



**FINANCIAL REPORT  
JUNE 30, 2020 AND 2019**

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## **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 which comprise the statements of financial position as of June 30, 2020 and 2019, 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 P.S. ARTS'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 P.S. ARTS'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, 2020 and 2019, 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.

*Singer Lewak LLP*

September 10, 2020

**P.S. ARTS**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2020 and 2019**

**ASSETS**

	<u>2020</u>	<u>2019</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 581,764	\$ 380,185
Investments	1,400,030	1,176,013
Contributions and accounts receivable	1,005,136	399,768
Prepaid expenses and other current assets	<u>59,256</u>	<u>114,224</u>
Total current assets	<u>3,046,186</u>	<u>2,070,190</u>
<b>Noncurrent assets</b>		
Property and equipment, net	50,146	62,084
Security deposit	40,080	46,000
Endowment assets	<u>2,555,915</u>	<u>2,590,806</u>
Total noncurrent assets	<u>2,646,141</u>	<u>2,698,890</u>
<b>Total assets</b>	<b><u>\$ 5,692,327</u></b>	<b><u>\$ 4,769,080</u></b>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 172,077	\$ 160,813
Deferred revenue	15,000	91,290
Grant advance	<u>568,800</u>	<u>-</u>
Total current liabilities	755,877	252,103
<b>Deferred rent incentive</b>	<u>19,763</u>	<u>33,164</u>
Total liabilities	<u>775,640</u>	<u>285,267</u>
<b>Net assets</b>		
Without donor restrictions		
Undesignated	331,749	438,700
Board designated	<u>1,271,308</u>	<u>1,271,308</u>
Total without donor restrictions	<u>1,603,057</u>	<u>1,710,008</u>
With donor restrictions	<u>3,313,630</u>	<u>2,773,805</u>
Total net assets	<u>4,916,687</u>	<u>4,483,813</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 5,692,327</u></b>	<b><u>\$ 4,769,080</u></b>

See notes to financial statements.

**P.S. ARTS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, support, and gains</b>			
Contributions	\$ 1,530,246	\$ 735,216	\$ 2,265,462
School program income	1,459,941	-	1,459,941
Special events, net of direct benefits to donors of \$272,943	56,419	-	56,419
In-kind contributions	25,000	-	25,000
Net investment return	16,021	25,109	41,130
Net assets released from restrictions	220,500	(220,500)	-
	<u>3,308,127</u>	<u>539,825</u>	<u>3,847,952</u>
<b>Expenses</b>			
Program services	2,514,046	-	2,514,046
General and administrative	364,157	-	364,157
Fundraising	536,875	-	536,875
	<u>3,415,078</u>	<u>-</u>	<u>3,415,078</u>
<b>Change in net assets</b>	(106,951)	539,825	432,874
<b>Net assets, beginning of year</b>	<u>1,710,008</u>	<u>2,773,805</u>	<u>4,483,813</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,603,057</u></u>	<u><u>\$ 3,313,630</u></u>	<u><u>\$ 4,916,687</u></u>

See notes to 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)	-
	<u>4,028,506</u>	<u>2,325</u>	<u>4,030,831</u>
<b>Expenses</b>			
Program services	2,607,212	-	2,607,212
General and administrative	333,998	-	333,998
Fundraising	523,758	-	523,758
	<u>3,464,968</u>	<u>-</u>	<u>3,464,968</u>
<b>Change in net assets</b>	563,538	2,325	565,863
<b>Net assets, beginning of year</b>	<u>1,146,470</u>	<u>2,771,480</u>	<u>3,917,950</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,710,008</u></u>	<u><u>\$ 2,773,805</u></u>	<u><u>\$ 4,483,813</u></u>

See notes to financial statements.

**P.S. ARTS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2020**

	Program Services	General and Administrative	Fundraising	Cost of Goods Sold	Total
Salaries, taxes, and benefits	\$ 2,316,851	\$ 251,732	\$ 429,324	\$ -	\$ 2,997,907
Art supplies	46,554	203	167	-	46,924
Community outreach	13,107	3,240	-	-	16,347
Depreciation	8,165	1,530	2,243	-	11,938
Faculty development	5,833	858	-	-	6,691
Insurance	5,744	12,879	-	-	18,623
Occupancy	103,776	30,834	61,289	-	195,899
Office	11,615	16,964	22,108	-	50,687
Other	299	7,450	15,042	-	22,791
Professional services	-	31,304	3,800	-	35,104
Cost of direct benefits to donors	-	-	-	272,943	272,943
Travel	2,102	7,163	2,902	-	12,167
Total expenses by function	2,514,046	364,157	536,875	272,943	3,688,021
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	-	(272,943)	(272,943)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 2,514,046</b>	<b>\$ 364,157</b>	<b>\$ 536,875</b>	<b>\$ -</b>	<b>\$ 3,415,078</b>

See notes to financial statements.

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

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

See notes to financial statements.

**P.S. ARTS**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Cash flow from operating activities</b>		
Change in net assets	\$ 432,874	\$ 565,863
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	11,938	16,372
Net gain on investments	(16,022)	(17,078)
Net (gain) loss on endowment investments	75,046	(34,991)
Deferred rent incentive	(13,401)	7,385
Changes in operating assets and liabilities:		
Contributions and accounts receivable	(605,368)	(152,084)
Prepaid expenses and other current assets	54,968	(59,883)
Security deposits	5,920	59,634
Accounts payable and accrued expenses	11,264	(13,175)
Deferred revenue	<u>(76,290)</u>	<u>91,290</u>
Net cash (used in) provided by operating activities	<u>(119,071)</u>	<u>463,333</u>
<b>Cash flows from investing activities</b>		
Purchases of endowment securities	(1,995,742)	(283,793)
Proceeds from sale of endowment investments	2,025,204	61,948
Purchase of investment securities	(858,000)	(975,000)
Proceeds from sale of investment securities	650,000	51,000
Reinvested interest and dividends	<u>(69,612)</u>	<u>103,653</u>
Net cash used in investing activities	<u>(248,150)</u>	<u>(1,042,192)</u>
<b>Cash flows from financing activities</b>		
Proceeds from note payable	568,800	-
Collection of contributions received for endowment	<u>-</u>	<u>(25,449)</u>
Net cash provided by (used in) financing activities	<u>568,800</u>	<u>(25,449)</u>
<b>Net change in cash and cash equivalents</b>	201,579	(604,308)
<b>Cash and cash equivalents, beginning of year</b>	<u>380,185</u>	<u>984,493</u>
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 581,764</b></u>	<u><b>\$ 380,185</b></u>

See notes to financial statements.

## **NOTE 1 – ORGANIZATION**

P.S. ARTS is a nonprofit California organization 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, P.S. ARTS provides high-quality arts education to nearly 25,000 students in 57 underserved schools across Los Angeles County and California's Central Valley.

P.S. ARTS 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 P.S. ARTS, 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

P.S. ARTS 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

P.S. ARTS 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.

P.S. ARTS 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, 2020 and 2019, P.S. ARTS deemed no allowance was required.

Investments

P.S. ARTS 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.

**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. P.S. ARTS did not recognize any impairment of long-lived asset losses in the years ended June 30, 2020 and 2019, respectively.

Deferred Rent Incentive

P.S. ARTS 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 P.S. ARTS. The governing board has designated, from its net assets without donor restrictions, net assets for a board-designated operating reserve.
- 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 P.S. ARTS 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.

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 P.S. ARTS. 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. P.S. ARTS recognizes all in-kind contributions at fair value on the date of donation. During the years ended June 30, 2020 and 2019, contributed services amounted to \$25,000.

Income Taxes

P.S. ARTS 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 P.S. ARTS, and has concluded that, as of June 30, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. P.S. ARTS 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

P.S. ARTS reports certain assets at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

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, 2020 and 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent. All of P.S. ARTS investment assets are classified within Level 1, because they are valued primarily using quoted market prices utilizing market-observable inputs.

P.S. ARTS level 1 investments consist of the following:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Highly liquid investments	\$ 1,429,617	\$ 1,195,365
Stocks and stock funds	1,635,447	1,416,728
Bond funds	831,554	882,425
Closed-end funds	<u>37,972</u>	<u>247,813</u>
	<u><b>\$ 3,934,590</b></u>	<u><b>\$ 3,742,331</b></u>

Highly liquid investments in the amount of \$1,271,308 and have been designated by the board for an operating reserve for both years ending June 30, 2020 and 2019.

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

Estimated Fair Value of Financial Instruments (Continued)

In accordance with U.S. GAAP, P.S. ARTS classified all its cash and cash equivalents, investments and endowment restricted investments as Level 1 as of June 30, 2020 and 2019, respectively. Financial instruments included in P.S. ARTS'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.

Financial Instruments and Credit Risk

Financial instruments that potentially expose P.S. ARTS to concentrations of credit risk consist primarily of cash, money market accounts and accounts and contributions receivable. P.S. ARTS 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, P.S. ARTS has not experienced losses in any of these accounts.

Investments are made by P.S. ARTS 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 P.S. ARTS.

Recently Adopted Accounting Pronouncements

During the year ended June 30, 2020, P.S. Arts adopted 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. P.S. Arts adopted this ASU using the modified retrospective approach. The adoption of this ASU did not have a material effect on the financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective, and permits the use of either a full retrospective, or retrospective with cumulative effect, transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2015-14 one year, making it effective for annual reporting periods beginning after December 15, 2020. Management has not yet selected a transition method and is currently evaluating the effect that the standard 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. ASU 2016-02, as deferred one year by ASU 2020-05, will be effective for years beginning after December 15, 2021. 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 November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which delays the effective date of ASU 2016-13 for certain entities. The new standard is effective for years beginning after December 15, 2022, including interim periods within those 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 is currently evaluating the impact on the financial statements.

**NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES**

As of June 30, 2020, the following table reflects P.S. ARTS'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.

	<u><b>2020</b></u>	<u><b>2019</b></u>
Cash and cash equivalents	\$ 581,764	\$ 380,185
Investments	1,400,030	1,176,013
Contributions and accounts receivable	<u>1,005,136</u>	<u>399,768</u>
Total financial assets	2,986,930	1,955,966
Board-designated operating reserve	<u>(1,271,308)</u>	<u>(1,271,308)</u>
Financial assets available to meet general expenditures within one year	<u><b>\$ 1,715,622</b></u>	<u><b>\$ 684,658</b></u>

**NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES (Continued)**

P.S. ARTS 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. P.S. ARTS 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.

**NOTE 4 – PROPERTY AND EQUIPMENT**

As of June 30, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
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	<u>15,000</u>	<u>15,000</u>
	335,634	335,634
Less accumulated depreciation	<u>(285,488)</u>	<u>(273,550)</u>
	<u><b>\$ 50,146</b></u>	<u><b>\$ 62,084</b></u>

**NOTE 5 – GRANT ADVANCE**

On April 20, 2020, P.S. ARTS received a loan from a bank totaling \$568,800 under the SBA's Paycheck Protection Program (PPP), as authorized under the CARES Act. P.S. ARTS will use the PPP loan proceeds for eligible costs that should result in forgiveness of the PPP loan. The PPP loan bears interest at 1.0% and will mature on April 20, 2022. As P.S. ARTS fully expects to meet the eligibility requirements for forgiveness of the loan and, management has recorded the loan as a grant advance.

**P.S. ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

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**NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS**

As of June 30, 2020 and 2019, net assets with donor restrictions are restricted for the following purposes or periods:

	<u><b>2020</b></u>	<u><b>2019</b></u>
<i>Subject to expenditure for specified purpose</i>		
Classroom studio	\$ 268,400	\$ 50,000
Extended learning	145,065	14,400
Other	<u>54,250</u>	<u>68,600</u>
	467,715	133,000
<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	290,000	50,000
<i>Subject to P.S. ARTS's spending policy and appropriation</i>		
Endowment funds restricted in perpetuity	2,040,809	2,040,809
Unappropriated endowment earnings	<u>515,106</u>	<u>549,996</u>
	<u>2,555,915</u>	<u>2,590,805</u>
<b>Total net assets with donor restrictions</b>	<b><u>\$ 3,313,630</u></b>	<b><u>\$ 2,773,805</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 as follows for the years ended June 30, 2020 and 2019:

	<u><b>2020</b></u>	<u><b>2019</b></u>
<i>Satisfaction of purpose restrictions</i>		
Classroom studio	\$ 50,000	\$ 195,300
Extended learning	14,400	30,000
Other	<u>46,100</u>	<u>83,220</u>
	110,500	308,520
<i>Satisfaction of time restrictions</i>	50,000	-
<i>Endowment earnings appropriated</i>	<u>60,000</u>	<u>-</u>
	<b><u>\$ 220,500</u></b>	<b><u>\$ 308,520</u></b>

**NOTE 7 – ENDOWMENT**

P.S. ARTS's 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 P.S. ARTS 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, P.S. ARTS 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 P.S. ARTS in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, P.S. ARTS 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 P.S. ARTS 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 P.S. ARTS
- (7) The investment policies of P.S. ARTS

As of June 30, 2020 and 2019, endowment net assets with donor restrictions composition by type of fund are as follows:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Original donor-restricted gift	\$ 2,019,454	\$ 2,016,322
Accumulated investment gains	515,106	549,996
Contributions receivable	<u>21,355</u>	<u>24,488</u>
	<u><b>\$ 2,555,915</b></u>	<u><b>\$ 2,590,806</b></u>

**NOTE 7 – 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 P.S. ARTS to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2020 and 2019, there were no deficiencies of this nature.

Investment and Spending Policies

P.S. ARTS 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. P.S. ARTS 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, P.S. ARTS 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). P.S. ARTS targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

P.S. ARTS 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 P.S. ARTS'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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 2,590,806	\$ 2,462,960
Net investment return	25,109	140,606
Endowment contributions	-	189
Loss on uncollectible endowment receivable	-	(12,950)
Appropriation of endowment assets pursuant to spending rate policy	<u>(60,000)</u>	<u>-</u>
	<b><u>\$ 2,555,915</u></b>	<b><u>\$ 2,590,805</u></b>

**NOTE 8 – OPERATING LEASE**

P.S. ARTS leases its office space under a non-cancellable lease which requires minimum escalating monthly payments of \$12,742 and expires on July 31, 2021.

Future minimum lease payments are as follows:

Years Ending June 30, _____	
2021	\$ 154,441
2022	<u>13,126</u>
<b>Total</b>	<b><u>\$ 167,567</u></b>

**NOTE 9 – RELATED PARTY TRANSACTIONS**

P.S. ARTS receives donations from its Board of Trustees, members and other related parties throughout the year. For the years ended June 30, 2020 and 2019, P.S. ARTS received \$185,834 and \$165,760, respectively, of contributions including special events donations, merchandise sales, board member fees and other promises to give from related parties. As of June 30, 2020 and 2019, \$16,355 and \$19,238 of these donations from related parties, respectively, are outstanding and are included as contributions receivable in the accompanying statements of financial position.

For the years ended June 30, 2020 and 2019, P.S. ARTS purchased event-related services from companies owned by two members of the Board of Trustees totaling \$184,570 and \$193,245, respectively.

**NOTE 10 – SUBSEQUENT EVENTS**

Management evaluated all activity through September 10, 2020 (the date the financial statements were available for issuance).