
SPACE 4 ART, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Space 4 Art, Inc.
San Diego, California

We have audited the accompanying financial statements of Space 4 Art, Inc., (a non-profit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 the Space 4 Art, Inc., as of December 31, 2020, 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.

Cambaliza McGee LLP

Cambaliza McGee LLP
Newport Beach, CA
March 31, 2021

SPACE 4 ART, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 163,821
Accounts receivables	32,660
Prepaid expenses	<u>11,300</u>
Total current assets	207,781
Long Term Assets:	
Property, plant and equipment	415,103
(net of accumulated depreciation)	<u>(58,807)</u>
Property, plant and equipment, net	<u>356,296</u>
Total assets	<u>\$ 564,077</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 1,500
Deposits from tenants	<u>15,177</u>
Total current liabilities	<u>16,677</u>
Long-Term Liabilities:	
Notes payable	225,000
Notes payable - related party	<u>273,806</u>
Total long-term liabilities	<u>498,806</u>
NET ASSETS:	
With donor restrictions	36,850
Without donor restrictions	<u>11,744</u>
Total Net Assets	<u>48,594</u>
Total liabilities and net assets	<u>\$ 564,077</u>

See notes to financial statements and independent auditor's report.

SPACE 4 ART, INC.
STATEMENT OF ACTIVITIES
DECEMBER 31, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2020</u>
Support and Revenue:			
Rental income	\$ 167,980	\$ -	\$ 167,980
Grant revenue	220,128	25,000	245,128
Contributions	14,081	11,850	25,931
In-kind contributions	19,724	-	19,724
Other revenue	127,061	-	127,061
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>548,974</u>	<u>36,850</u>	<u>585,824</u>
Expenses:			
Program services	332,466	-	332,466
Management & general	41,636	-	41,636
Fundraising	<u>32,908</u>	<u>-</u>	<u>32,908</u>
Total expenses	<u>407,010</u>	<u>-</u>	<u>407,010</u>
Change in net assets	141,964	36,850	178,814
Net deficit, beginning of year	<u>(130,220)</u>	<u>-</u>	<u>(130,220)</u>
Net assets, end of year	<u>\$ 11,744</u>	<u>\$ 36,850</u>	<u>\$ 48,594</u>

See notes to financial statements and independent auditor's report.

SPACE 4 ART, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services	General and Administrative	Fundraising	Totals
Expenses:				
Rent	\$ 137,140	\$ -	\$ -	\$ 137,140
Salaries and related costs	62,202	27,322	28,504	118,028
Professional fees	44,556	8,883	-	53,439
Interest	26,517	3,624	-	30,141
Architectural fees	20,969	-	-	20,969
In-kind contribution expenses	15,692	718	3,314	19,724
Depreciation	8,222	730	-	8,952
Taxes	4,961	112	-	5,073
Insurance	3,574	-	-	3,574
Internet and telecommunications	2,547	-	-	2,547
Office supplies	1,964	324	-	2,288
Other expenses	1,406	(211)	515	1,710
Repairs and maintenance	1,623	-	-	1,623
Marketing	1,093	-	-	1,093
Travel and meetings	-	134	575	709
Total expenses	<u>\$ 332,466</u>	<u>\$ 41,636</u>	<u>\$ 32,908</u>	<u>\$ 407,010</u>

See notes to financial statements and independent auditor's report.

SPACE 4 ART, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash flows from operating activities:	
Change in net assets	\$ 178,814
Adjustments to reconcile change net assets to net cash provided by operations:	
Depreciation	8,952
Adjustments to reconcile excess of support	
Increase n accounts receivable	(25,489)
Decrease in prepaid expenses	(9,583)
Increase in accounts payable	(2,020)
Increase in deposits from tenants	(211)
Net cash provided by operating activities	<u>150,463</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(916)</u>
Net cash used in investing activities	<u>(916)</u>
Cash flows from financing activities:	
Payments on note payable	(350,000)
Proceeds from notes payable	<u>249,013</u>
Net cash used financing activities	<u>(100,987)</u>
Net increase in cash	48,560
Cash and cash equivalents, beginning of year	<u>115,261</u>
Cash and cash equivalents, end of year	<u>\$ 163,821</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest	<u>\$ 22,095</u>
In-Kind transactions	<u>\$ 19,724</u>

See notes to financial statements and independent auditor's report.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE A - ORGANIZATION

Organization's Activities

Space 4 Art, Inc., (The "Organization") is a 501(c)(3) non-profit Organization in San Diego, California. The Organization's mission is to establish a dynamic creative center where artists live, work, mentor youth, and interact with the community in an innovative and educational environment. The building used for its mission is rented and subleased to artists.

The Organization was established in 2009. Since that time, Space 4 Art, Inc., has engaged in ever-more innovative community outreach and creative place-making. In addition to providing live/work space and exhibiting the work of hundreds of artists over the years. Space 4 Art, Inc., has serviced the broader community through educational outreach programs with schools that serve historically disadvantaged students.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016 and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). ASC 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: These are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - (Continued)

Net assets with donor restrictions: These are net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

During the year, the Organization was approved for a loan of \$25,100 under the Paycheck Protection Program offered by the Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The loan was subsequently fully forgiven with the terms of which are dictated by the SBA and CARES Act guidelines. The Organization has elected to account for the loan as a conditional contribution in accordance with Subtopic ASC 958-605-55. As a result, the Organization recorded a total benefit of \$25,100 as grant revenue on the statement of activities for the year end December 31, 2020.

Donated Services and Goods

A number of individuals and entities have contributed significant amounts of their time and/or donated services to the Organization. The Organization recognizes donated services when they create or enhance a non-financial asset. The value of the services is based on average cost of similar services.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 on Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability 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. For all nonpublic and other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020. Early application of the amendments in this Update is permitted for all entities. The Organization is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Organization's results of operations, cash flows and financial condition.

In May 2014, the FASB issued a new standard related to revenue recognition, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The new revenue standard also requires that reporting entities disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the requirement of the new standard effective January 1, 2020. The results of applying ASC 606, using the modified retrospective approach, did not have a material impact on the financial statements.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Expenses

Functional expenses are those expenses incurred by the Organization in the accomplishment of its stated mission. The cost of providing the various program and other activities of the Organization have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. These statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses have been allocated on a reasonable basis and have been consistently applied. Personnel expenses are allocated on the basis of time and effort.

Cash and Cash Equivalents

Cash and cash equivalents include short-term highly liquid investments, such as certificates of deposit or money market funds that are readily convertible to known amounts of cash.

The Organization considers all short term investments with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Status

Space 4 Art, Inc., is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and related State of California code sections. The Organization files its Form 990, on the accrual basis of accounting, in the U.S. Federal jurisdiction and the State of California. The Organization's Form 990 is subject to examination by the Internal Revenue Service for three years after it was filed.

Management believes the Organization had no uncertain tax positions as of December 31, 2020.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property

Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful life of the assets. The Organization capitalizes fixed asset purchases over \$500.

Rental Income

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of activity due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense over the lease term on the same basis as the lease income.

Fair Value Measurements

The Organization defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE C - LAND

The Organization purchased land in 2012 located at 2529 Market St., San Diego, CA. The Organization intends to build an arts center complex. The project called "Space 4 Art's Permanent Home" will be a multi-disciplinary arts center where artists live, work, share their work, and provide project based STEAM (Science, Technology, Engineering, Arts, and Math) education for local schoolchildren in an innovative environment. During the year, a potential buyer of the land made an escrow deposit of \$125,000. The potential buyer rescinded the agreement, and the Organization retained the deposit. The deposit was recorded as other revenue in the statement of activities for the year ended December 31, 2020 and was used to make principal payments on notes payable.

NOTE D – Property, plant and equipment

Property, plant and equipment consist of the following at December 31, 2020:

Equipment	\$ 2,191
Building and improvements	58,077
Cost of depreciable assets	<u>60,268</u>
Less: accumulated depreciation	<u>(58,807)</u>
Net depreciable assets	1,461
Land	<u>354,835</u>
	<u>\$ 356,296</u>

Depreciation expense for the year ended December 31, 2020 was \$8,952.

NOTE E - NOTES PAYABLE

As of December 31, 2020, notes payable consisted of the following:

Note payable, secured by land. Monthly payments include interest only installments at 8%. All unpaid principal and interest is due September 30, 2022.	<u>\$ 225,000</u>
Total notes payable	<u>\$ 225,000</u>

NOTE F - NOTES PAYABLE - RELATED PARTY

Notes payable to Robert S. Leathers, president and co-founder of the Organization. The notes payable total \$273,806, has interest rates between 2.40% and 6% per annum. The notes are subordinated to the mortgage note in footnote E and is not due until March 1, 2023.

SPACE 4 ART, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE G - RELATED PARTY TRANSACTIONS

The lease agreement on the building used to sublease studios to artists shows Robert S. Leathers as the lessee. The Organization has a separate agreement with Robert S. Leathers for monthly lease payments \$11,300.

NOTE H - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Cash and cash equivalents	\$ 163,821
Account receivable	32,660
Prepaid expenses	<u>11,300</u>
	207,781
Less those unavailable for general expenditures due within one year due to donor restrictions:	(36,850)
Less current liabilities:	<u>(16,677)</u>
Financing assets available to meet cash for general expenditures within one year	<u>\$ 154,254</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.

NOTE I - SUBSEQUENT EVENTS

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread. Management is carefully monitoring the situation and evaluating its options on a daily basis. No adjustments have been made to these financial statements as a result of this uncertainty.

NOTE J - DATE OF MANAGEMENT'S REVIEW

Space 4 Art, Inc.'s management has evaluated its subsequent events through March 31, 2021, the date the financial statements were available to be issued.