artists in a safe, fun environment.
- *Educator Training* – P.S. ARTS faculty participate in a pre-service orientation intensive and a rigorous ongoing training series. Full-time P.S. ARTS faculty are required to attend a minimum of 20 hours of professional training and development per year. In addition to reviewing the P.S. ARTS model framework, scope and sequence, approach to curriculum development and documentation annually, P.S. ARTS faculty participate in select training modules related to arts education theory and practice.

**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”).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 and Accounts Receivable

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.

Accounts receivable consist primarily of noninterest-bearing amounts due for school program services provided.

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, 2019 and 2018, the Organization deemed no allowance was required.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment are stated at cost if purchased, or if donated, at fair value on the date of donation. 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 ranging from 3 to 30 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

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 years ended June 30, 2019 and 2018, respectively.

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions – 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.
- Donor Restricted Net Assets – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Donor-restricted contributions and appropriated endowment earnings received and expended in the same reporting period are recorded as net assets without donor restrictions.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees, special event ticket sales, and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Revenue from government grants and contracts is recognized as it is earned through expenditures in accordance with the agreements. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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, 2019 and 2018, contributed services amounted to \$25,000 and \$28,740, respectively. During the years ended June 30, 2019 and 2018, noncash contributions amounted to \$0 and \$21,550, 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.

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. Management has analyzed the tax positions taken by the Organization, and has concluded that, as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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, 2019 and 2018, 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimated Fair Value of Financial Instruments (Continued)

In accordance with U.S. GAAP, the Organization classified all its cash and cash equivalents, investments and endowment restricted investments as Level 1 as of June 30, 2019 and 2018, 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.

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.

Financial Instruments and 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 and money market accounts 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, the Organization has not experienced losses in any of these accounts.

Investments are made by the Organization and performance is monitored by management and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Trustees believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 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 fiscal years 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.



**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recently Issued Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 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 June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, 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 – CHANGE IN ACCOUNTING PRINCIPLE**

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in its 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 years beginning after December 15, 2017, and interim periods within years beginning after December 15, 2018.

The Organization adopted ASU 2016-14 as of and for the year ended June 30, 2019 with retrospective application for the 2018 financial statements. The Organization has opted to not disclose liquidity and availability information for 2018, as permitted under the ASU in the year of adoption. In addition, the Organization changed its presentation of net asset classes and expanded the footnote disclosures as required by ASU 2016-14.

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE (Continued)**

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets classifications, as previously presented			
Total unrestricted	\$ 1,146,470	\$ -	\$ 1,146,470
Temporarily restricted	-	717,910	717,910
Permanently restricted	-	2,053,570	2,053,570
Net assets, as reclassified	\$ 1,146,470	\$2,771,480	\$ 3,917,950

**NOTE 4 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES**

As of June 30, 2019, the following table reflects the Organization’s financial assets, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date due to donor restrictions or internal board designations.

Cash and cash equivalents	\$ 377,315
Investments	1,176,013
Contributions and accounts receivable	399,768
Total financial assets	<b>\$ 1,953,096</b>
Board-designated operating reserve	<b>\$ (1,271,308)</b>
Financial assets available to meet general expenditures within one year	<b>\$ 681,788</b>

The Organization considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. In the event the need arises to utilize the board-designated funds for liquidity purposes, the board-designated operating reserve could be drawn upon through board resolution.

**P.S. ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

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**NOTE 5 – INVESTMENTS**

Investments held at fair value at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Money market funds	\$ 1,176,013	\$ 3,092
Bond funds	-	231,955
<b>Total investments</b>	<b><u>\$ 1,176,013</u></b>	<b><u>\$ 235,047</u></b>

Money market funds at June 30, 2019 have been designated by the board for an operating reserve as well as \$95,295 included in cash and cash equivalents.

Endowment investments held at fair value at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Cash	\$ 19,352	\$ 124,024
Stocks and stock funds	1,416,728	1,274,114
Bond funds	882,425	773,961
Closed end funds	247,813	240,924
<b>Total endowment investments</b>	<b><u>\$ 2,566,318</u></b>	<b><u>\$ 2,413,023</u></b>

**NOTE 6 – PROPERTY AND EQUIPMENT**

As of June 30, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Portable classroom	\$ 116,500	\$ 116,500
Musical instruments	89,969	89,969
Computers and software	88,046	88,046
Office equipment	26,119	26,119
Website	15,000	15,000
	335,634	335,634
Less accumulated depreciation	(273,550)	(257,177)
<b>Total property and equipment</b>	<b><u>\$ 62,084</u></b>	<b><u>\$ 78,457</u></b>

**P.S. ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS**

As of June 30, 2019 and 2018, net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
<i>Subject to expenditure for specified purpose</i>		
Classroom studio	\$ 50,000	\$ 195,301
Extended learning	14,400	30,000
Other	68,600	83,220
	133,000	308,521
<i>Subject to the passage of time</i>		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	50,000	-
<i>Subject to the Organization's spending policy and appropriation</i>		
Endowment funds restricted in perpetuity	2,040,809	2,053,570
Unappropriated endowment earnings	549,996	409,389
	2,590,805	2,462,959
<b>Total net assets with donor restrictions</b>	<b><u>\$ 2,773,805</u></b>	<b><u>\$ 2,771,480</u></b>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors are as follows for the years ended June 30, 2019 and 2018:

	2019	2018
<i>Satisfaction of purpose restrictions</i>		
Classroom studio	\$ 195,300	\$ 282,250
Extended learning	30,000	-
Other	83,220	96,500
	308,520	378,750
<i>Endowment earnings appropriated</i>	-	85,000
	<b><u>\$ 308,520</u></b>	<b><u>\$ 463,750</u></b>

**NOTE 8 – ENDOWMENT**

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

As of June 30, 2019 and 2018, endowment net assets with donor restrictions composition by type of fund are as follows:

	2019	2018
<i>Donor-restricted endowment fund</i>		
Original donor-restricted gift	\$ 2,040,809	\$ 2,053,570
Accumulated investment gains	549,996	409,390
<b>Balance, end of year</b>	<b>\$ 2,590,805</b>	<b>\$ 2,462,960</b>

**NOTE 8 – ENDOWMENT (Continued)**

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, 2019 and 2018, there were no deficiencies of this nature.

*Investment and spending policies*

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.

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.

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.

Changes in endowment net assets with donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 2,462,960	\$ 2,388,091
Net investment return	140,606	159,869
Endowment contributions	189	-
Loss on uncollectible endowment receivable	(12,950)	-
Appropriation of endowment assets pursuant to spending rate policy	<u>-</u>	<u>(85,000)</u>
<b>Balance, end of year</b>	<b><u>\$ 2,590,805</u></b>	<b><u>\$ 2,462,960</u></b>

**NOTE 9 – COMMITMENTS**

Operating Leases

The Organization leases its office space in Los Angeles, California that requires minimum escalating monthly payments of \$12,358 and expires on July 31, 2021.

The following is a schedule by years of future minimum lease payments under the non-cancellable operating lease:

Year Ending June 30,	
2020	149,836
2021	154,441
2022	13,126
<b>Total</b>	<b><u>\$ 317,403</u></b>

**NOTE 10 – 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, 2019 and 2018, the Organization received \$165,760 and \$393,025, respectively, of contributions including special events donations, merchandise sales, board member fees and other pledges from related parties. As of June 30, 2019 and 2018, \$19,238 and \$32,188 of these donations from related parties, respectively, are outstanding and are included in the accompanying statement of financial position.

For the years ended June 30, 2019 and 2018, the Organization purchased event related services from companies owned by two members of the Board of Trustees totaling \$193,245 and \$152,408, respectively.

**NOTE 11 – SUBSEQUENT EVENTS**

Management evaluated all activity through August 30, 2019 (the date the financial statements were available for issuance) 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.