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# **SPACE 4 ART, INC.**

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## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**DECEMBER 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying financial statements of Space 4 Art, Inc., a nonprofit organization, which comprise the statement of financial position as of December 31, 2022 and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Space 4 Art, Inc., as of December 31, 2022 and the results of earnings and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Space 4 Art, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note B to the financial statements, Space 4 Art, Inc. changed its method of accounting for leases on January 1, 2022 due to the adoption of Accounting Standards Codification ("ASC") 842, Leases. Our conclusion is not modified with respect to this matter.

### **Responsibilities of Management 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.

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 Space 4 Art, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

### **Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with 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 Space 4 Art, Inc.'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 Space 4 Art, Inc.'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.

Cambaliza McGee LLP  
Newport Beach, CA  
August 17, 2023

**SPACE 4 ART, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2022**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 219,827
Accounts receivables	86,638
Prepaid expenses	12,200
Right-of-use operating lease, current portion	<u>140,295</u>

TOTAL CURRENT ASSETS	<u>458,960</u>
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NON-CURRENT ASSETS:

Property, plant and equipment, net	354,835
Right-of-use operating lease asset, net	<u>232,203</u>

TOTAL NON-CURRENT ASSETS	<u>587,038</u>
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TOTAL ASSETS	<u><u>\$ 1,045,998</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 337
Deposits from tenants	15,179
Right-of-use lease liability, current portion	<u>142,309</u>

TOTAL CURRENT LIABILITIES	<u>157,825</u>
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NON-CURRENT LIABILITIES

Right-of-use lease liability	237,975
Note payable, net of discount	<u>481,432</u>

TOTAL NON-CURRENT LIABILITIES	<u>719,407</u>
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NET ASSETS:

With donor restrictions	55,415
Without donor restrictions	<u>113,351</u>

TOTAL NET ASSETS	<u>168,766</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,045,998</u></u>
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See notes to financial statements and independent auditor's report.

**SPACE 4 ART, INC.**  
**STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT:			
Rental income	\$ 170,704	\$ -	\$ 170,704
Grant revenue	200,966	62,500	263,466
Contributions	31,177	500	31,677
In-kind contributions	1,926	-	1,926
Other revenue	4,944	-	4,944
Net assets released from restrictions, satisfaction of program restrictions	<u>108,783</u>	<u>(108,783)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>518,500</u>	<u>(45,783)</u>	<u>472,717</u>
EXPENSES:			
Program services	317,390	-	317,390
General and administrative	45,427	-	45,427
Fundraising	<u>85,164</u>	<u>-</u>	<u>85,164</u>
TOTAL EXPENSES	<u>447,981</u>	<u>-</u>	<u>447,981</u>
CHANGE IN NET ASSETS	70,519	(45,783)	24,736
NET ASSETS, BEGINNING OF YEAR	<u>42,832</u>	<u>101,198</u>	<u>144,030</u>
NET ASSETS, END OF YEAR	<u>\$ 113,351</u>	<u>\$ 55,415</u>	<u>\$ 168,766</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, 2022**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
EXPENSES:				
General and administrative	\$ 10,013	\$ 5,546	\$ 17,281	\$ 32,840
Rent	152,901	-	-	152,901
Salaries and related costs	93,434	30,084	62,958	186,476
Imputed interest	27,852	-	-	27,852
Professional fees	3,180	7,000	4,925	15,105
Taxes	4,798	169	-	4,967
Insurance	3,461	1,053	-	4,514
Program expense	20,204	-	-	20,204
In-kind services	351	1,575	-	1,926
Event expense	1,196	-	-	1,196
	<u>\$ 317,390</u>	<u>\$ 45,427</u>	<u>\$ 85,164</u>	<u>\$ 447,981</u>
TOTAL EXPENSES	<u>\$ 317,390</u>	<u>\$ 45,427</u>	<u>\$ 85,164</u>	<u>\$ 447,981</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, 2022**

CASH FLOW FROM OPERATING ACTIVITIES:

Change in net assets	\$ 24,736
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	731
Imputed interest	27,852
Decrease (increase) in accounts receivable	(67,525)
Decrease (increase) in prepaid expenses	(900)
Decrease (increase) in right-of-use operating lease, net	(372,498)
(Decrease) increase in accounts payable	281
(Decrease) increase in deposits from tenants	(135)
(Decrease) increase in operating lease liability	<u>380,284</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(7,174)</u>
NET DECREASE IN CASH	(7,174)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>227,001</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 219,827</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
In-kind transactions	<u><u>\$ 1,926</u></u>

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



**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE A – ORGANIZATION**

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/workspace 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 ("GAAP"). 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.

**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.

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

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.

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.

Measure of Operations

The statement of activities report 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.

Recently Adopted Accounting Pronouncements

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 statement of activities.

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Recently Adopted Accounting Pronouncements – (Continued)

For all nonpublic and other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2021.

The Organization adopted the new standard effective January 1, 2022 and elected to apply the transition provisions that allow to carry forward the historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. In addition, the Organization elected the practical expedient that allows lessees the option to account for lease and non-lease components together as a single component for all classes of underlying assets. The Organization also elected to use the risk-free rate as the discount rate in circumstances where the implicit lease rate is not determinable.

As a result of the adoption, the Organization recorded a right-of-use asset of and lease liability of \$508,419, as of January 1, 2022. The adoption of ASU 2016-02 had no impact on net assets.

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.

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Use of Estimates

The preparation of financial statements in conformity GAAP 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, 2022.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful life of the assets. The Organization capitalizes property, plant and equipment 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 activities 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.

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Fair Value Measurements – (Continued)

- 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.

**NOTE C – LAND**

The Organization purchased land in 2012 located at 2529 Market Street, San Diego, California. The Organization initially intended to build an arts center complex on this land. 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. Due to the lack of the additional capital required to develop the complex, the Board of Directors (the "Board") approved to sell the land and use the proceeds towards the purchase, build-out and administration of a new property. The land was initially held for sale but has been taken off the market as of December 31, 2022. The Board is currently exploring options for a partnership to develop the land on-site.

**NOTE D – PROPERTY, PLANT, AND EQUIPMENT**

Property, plant and equipment consist of the following as of December 31, 2022:

Equipment	\$ 1,666
Building and improvements	<u>58,077</u>
Cost of depreciable assets	59,743
Less: accumulated depreciation	<u>(59,743)</u>
Net depreciable assets	-
Land	<u>354,835</u>
	<u>\$ 354,835</u>

Depreciation expense for the year ended December 31, 2022 was \$731.

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE E – NOTE PAYABLE**

Notes payable consists of a \$500,000 note payable from Mission Driven Finance. Terms include 0% interest and a principal payment of \$500,000 due on September 1, 2023. The Organization recorded a discount on the note payable of \$46,420 to account for imputed interest. Imputed interest for the year ended December 31, 2022 totaled \$27,852. The note payable balance net of the discount was \$481,432 as of December 31, 2022.

On July 26, 2023, the Organization signed an offer sheet to refinance the Mission Driven Finance note payable with Civic Community Partners. Terms include 8% interest and a balloon payment of the outstanding balance due on July 1, 2026.

**NOTE F – LEASES**

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 escalating monthly lease payments between \$11,300 and \$13,800 through July 31, 2025.

As the Organization's operating lease does not provide an implicit rate, the Organization uses the risk-free rate based on the information available at commencement date in determining the present value of lease payments. Operating fixed lease expense is recognized on a straight-line basis over the lease term.

For the year ended December 31, 2022, operating lease costs totaled \$152,901.

As of December 31, 2022, information related to operating leases was as follows:

Operating lease right-of-use assets	<u>\$ 372,498</u>
Current portion of operating lease liability	\$ 142,309
Operating lease liability, net of current portion	<u>\$ 237,975</u>
Total operating lease liability	<u>\$ 380,284</u>

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE F – LEASES – (CONTINUED)**

For the year ended December 31, 2022, supplemental cash flow information related to leases was as follows:

Cash paid for amounts included in the measurement of operating lease liability	\$ 142,800
Right-of-use assets obtained in exchange for new operating lease liability	\$ 508,419

The aggregate future lease payments for operating leases as of December 31, 2022 are as follows:

2023	\$ 152,600
2024	161,400
2025	<u>82,800</u>
Total lease payments	396,800
Less imputed interest	<u>(16,516)</u>
Total operating lease liability	<u>\$ 380,284</u>

**NOTE G – 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	\$ 219,827
Account receivable	86,638
Prepaid expenses	12,200
Right-of-use operating lease, current portion	<u>140,295</u>
	458,960
Less those unavailable for general expenditures due within one year due to donor restrictions:	(55,415)
Less current liabilities:	<u>(157,825)</u>
Financing assets available to meet cash for general expenditures within one year	<u><u>\$ 245,720</u></u>

**SPACE 4 ART, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE G – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS – (CONTINUED)**

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 H – NET ASSETS WITH DONOR RESTRICTIONS**

Donor restricted net assets as of December 31, 2022, consist of the following:

Capacity building program	\$ 30,105
Arts education program	<u>25,310</u>
Total	<u>\$ 55,415</u>

**NOTE I – DATE OF MANAGEMENT'S REVIEW**

Management has evaluated subsequent events through the date that the financial statements were available to be issued on August 17, 2023.