

**LOS ANGELES COUNTY HIGH SCHOOL  
FOR THE ARTS FOUNDATION**

**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS**

**June 30, 2021**



**Gurseley | Schneider** LLP  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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## **Independent Auditor's Report**

To the Board of Directors  
Los Angeles County High School for the Arts Foundation  
Los Angeles, California

We have audited the accompanying financial statements of Los Angeles County High School for the Arts Foundation (a California nonprofit public benefit corporation) which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 on the previous page present fairly, in all material respects, the financial position of Los Angeles County High School for the Arts Foundation as of June 30, 2021, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Gursey | Schneider LLP*

February 24, 2022  
Los Angeles, California

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Financial Position  
June 30, 2021

**ASSETS**

**ASSETS**

Cash and cash equivalents	\$	470,801
Investments		4,358,890
Contributions receivable		96,900
Prepaid expenses		4,345
		4,930,936
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>4,930,936</b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued liabilities	\$	41,978
Grants payable		836,956
Loan payable - Paycheck Protection Program		48,307
		927,241
<b>TOTAL LIABILITIES</b>		<b>927,241</b>

**NET ASSETS**

Net assets without donor restrictions		284,354
Net assets with donor restrictions		3,719,341
		4,003,695
<b>TOTAL NET ASSETS</b>		<b>4,003,695</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>4,930,936</b>

See Accompanying Notes to Financial Statements

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND SUPPORT:</b>			
Grants and contributions	\$ 294,520	\$ 510,204	\$ 804,724
Fundraising events, net of \$62,515 event expense	269,427	-	269,427
Investment income, net	184,135	614,865	799,000
Loan forgiveness - Paycheck Protection Program	28,478	-	28,478
Net assets released from restrictions	690,664	(690,664)	-
	<b>1,467,224</b>	<b>434,405</b>	<b>1,901,629</b>
<b>EXPENSES:</b>			
Program services	1,162,093	-	1,162,093
Management and general services	68,693	-	68,693
Fundraising	68,008	-	68,008
	<b>1,298,794</b>	<b>-</b>	<b>1,298,794</b>
<b>CHANGE IN NET ASSETS</b>	<b>168,430</b>	<b>434,405</b>	<b>602,835</b>
<b>NET ASSETS, Beginning of year</b>	<b>115,924</b>	<b>3,284,936</b>	<b>3,400,860</b>
<b>NET ASSETS, End of year</b>	<b>\$ 284,354</b>	<b>\$ 3,719,341</b>	<b>\$ 4,003,695</b>

See Accompanying Notes to Financial Statements

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Functional Expenses  
For the Year Ended June 30, 2021

	Program Services	Management and General Services	Fundraising	Total
Grants and Program Support	\$ 897,100	\$ -	\$ -	\$ 897,100
<u>Personnel:</u>				
Salaries	179,945	11,247	33,739	224,931
Group insurance	19,710	1,232	3,696	24,638
Payroll taxes	13,767	860	2,582	17,209
Total Personnel	213,422	13,339	40,017	266,778
<u>Other Operating Expenses:</u>				
Bad debt expense	-	9,250	-	9,250
Bank charges	6,854	1,371	5,482	13,707
Dues and subscriptions	5,354	535	4,819	10,708
Insurance	5,577	349	1,045	6,971
Meetings and conferences	213	13	40	266
Other	4,009	253	751	5,013
Postage	343	34	309	686
Professional fees	13,289	42,552	12,559	68,400
Rent	10,506	657	1,970	13,133
Supplies	3,801	238	712	4,751
Telephone	1,625	102	304	2,031
Total Other Operating Expenses	51,571	55,354	27,991	134,916
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,162,093</b>	<b>\$ 68,693</b>	<b>\$ 68,008</b>	<b>\$ 1,298,794</b>

See Accompanying Notes to Financial Statements

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
(A California Nonprofit Public Benefit Corporation)  
Statement of Cash Flows  
For the Year Ended June 30, 2021

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 602,835
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Bad debt expense	9,250
Loan forgiveness - Paycheck Protection Program	(28,478)
Realized and unrealized investment gains, net	(760,918)
(Increase) decrease in assets:	
Contributions receivable	193,950
Prepaid expenses	2,087
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	(12,831)
Grants payable	(10,288)
	<u>                    </u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>(4,393)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash paid for purchase of investments, net	(409,880)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from Paycheck Protection Program loan	<u>48,307</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(365,966)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>836,767</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u><u>\$ 470,801</u></u>

See Accompanying Notes to Financial Statements



**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2021

**NOTE 1 – ORGANIZATION**

The Los Angeles County High School for the Arts Foundation dba LACHSA Foundation (the “Foundation”) is a California nonprofit public benefit corporation. The Foundation supports the advancement of young artists by stimulating private sector support to supplement public education monies needed for the Los Angeles County High School for the Arts (“LACHSA”) and scholarship monies awarded to students. LACHSA is a specialized public high school of choice operated by the Los Angeles County Office of Education (“LACOE”).

The mission of the Foundation is to help bridge the gap between public funding for the arts and actual costs at LACHSA. Specifically, financial support was used to:

- Cover the salaries of many of the teaching artists who provide instruction and mentoring to LACHSA’s young artists;
- Underwrite productions that included dramatic plays, music and dance concerts, operas and film festivals, visual arts exhibitions and the staging of musical theatre shows;
- Provide art supplies to students in support of their creation of new works of art;
- Cover the cost of field trips to museums, galleries, film studios and professional performances;
- Provide private lessons for music students who needed individual or small group coaching;
- Award merit scholarships to deserving students; and
- Help bring the arts to under-served students by providing opportunities to see special LACHSA outreach performances.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** — The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Use of Estimates** — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date of the financial statements, and for the period presented. Accordingly, actual results could differ from those estimates.

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
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June 30, 2021

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

**Classes of Net Assets** — Revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Without Donor Restrictions* – These include net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Net assets without donor restriction generally result from contributions and revenues generated by receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires or purpose is fulfilled in the reporting period in which the support is recognized.
- *With Donor Restrictions* – The Foundation reports gifts of cash and other assets as support with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires—that is when a stipulated time restriction ends, or the purpose of the restriction is accomplished—net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from program or time restrictions. Donor restrictions may also result in permanently restricted net assets, where resources are to be maintained permanently but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets.

**Cash and Cash Equivalents** — The Foundation considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments** — Investments are stated at fair market value. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded based on the record date. Interest income is recorded as earned on an accrual basis. Bond premiums and discounts are amortized to the first call date using a method that approximates the effective interest method. Realized gains and losses are recorded upon disposition of securities. Investment income and realized and unrealized gains and losses are recognized as unrestricted net assets unless their use is restricted by donors to a specified purpose or future period.

Unrealized gains and losses on investments resulting from fair value fluctuations are recorded in the statement of activities in the period that such fluctuations occur.

**Property and Equipment** — Property and equipment are stated at cost when purchased or at estimated fair market value at the date of bequest or gift. Depreciation is provided using the straight-line method over the estimated useful life of the related asset, ranging from 5 – 7 years. Amortization of equipment purchased under capital lease obligations is included in depreciation expense. Individual property items valued at less than \$1,000 with a useful life of one year or less are expensed when purchased or donated.

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
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Notes to Financial Statements  
June 30, 2021

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

**Grants and Contributions Receivable** — Grants and contributions are recognized when the donor makes a promise to give the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in restricted net assets. When a restriction expires, restricted net assets are reclassified to unrestricted net assets. Amounts are expected to be collected as follows:

<u>Years Ending June 30:</u>	
2022	66,900
2023	15,000
2024	<u>15,000</u>
	<u>\$ 96,900</u>

For the year-ended June 30, 2021, the Foundation had bad debt expense of \$9,250.

**Grants Payable** — Grants payable are due to the Los Angeles High School for the Arts (to be paid to the Los Angeles County Office of Education) and will be paid during the year ending June 30, 2022.

**Recognition of Restricted Contributions** — The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received, at fair value. The Foundation records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place. The Foundation reports amounts in the accompanying financial statements for each of two classes of net assets, without donor restrictions and with donor restrictions.

**Revenue Recognition** — The Foundation 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 met.

**Functional Allocation of Expenses** — Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with program and supporting service are allocated based on estimates determined by management.

**Donated Services and Equipment** — Donated services are recognized if the services received create or enhance long-lived assets, require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated goods are recognized at fair value at the time of contribution. During the year ended June 30, 2021, the Foundation did not receive any donated services or goods.

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June 30, 2021

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

**Income Taxes** — The Foundation is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation is classified by the Internal Revenue Service as other than a private foundation. The Foundation is subject to unrelated business income tax for income from operating activities not related to their exempt purpose. Unrelated business income is taxed based on the applicable statutory federal and state income tax rates for for-profit organizations.

The Foundation has adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Section 740, Income Taxes, which clarify the accounting for uncertainty in income taxes. FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC 740-10 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. At June 30, 2021 and for the year then ended, the Foundation had no material unrecognized tax benefits, tax penalties or interest.

The Foundation’s Federal Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they are filed, and remain open for the years ended June 30, 2018 through 2020. The California Forms 199, California Exempt Organization Annual Information Return, is subject to examination by the Franchise Tax Board, generally for four years after they are filed, and remain open for the years ended June 30, 2017 through 2020.

**Subsequent Events** — Management has reviewed subsequent events through February 24, 2022, the date the financial statements were available to be issued.

**NOTE 3 – LIQUIDITY AND AVAILABILITY**

Financial assets consist of the Foundation’s cash, cash equivalents, investments, contributions receivable. The following represents the Foundation’s financial assets available to meet cash needs for general expenditures within one year as of June 30, 2021. Financial assets are considered unavailable if not liquid or convertible within one year.

Cash and cash equivalents	\$ 470,801
Investments	4,358,890
Contributions receivable	<u>96,900</u>
Subtotal	4,926,591
Less: Amount restricted by donors	<u>(3,719,341)</u>
Financial assets available at June 30, 2021	<u><u>\$ 1,207,250</u></u>

Management believes that it has sufficient cash and liquid assets to meet obligations for the coming year.

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
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June 30, 2021

**NOTE 4 – CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially expose the Foundation to a concentration of credit risk consist primarily of cash and cash equivalents, investments, and contributions receivable.

The Federal Deposit Insurance Corporation (“FDIC”) insures cash up to \$250,000 per institution and the Securities Investor Protection Corporation (“SIPC”) protects investments up to \$500,000 per investor. In the normal course of operations, such cash and investment balances may exceed the FDIC and SIPC insurance limits. However, the Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash, cash equivalents and investments.

Investments are subject to certain risks such as market fluctuation and changes in interest rates, which could result in losses in the event of adverse economic circumstances. The Foundation attempts to limit its credit risks associated with its investments through diversification and by utilizing the expertise and processes of an outside investment manager.

For the year ended June 30, 2021, approximately 88% of the Foundation’s contributions receivable were from three donors. No other donor comprised more than 10% of contributions receivable.

**NOTE 5 – INVESTMENTS**

The Foundation’s investments are reported at fair value in the accompanying statement of financial position. Fair value is defined as the price that would be received upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tiered hierarchy is employed to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect assumptions market participants would use in pricing the asset developed 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 developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

*Level 1* – Quoted prices in active markets for identical investments. Level 1 assets include cash equivalents, equity securities, and mutual funds valued at the closing price reported on the active market on which the individual securities are traded.

*Level 2* – Observable market-based inputs, either directly or indirectly, but are other than quoted prices in actively traded markets. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets or liabilities in market that are not active, and other observable inputs that can be corroborated by observable market data.

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
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**NOTE 5 – INVESTMENTS – (CONTINUED)**

*Level 3* – Unobservable inputs that are supported by little or no market activity which are significant to the fair value of the asset. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination for which category within the fair value hierarchy is appropriate is based on the lowest level input that is significant to the fair value measurement in its entirety.

Investment income during the year ended June 30, 2021 consists of the following:

Interest and dividends	\$ 71,029
Realized gains, net	448,341
Unrealized gains, net	312,577
Investment manager fees	<u>(32,947)</u>
Investment income, net	<u>\$ 799,000</u>

Investments as of June 30, 2021 consisted of the following:

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
Common stock	\$ 2,487,482	\$ -	\$ -	\$ 2,487,482
Mutual funds	595,468	-	-	595,468
Exchange traded and closed-end funds	283,849	-	-	283,849
Government securities	-	192,598	-	192,598
Municipal bonds	-	139,761	-	139,761
Corporate bonds	-	659,732	-	659,732
	<u>\$ 3,366,799</u>	<u>\$ 992,091</u>	<u>\$ -</u>	<u>\$ 4,358,890</u>

**NOTE 6 – LONG-TERM DEBT – PAYCHECK PROTECTION PROGRAM LOAN**

On May 3, 2020, the Foundation borrowed \$28,478 loan under the Paycheck Protection Program (“PPP”) of the U.S. Small Business Administration (“SBA”). During the period ended June 30, 2021, management incurred qualified spending for payroll and allowable expenses and have satisfied the requirement to obtain loan forgiveness. This loan has been fully forgiven as of June 16, 2021. This amount is recorded as loan forgiveness income in the accompanying statement of activities.

On March 26, 2021, the Foundation borrowed an additional \$48,307 loan under the second PPP of the U.S. SBA. The interest rate on the loan is 1.0% per annum. The loan matures on March 25, 2026 (“Maturity Date”). On January 5, 2022, management satisfied all PPP loan forgiveness requirements and obtained loan forgiveness for the entire loan and accrued interest amount.

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
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Notes to Financial Statements  
June 30, 2021

**NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS**

Temporarily Restricted

Net assets with donor restrictions as of June 30, 2021 consisted of the following:

Time restrictions	\$ 94,685
Programs	1,238,300
Permanently restricted endowments	<u>2,386,356</u>
	<u>\$ 3,719,341</u>

Net assets with donor restrictions were released from restriction during the year by the passage of time or incurrence of expenditures as follows:

Time restrictions	\$ 127,133
Program expenditures	<u>319,682</u>
	<u>\$ 446,815</u>

Permanently Restricted

Permanently restricted net assets consist of the following donor-restricted funds:

- *Performing Arts Fund* — An endowment that will support specific elements of the dance, theatre, and music programs.
- *Kathy Beth Kantor Memorial Fund* — An endowment to award scholarships to photography students in the visual arts program.
- *Craig Charles Herst Memorial Fund* — An endowment to support the publication of the student art catalog, "A Gift of Love".
- *Caroline Leonetti Ahmanson Memorial Endowment Fund* — An endowment to support young artists, with a special emphasis on covering the costs of performances.
- *Bobby Brooks Memorial Fund* — An endowment to support the Composer-in-Residence in the music program.
- *Theo Hornbacher Endowment Fund* — An endowment to support future Visual Arts graduates of LACHSA.
- *Gwyn Lurie Endowment Fund* — An endowment to support the general operating expenses of the Foundation.
- *Tony Pope Endowment Fund* — An endowment to fund a merit scholarship in television / film.

**LOS ANGELES COUNTY HIGH SCHOOL FOR THE ARTS FOUNDATION**  
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Notes to Financial Statements  
June 30, 2021

**NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS – (CONTINUED)**

Permanently restricted net assets by fund as of June 30, 2021 are as follows:

Performing Arts Fund	\$ 1,500,000
Kathy Beth Kantor Memorial Fund	286,317
Craig Charles Hearst Memorial Fund	200,000
Caroline Leonetti Ahmanson Memorial Fund	177,231
Bobby Brooks Memorial Fund	150,000
Theo Hornbacher Endowment Fund	46,808
Gwyn Lurie Endowment Fund	17,000
Tony Pope Endowment Fund	9,000
	<hr/>
	<u>\$ 2,386,356</u>

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) adopted by the State of California 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, the Foundation classifies as permanently restricted net assets the following: the corpus of the endowment; the original gift donated to the perpetual endowment; the original value of the subsequent gifts to the perpetual endowment; and the accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund not classified as permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation 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 the Foundation
7. The investment policies of the Foundation

The Foundation’s endowment investment policy is based on fundamental financial principles that include prudent asset allocation, risk assessment, and long-term planning. The investment policy emphasizes total return, allowing funds to utilize current dividend and interest income, and, over time, a portion of the aggregate return from capital appreciation. This helps to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power to the endowment assets. Within this framework, specific investment objectives for the endowment investments include liquidity, preservation of capital, preservation of purchasing power, and long-term growth of capital.



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**NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS – (CONTINUED)**

The current long-term return objective is to produce a real return of 5%, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate of return objectives, the Foundation 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Endowment fund records are maintained separately in accounting by their legal names, with interest, dividends, and realized and unrealized gains and losses being directly allocated to the various funds. The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, to support the Arts segment of the Foundation as needed.

Thus, spending will vary each year based on need. The Foundation has targeted a 4.5% allocation of the preceding four quarters' balances to each fund's "available to spend balance," which is available for grant. If, however, the fair market value of the endowment principal of any fund, at the time of allocation, is below the corpus, no additional funds will be made "available to spend," unless required by donor agreement. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment assets to provide real growth over the average rate of inflation annually. This is consistent with the objective to maintain the purchasing power of endowment assets, as well as to provide additional real growth through new gifts and investment returns.

For the year ended June 30, 2021, changes in endowment net assets are as follows:

Net assets, beginning of the year	\$ 2,943,697
Additions	6,890
Investment gains, net	614,865
Spending	<u>(156,121)</u>
Net assets, end of the year	<u>\$ 3,409,331</u>

The amounts in the table above reflect investment earnings from endowment assets that have accumulated and not yet been used for their program purposes. These amounts are reflected as a component of net assets with donor restrictions in the statement of financial position.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

*Global Pandemic and Contingency* – The COVID-19 pandemic has impacted the event and education platform in several aspects. While there have been some signs of recovery, the pandemic has proven to be unpredictable with volatile swings. Although the Foundation is exposed to risk related to investment performance, the Foundation is in a strong financial position to continue its mission throughout the pandemic. The related monetary impact of this matter and other effects of the global pandemic cannot be reasonably estimated at this time.