

FERNANDO PULLUM COMMUNITY ARTS CENTER
FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

FERNANDO PULLUM COMMUNITY ARTS CENTER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fernando Pullum Community Arts Center

I have audited the accompanying financial statements of Fernando Pullum Community Arts Center, (a California nonprofit organization), which comprise the statement of financial position as of August 31, 2021, and the related statements of activities, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fernando Pullum Community Arts Center as of August 31, 2021, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Steven D. Mocalis

San Clemente, California
March 11, 2022

FERNANDO PULLUM COMMUNITY ARTS CENTER
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2021

ASSETS

Cash	\$ 172,263
Investments (Note 3)	564,290
Accounts receivable	1,000
Prepaid expenses and deposits	13,742
Fixed assets, net (Note 4)	125,245
Total assets	<u>\$ 876,540</u>

LIABILITIES

Loan payable (Note 5)	<u>\$ 75,972</u>
Total liabilities	<u>75,972</u>

NET ASSETS

Without donor restrictions	800,568
With donor restrictions	<u>-</u>
Total net assets	<u>800,568</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 876,540</u></u>
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The accompanying notes are an integral part of these financial statements.

FERNANDO PULLUM COMMUNITY ARTS CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions	\$ 566,282	\$ -	\$ 566,282
In-kind contributions	187,892	-	187,892
Special events, net of expenses of \$35,182	236,617	-	236,617
Program income	8,410	-	8,410
Paycheck protection loan forgiveness	68,665	-	68,665
Other income	4,670	-	4,670
Net assets released from restrictions	33,333	(33,333)	-
Total revenues and support	<u>1,105,869</u>	<u>(33,333)</u>	<u>1,072,536</u>
EXPENSES			
Program services	655,489	-	655,489
Management and general	91,740	-	91,740
Fundraising	63,082	-	63,082
Total expenses	<u>810,311</u>	<u>-</u>	<u>810,311</u>
CHANGE IN NET ASSETS	295,558	(33,333)	262,225
NET ASSETS, BEGINNING OF YEAR	<u>505,010</u>	<u>33,333</u>	<u>538,343</u>
NET ASSETS, END OF YEAR	<u><u>\$ 800,568</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 800,568</u></u>

The accompanying notes are an integral part of these financial statements.

FERNANDO PULLUM COMMUNITY ARTS CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Employee expenses:				
Salaries	\$ 253,070	\$ 37,646	\$ 16,800	\$ 307,516
Employee benefits	13,427	2,658	2,384	18,469
Payroll taxes	21,542	3,205	1,430	26,177
Total employee expenses	<u>288,039</u>	<u>43,509</u>	<u>20,614</u>	<u>352,162</u>
Other expenses:				
Depreciation	32,856	1,729	-	34,585
Equipment purchases	26,048	-	-	26,048
Equipment repairs and maintenance	1,364	-	-	1,364
Field trips	2,859	-	-	2,859
Food	123,759	573	-	124,332
Furniture, fixtures and equipment	662	1,788	-	2,450
Insurance	14,301	3,940	749	18,990
Janitorial	497	55	-	552
Loss on sale of asset	1,252	66	-	1,318
Musical arrangements	610	-	-	610
Office expenses	-	2,300	-	2,300
Office supplies	-	604	-	604
Performance expenses	1,828	-	-	1,828
Professional services	19,768	26,853	41,719	88,340
Program supplies and expenses	10,264	-	-	10,264
Promotion and advertising	50	110	-	160
Recordings	1,236	-	-	1,236
Rent	75,082	8,342	-	83,424
Repairs and maintenance	7,740	-	-	7,740
Substitute teachers	10,769	-	-	10,769
Teacher assistant and security	19,290	-	-	19,290
Telephone and internet	1,240	65	-	1,305
Transportation	4,351	859	-	5,210
Trash, rubbish, refuse	2,482	276	-	2,758
Utilities	3,241	360	-	3,601
Website subscriptions	5,901	311	-	6,212
Total other expenses	<u>367,450</u>	<u>48,231</u>	<u>42,468</u>	<u>458,149</u>
Total Expenses	<u>\$ 655,489</u>	<u>\$ 91,740</u>	<u>\$ 63,082</u>	<u>\$ 810,311</u>

The accompanying notes are an integral part of these financial statements.

**FERNANDO PULLUM COMMUNITY ARTS CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 262,225
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	34,585
Reinvested dividends and interest	(37)
Net loss from sale of asset	1,318
Changes in operating assets and liabilities	
Accounts receivable	(1,000)
Prepaid expenses and deposits	(282)
Loan payable	7,307
Deferred revenue	(5,200)
Net cash provided by operating activities	298,916

Cash flows from investing activities

Proceeds from sale of investments	50,000
Purchases of investments	(200,000)
Purchases of equipment	(8,902)
Proceeds from sale of vehicle	13,000
Purchase of vehicle	(36,644)
Net cash used by investing activities	(182,546)

NET INCREASE IN CASH 116,370

CASH, BEGINNING OF YEAR 55,893

CASH, END OF YEAR \$ 172,263

The accompanying notes are an integral part of these financial statements.

**FERNANDO PULLUM COMMUNITY ARTS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021**

NOTE 1 – ORGANIZATION

Founded in 2011, Fernando Pullum Community Arts Center (Pullum Center) offers quality performing arts instruction to more than 800 underserved students, ages 5 to 20. The Pullum Center uses the performing arts to empower the children of South Los Angeles to understand their true value, impact their community as positive role models and inspire them to expand their dreams of who they can become. Our teachers provide a program filled with structure and well-planned curriculum to help students develop a love for and competency in the performing arts and apply the same dedication and commitment to their academics. The Pullum Center serves all students with a desire to learn and grow their talent, and our program is offered free of charge. The students who stay with the program graduate from high school and nearly all go on to college or a performing arts career.

The Pullum Center's administrative offices and main teaching facilities are in a leased building in the Leimert Park area of Los Angeles. The Center also provides classes in participating neighborhood schools. During the school year, weekly classes are provided to more than 800 children. During the summer session, classes are conducted for 225 students throughout the day at the Center and one of the participating schools – Marcus Garvey. Additionally, daily meals for the children are provided at the Center and Marcus Garvey during both the school year and the summer session programs. During the school year, most services provided occur after normal school hours.

The students and staff of the Pullum Center produce one or two musicals each year in local auditoriums, attended by family, friends and the public. At the end of the fall semester, spring semester and summer program showcases are held for family, friends, and the public to show the progress students have made in their studies. The students also participate in serving food to the homeless and performing regularly for senior citizens in neighborhood facilities. The jazz band, which consists of upper-level students, performs several times per month at private and public events including major jazz festivals, awards ceremonies, and business and nonprofit events. They also have performed with major professional artists and appeared on regional and national television programs and at Grammy Awards events.

To support its activities, the Pullum Center solicits private contributions from individuals, foundations, local government, and other institutions. Substantial support, particularly regarding food, also comes in the form of in-kind contributions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Pullum Center considers all highly liquid investments with an initial maturity of three months or less held in local banks accounts to be cash equivalents.

Investments – Investments are stated at fair value and purchases and sales are recorded on a trade or contract date basis. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities and changes in net assets in the period that such fluctuations occur. The Pullum Center does not currently own any alternative investments for which quoted prices are unavailable.

**FERNANDO PULLUM COMMUNITY ARTS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable – Pledges Receivable is recorded when a donor pledges a promise to give a certain amount to the Pullum Center. The carrying value of pledges receivable, net of allowance for doubtful accounts, if any, represents their estimated net realizable value.

Fair Value of Financial Instruments - In accordance with Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, fair value is defined as the price that the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 establishes a three-tier hierarchy 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 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 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 or liability developed based on the best information available.

Fair Value of Financial Instruments

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

- Level I Quoted prices in active markets for identical assets and liabilities.

- Level II Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

- Level III Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

Fixed Assets – Acquisitions of vehicles, furniture and fixtures, and equipment in excess of \$1,000 are capitalized and carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is being provided by use of the straight-line method over the estimated useful lives of the assets.

Donated Assets and Services - Contributions of donated assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Revenue Recognition – Summer camp revenue and music productions revenue is recognized when services are performed. Revenue received from ticket sales for a future special event is deferred until the next applicable accounting period.

**FERNANDO PULLUM COMMUNITY ARTS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expense Reporting - Costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, primarily on the basis of direct labor, however certain occupancy costs have been allocated based on square footage.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues, and expenses as of the date and the period presented. Accordingly, actual results could differ from those estimates.

Income Taxes – The Pullum Center is exempt from federal and state income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for federal or state income taxes is included in the financial statements. The Pullum Center has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Pullum Center has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. Management believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a materially adverse effect on the Pullum Center's financial condition, results of operations or cash flows. Accordingly, management has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions on August 31, 2020.

The Pullum Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2017.

Financial Statement Presentation and Contributions – The Pullum Center recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of the Pullum Center and changes therein are classified and reported as follows:

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Pullum Center and/or passage of time. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying financial statements as net assets released from restrictions.

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in the primary objectives of the Pullum Center.

Board-designated net assets – Net assets without donor restrictions that are subject to self-imposed limits by action of the Pullum Center's board of directors. Board-designated net assets may be earmarked for future programs, investment, capital improvements, contingencies, purchase or construction of fixed assets, or other uses. There are currently no board-designated net assets.

**FERNANDO PULLUM COMMUNITY ARTS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Recent Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842), with subsequent improvements and clarifications issued in ASU 2018-01, ASU 2018-10 and ASU 2018-20. ASU 2016-02, along with the noted related ASUs issued in 2018 amends a number of aspects of lease accounting, including requiring lessees to recognize both a “right of use” asset and a corresponding lease obligation liability for all leases with a term longer than 12 months. For lease with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right of use asset and lease obligation liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020, The Pullum Center is currently evaluating the impact of the provisions of ASU 2016-002 on the presentation of its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 requires that credit losses on most financial assets measured at amortized cost, and certain other instruments, be measured using an expected credit loss model. The ASU also replaces the current accounting model for purchased credit-impaired loans and debt securities. Further, the ASU makes certain targeted amendments to the existing impairment model for available-for-sale debt securities. For nonpublic entities including not-for-profit entities and employee benefit plans within the scope of Topics 960-965 on plan accounting, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Pullum Center is currently evaluating the impact of the provisions of ASU 2016-13 on the presentation of its financial statements.

NOTE 3 – INVESTMENTS

The Pullum Center’s investments consist of cash and money market funds, which are deemed to be cash and cash equivalents. The following table summarizes the valuation of the Pullum Center’s investments per the ASC 820 fair value hierarchy levels as of August 31, 2021:

Money Market Funds	\$ 363,738
Cash	<u>200,552</u>
Total	<u>\$ 564,290</u>

Money market funds and cash are classified as Level I assets in the ASC 820 fair value hierarchy in Note 2. There were no Level II or Level III investments made during the year.

NOTE 4 – FIXED ASSETS

As of August 31, 2021, fixed assets were as follows:

Equipment	\$ 104,655
Vehicle	36,644
Leasehold improvements	43,175
Furniture and fixtures	<u>17,474</u>
Subtotal	201,948
Less: accumulated depreciation	<u>(76,703)</u>
Total	<u>\$ 125,245</u>

Depreciation expense for the year ended August 31, 2021, was \$ 34,585.

**FERNANDO PULLUM COMMUNITY ARTS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021**

NOTE 5 – LOAN PAYABLE

A loan of \$75,972 was received from the United States Small Business Administration (SBA) Paycheck Protection Program on April 13, 2021. The loan is up to 100% forgivable if certain conditions are met within the timeframe prescribed by the SBA. Any amounts that are not forgiven will remain due and payable over five years at 1% after an initial six-month grace period where no payments are due. Management believes the loan will be forgiven in the subsequent accounting period and elects not to present a five-year schedule of future loan payments.

NOTE 6 – IN-KIND DONATIONS

During the year, the Pullum Center received food contributions valued at \$120,000. The food is used normally to feed students dinner during the school-year program and breakfast & lunch during the summer session. Between September and April of this fiscal year, due to the pandemic shutdown, the food was used to provide weekly lunch and dinner meals to student families, community members and the homeless.

The Pullum Center often receives donations of musical instruments, in addition to purchasing instruments itself, to further its instruction program. This fiscal year the instruments donated had a fair market value of \$16,110.

The Pullum Center is a member of the Music Network of the Berklee College of Music in Boston, MA, one of premiere music education colleges in the United States. The membership entitles Pullum Center students to take advantage of an array of online courses free of charge. Additionally, the Pullum Center commits to submit up to two of its students each year to be considered for the Berklee summer program, offered to some of the best high school musicians from around the world. In 2020, Berklee did not hold a summer program due to the pandemic shutdown.

NOTE 7 – MUSICAL PRODUCTIONS

Due to the pandemic shutdown, the Pullum Center did not present any musicals during the fiscal year. In a normal year, production costs run as high as \$30,000 per production for the staff time, costumes, set design, lighting & sound equipment, supplies, and venue rental.

NOTE 8 – OPERATING LEASE COMMITMENT

On August 1, 2020, and November 1, 2020, the Pullum Center entered into separate agreements to lease building space until October 31, 2025.

The following is a schedule by years of future minimum rent payments:

Year Ending August 31:	
2022	\$ 83,430
2023	83,915
2024	89,250
2025	89,250
Thereafter	<u>14,875</u>
	<u>\$ 360,720</u>

**FERNANDO PULLUM COMMUNITY ARTS CENTER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021**

NOTE 9 – RELATED PARTY TRANSACTIONS

Volunteer members of the Board make private contributions and are active in the oversight of fund-raising events and program activities. Contributions received from the Board or associated with the Board were approximately \$700,000.

Two board members own and lease building space to the Pullum Center to operate its program. Total rent payments were \$83,424 and no amount was due as of August 31, 2021.

NOTE 10 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure without donor or other restrictions limiting their use within one year of the Statement of Financial Position date are as follows:

Cash	\$ 172,263
Accounts receivable	1,000
Investments	<u>564,290</u>
Total	<u>\$ 737,553</u>

The Pullum Center prepares detailed budgets on an annual basis and monitors budget to actual variances throughout the year such that operations can be adjusted to match any shortfalls in budgeted net revenue.

NOTE 11 – PANDEMIC

In fiscal year 2020-2021, normal operations as described in Note I were substantially altered by the pandemic shutdown of schools in Los Angeles. From September to April instructional classes were held remotely via Zoom and attendance fell to 318 students during the school year and no student musicals were produced for the community. As restrictions lessened, our summer session was successfully held in-person serving 136 students, but our partner school (Marcus Garvey) did not hold a summer session. The fall in attendance was due to several factors: (i) Zoom fatigue – students having to attend Pullum Center classes after school following a day of public-school classes, (ii) the need for students to take on family duties to help their parents, and (iii) lack of sufficient internet equipment at students' homes.

Notwithstanding the impact of the pandemic, Pullum Center was able to stage eleven Jazz Band performances, 25 outreach events, 13 community service events and provide over 10,000 meals for student families, the community, and homeless persons. During the 2020-21 school year, Pullum Center activities reached more than nine million people through features on local TV stations, social media engagement, and Jazz Band performances at the Billboard Music Awards and the Gardena Jazz Festival. Our first virtual gala was successfully produced by our own team and featured (i) our Jazz Band performing with Jackson Browne, Michael McDonald, Sy Smith and John Mayer and (ii) our drama and elementary school students. It generated net funds of \$237,000 which helped keep the doors open during the coronavirus lockdown. As a result of our virtual gala, our donor list grew substantially.

NOTE 12 – SUBSEQUENT EVENTS

The Pullum Center evaluated subsequent events through March 11, 2022, which was the date the financial statements were available for issuance and concluded that no additional disclosures are required.