



**FINANCIAL REPORT
JUNE 30, 2021**

Page

INDEPENDENT AUDITOR'S REPORT

1 – 2

FINANCIAL STATEMENTS

Statements of Financial Position

3

Statements of Activities

4 – 5

Statements of Functional Expenses

6 – 7

Statements of Cash Flows

8

Notes to Financial Statements

9 – 20

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, 2021 and 2020, 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, 2021 and 2020, 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 8, 2021

P.S. ARTS
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

ASSETS		
	2021	2020
Current assets		
Cash and cash equivalents	\$ 250,735	\$ 581,764
Investments	2,120,735	1,400,030
Contributions and accounts receivable	600,089	1,005,136
Prepaid expenses and other current assets	42,523	59,256
Total current assets	<u>3,014,082</u>	<u>3,046,186</u>
Noncurrent assets		
Property and equipment, net	41,632	50,146
Security deposit	44,803	40,080
Endowment assets	3,281,324	2,555,915
Total noncurrent assets	<u>3,367,759</u>	<u>2,646,141</u>
Total assets	<u>\$ 6,381,841</u>	<u>\$ 5,692,327</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 202,562	\$ 172,077
Deferred revenue	-	15,000
Grant advance	568,800	568,800
Total current liabilities	771,362	755,877
Deferred rent incentive	<u>-</u>	<u>19,763</u>
Total liabilities	<u>771,362</u>	<u>775,640</u>
Net assets		
Without donor restrictions		
Undesignated	741,059	331,749
Board designated	1,271,308	1,271,308
Total without donor restrictions	2,012,367	1,603,057
With donor restrictions	<u>3,598,112</u>	<u>3,313,630</u>
Total net assets	<u>5,610,479</u>	<u>4,916,687</u>
Total liabilities and net assets	<u>\$ 6,381,841</u>	<u>\$ 5,692,327</u>

See notes to financial statements.

P.S. ARTS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
Contributions	\$ 1,809,636	\$ 136,789	\$ 1,946,425
School program income	735,729	-	735,729
Special events, net of direct benefits to donors of \$18,360	85,089	-	85,089
In-kind contributions	22,200	-	22,200
Net investment return	706	730,409	731,115
Net assets released from restrictions	582,716	(582,716)	-
	<u>3,236,076</u>	<u>284,482</u>	<u>3,520,558</u>
Expenses			
Program services	2,027,313	-	2,027,313
General and administrative	297,195	-	297,195
Fundraising	502,258	-	502,258
	<u>2,826,766</u>	<u>-</u>	<u>2,826,766</u>
Change in net assets	409,310	284,482	693,792
Net assets, beginning of year	<u>1,603,057</u>	<u>3,313,630</u>	<u>4,916,687</u>
Net assets, end of year	<u><u>\$ 2,012,367</u></u>	<u><u>\$ 3,598,112</u></u>	<u><u>\$ 5,610,479</u></u>

See notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
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	<u>220,500</u>	<u>(220,500)</u>	<u>-</u>
 Total revenue, support, and gains	 <u>3,308,127</u>	 <u>539,825</u>	 <u>3,847,952</u>
Expenses			
Program services	2,514,046	-	2,514,046
General and administrative	364,157	-	364,157
Fundraising	<u>536,875</u>	<u>-</u>	<u>536,875</u>
 Total expenses	 <u>3,415,078</u>	 <u>-</u>	 <u>3,415,078</u>
 Change in net assets	 (106,951)	539,825	432,874
 Net assets, beginning of year	 <u>1,710,008</u>	 <u>2,773,805</u>	 <u>4,483,813</u>
 Net assets, end of year	 <u>\$ 1,603,057</u>	 <u>\$ 3,313,630</u>	 <u>\$ 4,916,687</u>

See notes to financial statements.

P.S. ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Program Services	General and Administrative	Fundraising	Cost of Goods Sold	Total
Salaries, taxes, and benefits	\$ 1,641,352	\$ 199,971	\$ 409,813	\$ -	\$ 2,251,136
Art supplies	118,658	318	28	-	119,004
Community outreach	1,420	12	-	-	1,432
Depreciation	7,995	747	1,113	-	9,855
Faculty development	18,811	-	-	-	18,811
Insurance	4,832	10,674	-	-	15,506
Occupancy	114,525	28,060	52,853	-	195,438
Office	65,080	24,649	22,464	-	112,193
Other	4,045	446	12,677	-	17,168
Professional services	34,000	29,088	3,160	-	66,248
Program Evaluation	14,891	-	-	-	14,891
Cost of direct benefits to donors	-	-	-	18,360	18,360
Travel	1,704	3,230	150	-	5,084
Total expenses by function	2,027,313	297,195	502,258	18,360	2,845,126
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	-	(18,360)	(18,360)
Total expenses included in the expense section on the statement of activities	\$ 2,027,313	\$ 297,195	\$ 502,258	\$ -	\$ 2,826,766

See notes to financial statements.

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

	Program Services	Management and General	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)
Total expenses included in the expense section on the statement of activities	\$ 2,514,046	\$ 364,157	\$ 536,875	\$ -	\$ 3,415,078

See notes to financial statements.

P.S. ARTS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flow from operating activities		
Change in net assets	\$ 693,792	\$ 432,874
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	9,855	11,938
Net gain on investments	(706)	(16,022)
Net (gain) loss on endowment investments	(647,245)	75,046
Deferred rent incentive	(19,763)	(13,401)
Loss on uncollectible contributions	9,000	-
PPP loan forgiven	(568,800)	-
Changes in operating assets and liabilities:		
Contributions and accounts receivable	401,047	(605,368)
Prepaid expenses and other current assets	16,733	54,968
Security deposits	(4,723)	5,920
Accounts payable and accrued expenses	30,485	11,264
Deferred revenue	(15,000)	(76,290)
Net cash used in operating activities	(95,325)	(119,071)
Cash flows from investing activities		
Purchases of endowment securities	(1,053,951)	(1,995,742)
Proceeds from sale of endowment investments	995,607	2,025,204
Purchase of investment securities	(1,470,000)	(858,000)
Proceeds from sale of investment securities	750,000	650,000
Reinvested interest and dividends	(24,819)	(69,612)
Purchase of equipment	(1,341)	-
Net cash used in investing activities	(804,504)	(248,150)
Cash flows from financing activities		
Proceeds from grant advance	568,800	568,800
Net cash provided by financing activities	568,800	568,800
Net change in cash and cash equivalents	(331,029)	201,579
Cash and cash equivalents, beginning of year	581,764	380,185
Cash and cash equivalents, end of year	\$ 250,735	\$ 581,764

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 artmaking 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).

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, 2021 and 2020, 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, 2021 and 2020, respectively.

Grant Advance

During the years ended June 30, 2021 and 2020, P.S. ARTS was granted two loans, each totaling \$568,000, under the SBA's Paycheck Protection Program (PPP), as authorized under the CARES Act. The loans are uncollateralized and fully guaranteed by the federal government. P.S. ARTS is eligible for loan forgiveness up to 100% of the loan, upon meeting certain requirements. P.S. ARTS has initially recorded the loans as a grant advance and will record the forgiveness in accordance with guidance for unconditional contributions when there is no longer a measurable performance or other barrier and right to return of PPP loan or when such conditions are explicitly waived.

The first draw PPP loan was fully forgiven on December 17, 2020 and the corresponding income is included on the statement of activities as contribution revenue. The second draw PPP loan will mature on February 11, 2026. As P.S. ARTS expects to meet the eligibility requirements for forgiveness of the loan, management has recorded the loan as a grant advance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

P.S. ARTS records the following types of contributions as revenue under FASB ASC 958-605 when they are received unconditionally at their estimated fair value: cash, securities, promises to give (pledges), and gifts of long lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Revenue from government grants and contracts is recognized as it is earned through expenditures in accordance with the agreements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020, contributed services amounted to \$22,200 and \$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, 2021 and 2020, 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments (Continued)

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, 2021 and 2020, 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>2021</u>	<u>2020</u>
Highly liquid investments	\$ 2,160,840	\$ 1,429,616
Stocks and stock funds	2,235,528	1,635,447
Bond funds	891,076	831,554
Closed-end funds	<u>98,260</u>	<u>37,972</u>
	<u>\$ 5,385,704</u>	<u>\$ 3,934,590</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, 2021 and 2020.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainties

The COVID-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, which may have an impact on P.S. ARTS's operations. P.S. ARTS expects uncertainties to continue to evolve depending on the duration and degree of impact associated with the COVID-19 pandemic. P.S. ARTS is closely monitoring its liquidity and actively working to minimize the impact of the pandemic on its operations.

Recently Adopted Accounting Pronouncements

During the year ended June 30, 2021, P.S. Arts adopted 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. 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 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 September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. These presentation changes include: 1) Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and 2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets with additional disclosures for each category presented. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The new standard is effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the impact on the financial statements.

P.S. ARTS
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2021 and 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 250,735	\$ 581,764
Investments	2,120,735	1,400,030
Contributions and accounts receivable	<u>600,089</u>	<u>1,005,136</u>
Total financial assets	2,971,559	2,986,930
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>\$ 1,700,251</u>	<u>\$ 1,715,622</u>

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, 2021 and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Portable classroom	\$ 116,500	\$ 116,500
Musical instruments	89,969	89,969
Computers and software	89,372	88,046
Office equipment	26,119	26,119
Website	<u>15,000</u>	<u>15,000</u>
	336,960	335,634
Less accumulated depreciation	<u>(295,328)</u>	<u>(285,488)</u>
	<u>\$ 41,632</u>	<u>\$ 50,146</u>

P.S. ARTS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2021 and 2020, net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
<i>Subject to expenditure for specified purpose</i>		
Classroom studio	\$ 150,000	\$ 268,400
Extended learning	73,424	145,065
Other	<u>13,366</u>	<u>54,250</u>
	236,790	467,715
<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	80,000	290,000
<i>Subject to P.S. ARTS's spending policy and appropriation</i>		
Endowment funds restricted in perpetuity	2,035,809	2,040,809
Unappropriated endowment earnings	<u>1,245,513</u>	<u>515,106</u>
	<u>3,281,322</u>	<u>2,555,915</u>
Total net assets with donor restrictions	<u>\$ 3,598,112</u>	<u>\$ 3,313,630</u>

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<i>Satisfaction of purpose restrictions</i>		
Classroom studio	\$ 118,400	\$ 50,000
Extended learning	145,066	14,400
Other	<u>54,250</u>	<u>46,100</u>
	317,716	110,500
<i>Satisfaction of time restrictions</i>	260,000	50,000
Loss on uncollectible endowment receivable	5,000	-
Endowment earnings appropriated	<u>-</u>	<u>60,000</u>
	<u>\$ 582,716</u>	<u>\$ 220,500</u>

NOTE 6 – 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, 2021 and 2020, endowment net assets with donor restrictions composition by type of fund are as follows:

	<u>2021</u>	<u>2020</u>
Original donor-restricted gift	\$ 2,019,454	\$ 2,019,454
Accumulated investment gains	1,245,513	515,106
Contributions receivable	<u>16,355</u>	<u>21,355</u>
	<u>\$ 3,281,322</u>	<u>\$ 2,555,915</u>

NOTE 6 – 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, 2021 and 2020, 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 2,555,915	\$ 2,590,806
Net investment return	730,409	25,109
Loss on uncollectible endowment receivable	(5,000)	-
Appropriation of endowment assets pursuant to spending rate policy	-	(60,000)
	<u>\$ 3,281,322</u>	<u>\$ 2,555,915</u>

NOTE 7 – 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, 2021 and 2020, P.S. ARTS received \$63,974 and \$185,834, respectively, of contributions including special events donations, merchandise sales, board member fees and other promises to give from related parties. As of June 30, 2021 and 2020, \$16,355 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, 2021 and 2020, P.S. ARTS purchased event-related services from companies owned by two members of the Board of Trustees totaling \$0 and \$184,570, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Management evaluated all activity through September 8, 2021 (the date the financial statements were available to be issued).