

TURNAROUND ARTS: CALIFORNIA
(A Not-for-Profit California Corporation)

FINANCIAL STATEMENTS

June 30, 2024 and 2023

TURNAROUND ARTS:
CALIFORNIA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Turnaround Arts: California
(A Not-for-Profit California Corporation)
Los Angeles, California

Opinion

We have audited the financial statements of Turnaround Arts: California (a Not-for-Profit California Corporation) (the "Organization"), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2024 and 2023, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BPM LLP

Santa Monica, California
February 20, 2025

TURNAROUND ARTS: CALIFORNIA
(A Not-for-Profit California Corporation)

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2024 and 2023

	2024	2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,235,149	\$ 3,259,438
Contributions receivable, current portion	349,778	493,770
Total current assets	3,584,927	3,753,208
Property and equipment, net	2,972	4,285
Contributions receivable, net of current portion	97,093	167,656
Total assets	\$ 3,684,992	\$ 3,925,149
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 100,652	\$ 186,611
Net assets:		
Without donor restrictions	2,952,058	2,880,906
With donor restrictions	632,282	857,632
Total net assets	3,584,340	3,738,538
Total liabilities and net assets	\$ 3,684,992	\$ 3,925,149

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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Contributions and grants	\$ 687,826	\$ 538,022	\$ 1,225,848	\$ 771,673	\$ 788,770	\$ 1,560,443
In-kind contributions	242,947	-	242,947	314,226	-	314,226
Investment income	155,074	-	155,074	102,314	-	102,314
Employee retention credit	95,000	-	95,000	-	-	-
Net assets released from restrictions:						
Satisfaction of program/donor restrictions	763,372	(763,372)	-	544,561	(544,561)	-
Total revenue and support	1,944,219	(225,350)	1,718,869	1,732,774	244,209	1,976,983
Expenses:						
Program expenses	1,258,305	-	1,258,305	1,192,646	-	1,192,646
Fundraising expenses	276,848	-	276,848	233,005	-	233,005
General and administrative expenses	337,914	-	337,914	305,228	-	305,228
Total expenses	1,873,067	-	1,873,067	1,730,879	-	1,730,879
Change in net assets	71,152	(225,350)	(154,198)	1,895	244,209	246,104
Net assets, beginning of year	2,880,906	857,632	3,738,538	2,879,011	613,423	3,492,434
Net assets, end of year	\$ 2,952,058	\$ 632,282	\$ 3,584,340	\$ 2,880,906	\$ 857,632	\$ 3,738,538

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STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2024 and 2023

	2024				2023			
	Program	Fundraising	General and Administrative	Total	Program	Fundraising	General and Administrative	Total
Salaries and benefits	\$ 487,256	\$ 188,589	\$ 137,774	\$ 813,619	\$ 474,515	\$ 137,088	\$ 90,742	\$ 702,345
Arts-based education	714,804	-	-	714,804	642,788	-	-	642,788
Professional fees	15,886	70,190	179,246	265,322	19,206	70,000	181,188	270,394
Occupancy	23,960	9,280	6,760	40,000	27,040	7,800	5,160	40,000
Development	7,318	8,789	1,468	17,575	17,456	18,117	3,207	38,780
Office supplies	9,081	-	4,473	13,554	11,641	-	9,843	21,484
Insurance	-	-	6,880	6,880	-	-	9,992	9,992
Depreciation	-	-	1,313	1,313	-	-	5,096	5,096
	<u>\$ 1,258,305</u>	<u>\$ 276,848</u>	<u>\$ 337,914</u>	<u>\$ 1,873,067</u>	<u>\$ 1,192,646</u>	<u>\$ 233,005</u>	<u>\$ 305,228</u>	<u>\$ 1,730,879</u>

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STATEMENTS OF CASH FLOWS

For the years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ (154,198)	\$ 246,104
Adjustments to reconcile change in net assets to net cash flows used in operating activities:		
Depreciation expense	1,313	5,096
Change in assets and liabilities:		
Contributions receivable	214,555	(560,221)
Accounts payable and accrued expenses	(85,959)	129,523
Net cash used in operating activities	(24,289)	(179,498)
Cash flows from investing activities:		
Acquisition of fixed assets	-	(1,579)
Net cash used in investing activities	-	(1,579)
Net change in cash and cash equivalents	(24,289)	(181,077)
Cash and cash equivalents, beginning of period	3,259,438	3,440,515
Cash and cash equivalents, end of period	\$ 3,235,149	\$ 3,259,438

TURNAROUND ARTS: CALIFORNIA (A Not-for-Profit California Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

1. Purpose and Activities

Turnaround Arts: California (the "Organization") is a California nonprofit Public Benefit Corporation established in 2014. The Organization has worked with 33 public elementary and middle schools in marginalized communities across California, building the capacity of teachers and principals to use the arts to improve student engagement and learning, build a positive school culture, and engage families in their children's education. The services provided by the Organization include strategic arts planning, arts-based coaching, professional development, and funding for community engagement projects at school sites. As a result, educators are given tools to create equitable, arts-rich schools where all students have the opportunity to succeed. The Organization is a partner of the national Turnaround Arts program at the John F. Kennedy Center for the Performing Arts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Financial Accounting Standards Board ("FASB") has established the FASB Accounting Standards Codification ("ASC") as the sole source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

In accordance with ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, the Organization's net assets, revenues, gains, expenses, 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 available for use at the discretion of the Board of Directors (the "Board") and/or management for general operations and not subject to donor restrictions.

Net assets With Donor Restrictions: Net assets subject to donor-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 the restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose for which the resource was restricted has been accomplished, or both.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

2. Summary of Significant Accounting Policies, continued

Revenues and Support

In accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, unconditional promises to give are recognized as contributions when the underlying promises are received by the Organization. Unconditional promises to give, gifts of cash and other assets are reported as contribution revenue without donor restrictions or revenues with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed Goods and Services

The Organization adheres to Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), which requires contributed nonfinancial assets to be presented as a separate line item in the statements of activities and changes in net assets, apart from contributions of cash and other financial assets, and additional qualitative disclosures.

In accordance with ASU 2020-07, free use of facilities and services are recorded at their fair values in the period received. Contributed services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

A number of individuals, including certain members of the Board, have contributed significant amounts of their own time to the activities of the Organization without compensation. The Organization recognized certain in-kind contributions from a Board Member as set forth in Note 6. The value of other services are not recorded in the financial statements since they would typically not be purchased if not provided by donation.

Cash and Cash Equivalents

For purposes of the statements of financial position and the statements of cash flows, the Organization considers all highly liquid instruments purchased with original maturities of three months or less at date of purchase to be cash equivalents.

Fair Value of Financial Instruments

The Organization’s financial instruments consist of cash and cash equivalents, contributions receivable, accounts payable and accrued expenses. These are stated at historical cost or settlement value, which approximates fair value.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions expire or are met.

As of June 30, 2024 and 2023, the Organization’s contributions receivable consisted of unconditional promises to give in the amount of \$446,871 and \$661,426, respectively. As of June 30, 2024 and 2023, contributions receivable to be collected within one year were \$349,778 and \$493,770, respectively.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost, if purchased, or estimated fair market value if donated, net of accumulated depreciation computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years. Expenditures for additions and major improvements are capitalized at cost, whereas the cost of maintenance and repairs are charged to expense as incurred. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the respective asset and accumulated depreciation accounts and the gain or loss on such disposition is reflected in the statements of activities and changes in net assets.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and exempt from State of California franchise taxes under Section 23701(d) of the California Revenue and Taxation Code. Unrelated business income, as defined by Section 509(a)(1) of the IRC, is subject to federal income tax. For the years ended June 30, 2024 and 2023, management does not believe that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Organization follows the provisions of FASB ASC 740, *Income Taxes*, and related subsections. Accordingly, the Organization accounts for uncertain tax positions, if any, by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The Organization recognizes the effect of income tax positions only if those positions are more-likely-than-not of being sustained by the appropriate taxing authorities. Management does not believe that it has taken any uncertain tax positions in the tax-exempt filings and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

Concentration of Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of cash, cash equivalents and contributions receivable. The Organization maintains its cash and cash equivalent balances in the form of bank demand deposits and money market accounts with major financial institutions. For the years ended June 30, 2024 and 2023, the Organization had deposits in excess of federally-insured limits. The Organization has not experienced any losses in such accounts to date and believes it is not exposed to any significant risk of loss in these accounts. The Organization had no significant financial instruments with off-balance sheet risk of accounting loss.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

2. Summary of Significant Accounting Policies, continued

Concentration of Risk, continued

Credit risk represents the risk of loss attributable to possible nonperformance by donors and counterparties relative to the terms of agreements and contracts. Donors that represented 10% or more of total contribution revenue were as follows as of June 30:

	2024		2023	
Donor 1	\$ 200,000	16 %	\$ 200,000	13 %
Donor 2	-	-	325,589	21
Donor 3	-	-	200,000	13
Donor 4	-	-	150,000	10
	<u>\$ 200,000</u>	<u>16 %</u>	<u>\$ 875,589</u>	<u>57 %</u>

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated by direct and indirect identification among the programs and supporting services benefited. Personnel related expense allocations are based on the staff time spent on each function. Expenses that are not directly associated with a specific program function are allocated among program services and the other activities benefited.

New Accounting Standards - Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (“ASU 2106-13”), to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in ASU 2016-13 replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for the Organization for its fiscal year beginning after December 15, 2022.

The Organization adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after June 30, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The adoption of this standard did not have a significant impact on the Organization, and no adjustment was required to retained earnings as of July 1, 2023, for the cumulative effect of adopting ASC 326.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

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June 30, 2024 and 2023

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, were comprised of the following as of June 30:

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,235,149	\$ 3,259,438
Contributions receivable	349,778	493,770
Total financial assets available	3,584,927	3,753,208
Less: those unavailable for general expenditures:		
Donor purpose restrictions	(632,282)	(857,632)
Amount expected to be released within one year	175,000	127,472
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,127,645</u>	<u>\$ 3,023,048</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

4. Property and Equipment, Net

Property and equipment are recorded at cost (if purchased), or at estimated fair market value (if donated). Property and equipment consisted of the following as of June 30:

	2024	2023
Computers	\$ 14,034	\$ 14,034
Furniture and fixtures	-	-
Subtotal	14,034	14,034
Less: accumulated depreciation	(11,062)	(9,749)
Property and equipment, net	<u>\$ 2,972</u>	<u>\$ 4,285</u>

Depreciation expense was \$1,313 and \$5,096 for the years ended June 30, 2024 and 2023, respectively.

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June 30, 2024 and 2023

5. Net Assets with Donor Restrictions

From time to time, the Organization receives contributions subject to donor restrictions. Those contributions received with restrictions are released from restrictions when expenses are incurred, the purpose has been fulfilled, or through passage of time. Net assets with donor restrictions were available for the following purposes as of June 30:

	2024	2023
Purpose restrictions:		
Education program for designated schools	\$ 467,532	\$ 562,632
Time restrictions	164,750	295,000
Total net assets with donor restrictions	<u>\$ 632,282</u>	<u>\$ 857,632</u>

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

	2024	2023
Purpose restrictions accomplished:		
Education program for designated schools	\$ 95,100	\$ 50,791
Time restrictions accomplished	668,272	493,770
Total	<u>\$ 763,372</u>	<u>\$ 544,561</u>

6. Related Party Transactions and In-Kind Contributions

The Organization recognized the following amounts of contributed nonfinancial assets within the statements of activities and changes in net assets for the years ended June 30:

	2024	2023
Fundraising services	\$ 100,000	\$ 100,000
Office rent	40,000	40,000
Art supplies and event space	102,947	174,226
	<u>\$ 242,947</u>	<u>\$ 314,226</u>

For the years ended June 30, 2024 and 2023, a member of the Board provided free office rent and fundraising services to the Organization. These fundraising services had an estimated fair value of approximately \$100,000 for the years ended June 30, 2024 and 2023. The Organization has reported this amount as an in-kind contribution and professional fee expense in the Organization's statements of activities and change in net assets. The estimated fair value of office space reported by the Organization as in-kind contribution and occupancy expense was \$40,000 for each of the years ended June 30, 2024 and 2023.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

7. Employee Benefit Plan

The Organization offers participation in a 403(b) tax deferred annuity plan to all eligible employees. A total of \$18,232 and \$19,196 of employer contributions were made by the Organization for the years ended June 30, 2024 and 2023, respectively.

8. Employee Retention Tax Credits

Under the Consolidations Appropriations Act, 2021 passed by the United States Congress and signed by the President on December 27, 2020, provisions of the Coronavirus Air Relief and Economic Security Act ("CARES") were extended and modified making the Organization eligible for a refundable employee retention credit subject to meeting certain criteria. For the year ended June 30, 2024, the Organization recorded \$95,000 as employee retention credit in the statement of activities. This amount was collected during the year ended June 30, 2024.

9. Subsequent Events

Subsequent events have been evaluated through February 20, 2025, which is the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2024 that require recognition or disclosure in such financial statements.