



**FINANCIAL REPORT
JUNE 30, 2023**

P.S. ARTS
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
P.S. ARTS

Opinion

We have audited the financial statements of P.S. ARTS, which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of P.S. ARTS as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits 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 P.S. ARTS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits, relevant ethical requirements in the United States of America. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about P.S. ARTS's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 is 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 P.S. ARTS'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 P.S. ARTS'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.

Singer Lewak LLP

September 21, 2023

P.S. ARTS
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

ASSETS

	2023	2022
Current assets		
Cash and cash equivalents	\$ 794,148	\$ 745,227
Investments	2,944,585	2,454,237
Contributions receivable	2,203,505	572,598
Accounts receivable	237,686	86,706
Prepaid expenses and other current assets	29,344	36,880
Total current assets	6,209,268	3,895,648
Noncurrent assets		
Property and equipment, net	38,243	46,491
Security deposits	25,479	48,373
Endowment assets	2,983,591	2,712,839
Total noncurrent assets	3,047,313	2,807,703
Total assets	\$ 9,256,581	\$ 6,703,351

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	238,810	234,336
Total liabilities	238,810	234,336
Net assets		
Without donor restrictions		
Undesignated	1,658,877	1,691,468
Board designated	2,070,000	1,670,000
Total without donor restrictions	3,728,877	3,361,468
With donor restrictions	5,288,894	3,107,547
Total net assets	9,017,771	6,469,015
Total liabilities and net assets	\$ 9,256,581	\$ 6,703,351

See notes to financial statements.

P.S. ARTS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
Contributions	\$ 2,397,524	\$ 2,258,008	\$ 4,655,532
School program income	2,089,411	-	2,089,411
Special events, net	94,007	-	94,007
In-kind contributions	74,224	-	74,224
Net investment return	90,498	270,752	361,250
Net assets released from restrictions	347,413	(347,413)	-
Total revenue, support, and gains	5,093,077	2,181,347	7,274,424
Expenses			
Program services	3,531,609	-	3,531,609
General and administrative	519,118	-	519,118
Fundraising	674,941	-	674,941
Total expenses	4,725,668	-	4,725,668
Change in net assets	367,409	2,181,347	2,548,756
Net assets, beginning of year	3,361,468	3,107,547	6,469,015
Net assets, end of year	\$ 3,728,877	\$ 5,288,894	\$ 9,017,771

See notes to financial statements.

P.S. ARTS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support, and gains			
Contributions	\$ 3,068,461	\$ 294,766	\$ 3,363,227
School program income	1,669,311	-	1,669,311
Special events, net	81,123	-	81,123
In-kind contributions	15,000	-	15,000
Net investment return (loss)	3,503	(448,542)	(445,039)
Net assets released from restrictions	336,789	(336,789)	-
Total revenue, support, and gains	5,174,187	(490,565)	4,683,622
Expenses			
Program services	2,874,632	-	2,874,632
General and administrative	398,135	-	398,135
Fundraising	552,319	-	552,319
Total expenses	3,825,086	-	3,825,086
Change in net assets	1,349,101	(490,565)	858,536
Net assets, beginning of year	2,012,367	3,598,112	5,610,479
Net assets, end of year	\$ 3,361,468	\$ 3,107,547	\$ 6,469,015

See notes to financial statements.

P.S. ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023

	Program Services	General and Administrative	Fundraising	Cost of Direct Benefits to Donors	Total
Salaries, taxes, and benefits	\$ 3,186,585	\$ 327,519	\$ 459,288	\$ -	\$ 3,973,392
Art supplies	146,667	-	-	-	146,667
Community outreach	8,220	-	-	-	8,220
Depreciation	8,962	1,617	868	-	11,447
Faculty development	23,507	-	-	-	23,507
Insurance	239	37,849	-	-	38,088
Occupancy	40,206	12,768	19,130	-	72,104
Office	24,495	58,475	49,343	-	132,313
Other	(613)	4,723	46,427	-	50,537
Professional services	86,589	53,014	89,841	-	229,444
Production and venue	-	-	-	259,915	259,915
Travel	6,752	23,153	10,044	-	39,949
Total expenses by function	3,531,609	519,118	674,941	259,915	4,985,583
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	-	(259,915)	(259,915)
Total expenses included in the expense section on the statement of activities	\$ 3,531,609	\$ 519,118	\$ 674,941	\$ -	\$ 4,725,668

See notes to financial statements.

P.S. ARTS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program Services	General and Administrative	Fundraising	Cost of Direct Benefits to Donors	Total
Salaries, taxes, and benefits	\$ 2,538,188	\$ 224,844	\$ 477,551	\$ -	\$ 3,240,583
Art supplies	172,706	-	889	-	173,595
Community outreach	953	-	294	-	1,247
Depreciation	5,637	250	251	-	6,138
Faculty development	15,069	-	-	-	15,069
Insurance	8,725	21,083	-	-	29,808
Occupancy	49,248	21,736	32,736	-	103,720
Office	39,668	76,024	22,963	-	138,655
Other	540	4,509	8,702	-	13,751
Professional services	40,600	47,143	-	-	87,743
Production and venue	-	-	-	229,016	229,016
Travel	3,298	2,546	8,933	-	14,777
Total expenses by function	2,874,632	398,135	552,319	229,016	4,054,102
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	-	(229,016)	(229,016)
Total expenses included in the expense section on the statement of activities	\$ 2,874,632	\$ 398,135	\$ 552,319	\$ -	\$ 3,825,086

See notes to financial statements.

P.S. ARTS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flow from operating activities		
Change in net assets	\$ 2,548,756	\$ 858,536
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	11,447	6,138
Realized and unrealized (gain) loss on investments	(229,181)	478,087
PPP loan forgiven	-	(568,800)
Changes in operating assets and liabilities:		
Contributions receivable	(1,630,374)	89,878
Accounts receivable	(150,980)	(140,842)
Prepaid expenses and other current assets	7,536	5,643
Security deposits	22,894	(3,570)
Accounts payable and accrued expenses	4,474	31,774
Net cash provided by operating activities	584,572	756,844
Cash flows from investing activities		
Purchases of endowment securities	(684,315)	(3,379,968)
Proceeds from sales of endowment investments	555,559	3,805,735
Purchases of investment securities	(2,500,010)	(1,200,000)
Proceeds from sales of investment securities	2,100,000	870,000
Reinvested interest and dividends	(3,153)	(338,871)
Purchases of property and equipment	(3,199)	(10,997)
Net cash used in investing activities	(535,118)	(254,101)
Cash flows from financing activities		
Collections of contributions restricted to endowment	(533)	(8,251)
Net change in cash and cash equivalents	48,921	494,492
Cash and cash equivalents, beginning of year	745,227	250,735
Cash and cash equivalents, end of year	\$ 794,148	\$ 745,227

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 – 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 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the prior year's balances in order to conform to the current year's presentation. Such reclassifications or title changes had no effect on net income as previously reported.

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 contributions 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, 2023 and 2022, 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 – 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 \$2,500 is charged to expense. Depreciation is 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 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, 2023 and 2022, respectively.

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 available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. The governing board has designated, from its net assets without donor restrictions, net assets for an operating reserve.
- *Net Assets with Donor Restrictions* – 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. P.S. ARTS reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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 program services, general and administrative and fundraising. Expenses related to more than one function, which includes salaries, taxes, and benefits, depreciation, and insurance, are allocated based on the proportion of total time spent by the staff of P.S. ARTS on the activity.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition

Revenue from school programs is recognized when the performance obligations of transferring the products and providing the services are met.

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. P.S. ARTS recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. P.S. ARTS recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

P.S. ARTS recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give at June 30, 2023 or 2022.

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, 2023 and 2022, contributed services amounted to \$74,224 and \$15,000, respectively.

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, 2023 and 2022, 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 3 – FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2023 and 2022, 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 statements of financial position date due to internal board designations.

	2023	2022
Cash and cash equivalents	\$ 794,148	\$ 745,227
Investments	2,944,585	2,454,237
Contributions receivable	2,203,505	572,598
Accounts receivable	237,686	86,706
Total financial assets	6,179,924	3,858,768
Board-designated operating reserve	(2,070,000)	(1,670,000)
Financial assets available to meet general expenditures within one year	\$ 4,109,924	\$ 2,188,768

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 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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:

P.S. ARTS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2023 and 2022, 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 prices on an active market. As of June 30, 2023 and 2022, P.S. ARTS investments consist of the following:

	2023	2022
Highly liquid investments	\$ 3,252,527	\$ 2,860,770
Stocks and stock funds	1,928,638	1,561,531
Bond funds	739,440	736,671
	<u>\$ 5,920,605</u>	<u>\$ 5,158,972</u>

NOTE 5 – PROPERTY AND EQUIPMENT

As of June 30, 2023 and 2022, property and equipment consist of the following:

	2023	2022
Portable classroom	\$ 114,000	\$ 116,500
Musical instruments	86,974	89,969
Website	15,000	15,000
Office equipment	5,968	32,086
Computers and software	3,199	94,402
	225,141	347,957
Less accumulated depreciation	(186,898)	(301,466)
	<u>\$ 38,243</u>	<u>\$ 46,491</u>

NOTE 6 – RISKS AND UNCERTAINTIES

Credit Risk

Financial instruments that potentially expose P.S. ARTS to concentrations of credit risk consist primarily of cash, money market accounts, and trade account receivable 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 7 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2023 and 2022, net assets with donor restrictions are restricted for the following purposes or periods:

	2023	2022
<i>Subject to expenditure for specified purpose</i>		
Classroom studio	\$ 78,500	\$ 100,000
Extended learning	100,749	101,867
Other	44,054	20,152
	223,303	222,019
<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	2,082,000	172,689
<i>Subject to P.S. ARTS's spending policy and appropriation</i>		
Endowment funds restricted in perpetuity	2,035,868	2,035,868
Unappropriated endowment earnings	947,723	676,971
	2,983,591	2,712,839
Total net assets with donor restrictions	\$ 5,288,894	\$ 3,107,547

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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 are as follows for the years ended June 30, 2023 and 2022:

	2023	2022
<i>Satisfaction of purpose restrictions</i>		
Classroom studio	\$ 50,000	\$ 50,000
Extended learning	101,867	73,424
Other	22,857	13,365
	174,724	136,789
Satisfaction of time restrictions	172,689	80,000
Endowment earnings appropriated	-	120,000
	\$ 347,413	\$ 336,789

NOTE 8 – 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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by P.S. ARTS in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 8 – ENDOWMENT (Continued)

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, 2023 and 2022, endowment net assets with donor restrictions composition by type of fund are as follows:

	2023	2022
Original donor-restricted gift	\$ 2,028,297	\$ 2,027,764
Accumulated investment gains	947,723	676,971
Contributions receivable	7,571	8,104
	\$ 2,983,591	\$ 2,712,839

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, 2023 and 2022, 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.

NOTE 8 – ENDOWMENT (Continued)

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, 2023 and 2022 are as follows:

	2023	2022
Balance, beginning of year	\$ 2,712,839	\$ 3,281,324
Net investment return (loss)	270,752	(448,544)
Contribution	-	59
Appropriation of endowment assets pursuant to spending rate policy	-	(120,000)
	<u>\$ 2,983,591</u>	<u>\$ 2,712,839</u>

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, 2023 and 2022, P.S. ARTS received \$174,271 and \$131,275, respectively, of contributions including special events donations, merchandise sales, board member fees and other promises to give from related parties. As of June 30, 2023 and 2022, \$7,571 and \$8,104 of these donations from related parties, respectively, are outstanding and are included as contributions receivable in the accompanying statements of financial position.

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated all activity through September 21, 2023, the date the financial statements were available to be issued.