

INNER-CITY ARTS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

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YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Inner-City Arts

Report on the Financial Statements

We have audited the accompanying financial statements of Inner-City Arts (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, 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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 above present fairly, in all material respects, the financial position of Inner-City Arts as of December 31, 2013 and the changes 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.

Report on Summarized Comparative Information

We have previously audited Inner-City Arts' 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 9, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Directors
Inner-City Arts

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014, on our consideration of Inner City Arts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inner-City Arts' internal control over financial reporting and compliance.

GREEN HASSON & JANKS LLP

April 23, 2014
Los Angeles, California

INNER-CITY ARTS

STATEMENT OF FINANCIAL POSITION December 31, 2013 With Summarized Totals at December 31, 2012

ASSETS	2013			Total	2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 424,760	\$ -	\$ -	\$ 424,760	\$ 890,907
Investments	1,843,043	1,015,696	-	2,858,739	2,600,472
Grants and Accounts Receivable	282,775	-	-	282,775	180,225
Pledges Receivable (Net)	-	247,250	-	247,250	314,750
Prepaid Expenses	49,999	-	-	49,999	35,733
TOTAL CURRENT ASSETS	2,600,577	1,262,946	-	3,863,523	4,022,087
PROPERTY AND EQUIPMENT (Net)	12,075,339	-	-	12,075,339	12,398,950
OTHER ASSETS:					
Investments-Board Designated	700,000	-	-	700,000	100,000
Investments-Permanently Restricted	-	-	792,547	792,547	778,552
Pledges Receivable (Net)	-	252,874	-	252,874	205,755
TOTAL OTHER ASSETS	700,000	252,874	792,547	1,745,421	1,084,307
TOTAL ASSETS	\$ 15,375,916	\$ 1,515,820	\$ 792,547	\$ 17,684,283	\$ 17,505,344
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts Payable	\$ 17,634	\$ -	\$ -	\$ 17,634	\$ 34,264
Accrued Liabilities	135,825	-	-	135,825	80,320
Deferred Revenue	68,913	-	-	68,913	49,421
TOTAL CURRENT LIABILITIES	222,372	-	-	222,372	164,005
OTHER LIABILITIES:					
Deferred Revenue	315,996	-	-	315,996	351,107
TOTAL LIABILITIES	538,368	-	-	538,368	515,112
NET ASSETS:					
Unrestricted	14,137,548	-	-	14,137,548	14,999,708
Unrestricted Board Designated	700,000	-	-	700,000	100,000
Temporarily Restricted	-	1,515,820	-	1,515,820	1,111,972
Permanently Restricted	-	-	792,547	792,547	778,552
TOTAL NET ASSETS	14,837,548	1,515,820	792,547	17,145,915	16,990,232
TOTAL LIABILITIES AND NET ASSETS	\$ 15,375,916	\$ 1,515,820	\$ 792,547	\$ 17,684,283	\$ 17,505,344

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

With Summarized Totals for the Year Ended December 31, 2012

	2013			Total	2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Contributions	\$ 451,765	\$ 1,537,125	\$ 2,600	\$ 1,991,490	\$ 1,512,912
Special Events (Net of \$250,787 of Direct Benefit to Donors)	681,814	-	-	681,814	706,222
Grants	317,307	-	-	317,307	314,516
Investment Income	30,191	102,028	11,395	143,614	87,149
Contributions In-Kind	8,647	-	-	8,647	66,763
Rental Income	44,527	-	-	44,527	28,930
Fee Income	79,607	-	-	79,607	106,655
Miscellaneous	186	-	-	186	145
Net Assets Released from Purpose Restrictions	1,235,305	(1,235,305)	-	-	-
TOTAL REVENUE AND SUPPORT	2,849,349	403,848	13,995	3,267,192	2,823,292
EXPENSES:					
Program Services	2,314,024	-	-	2,314,024	2,051,937
Management and General	371,501	-	-	371,501	349,417
Fundraising	425,984	-	-	425,984	337,263
TOTAL EXPENSES	3,111,509	-	-	3,111,509	2,738,617
CHANGE IN NET ASSETS	(262,160)	403,848	13,995	155,683	84,675
Net Assets - Beginning of Year	15,099,708	1,111,972	778,552	16,990,232	16,905,557
NET ASSETS - END OF YEAR	\$ 14,837,548	\$ 1,515,820	\$ 792,547	\$ 17,145,915	\$ 16,990,232

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013

With Summarized Totals for the Year Ended December 31, 2012

	2013			Total Expenses	2012 Total Expenses
	Program Services	Management and General	Fundraising		
Salaries	\$ 1,164,114	\$ 238,619	\$ 319,548	\$ 1,722,281	\$ 1,493,917
Payroll Taxes	96,213	19,722	26,410	142,345	125,742
Employee Benefits	92,672	15,057	11,740	119,469	108,948
TOTAL PERSONNEL COSTS	1,352,999	273,398	357,698	1,984,095	1,728,607
Depreciation	337,208	10,720	10,720	358,648	354,394
Independent Artists and Art Class Services	128,387	-	-	128,387	118,786
Program Evaluation and Other Services	83,403	-	-	83,403	86,905
Professional and Other Service Fees	46,267	50,542	23,460	120,269	82,685
In-Kind Expenses	5,067	2,780	300	8,147	69,713
Utilities	63,003	2,011	2,011	67,025	61,236
Studio and Office Supplies	43,721	5,680	1,484	50,885	45,500
Repairs and Maintenance	47,862	1,528	1,527	50,917	37,941
Equipment	61,042	2,377	4,475	67,894	32,551
Property and Liability Insurance	22,680	724	724	24,128	27,810
Children Transportation and Parking Expenses	84,615	270	-	84,885	23,731
Telephone	10,080	1,741	1,357	13,178	11,643
Strategic Planning Consulting Service	-	-	-	-	10,195
Credit Card Merchant Fees and Bank Charges	-	7,675	-	7,675	8,505
Program Events Expenses	9,415	-	-	9,415	8,122
Printing	1,061	2,326	9,544	12,931	7,853
Taxes and Licenses	8,415	419	269	9,103	5,923
Conferences	697	139	168	1,004	3,986
Travel	3,927	420	638	4,985	3,504
Postage	327	304	3,118	3,749	3,126
Advertising, Promotions and Entertainment	2,008	7,887	7,381	17,276	2,744
Dues and Subscriptions	340	560	1,110	2,010	1,657
Awards to Individuals	1,500	-	-	1,500	1,500
TOTAL 2013 FUNCTIONAL EXPENSES	\$ 2,314,024	\$ 371,501	\$ 425,984	\$ 3,111,509	
TOTAL 2012 FUNCTIONAL EXPENSES		\$ 349,417	\$ 337,263		\$ 2,738,617

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

With Summarized Totals for the Year Ended December 31, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 155,683	\$ 84,675
Adjustment to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	358,648	354,394
Unrealized Gains on Investments	(120,271)	(33,421)
Re-invested Dividends, Interest, and Realized Gains on Investments	(23,343)	(53,728)
Contributions Restricted for Long-Term Purposes	(2,600)	(15,506)
Investment Income Restricted for Long-Term Purposes	(11,395)	(13,151)
Discount on Pledges Receivable	(6,119)	1,996
(Increase) Decrease in:		
Grants and Accounts Receivable	(102,550)	21,421
Pledges Receivable	26,500	244,225
Prepaid Expenses	(14,266)	(9,853)
Increase (Decrease) in:		
Accounts Payable	(16,630)	(47,604)
Accrued Liabilities	55,505	(7,583)
Deferred Revenue	(15,619)	(53,680)
	283,543	472,185
 NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(35,037)	-
Purchase of Investments	(4,874,732)	(4,376,371)
Sale of Investments	4,146,084	4,265,047
	(763,685)	(111,324)
 NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Long-Term Purposes	2,600	15,506
Investment Income Restricted for Long-Term Purposes	11,395	13,151
	13,995	28,657
 NET CASH PROVIDED BY FINANCING ACTIVITIES		
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(466,147)	389,518
Cash and Cash Equivalents - Beginning of Year	890,907	501,389
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 424,760	\$ 890,907

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - ORGANIZATION

Inner-City Arts was incorporated on September 6, 1989 under the California non-profit public benefit corporation law. Inner-City Arts has been granted tax-exempt status under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Inner-City Arts serves students enrolled in public elementary, middle and high schools located near the high-poverty Skid Row area of Los Angeles. Throughout its history, Inner-City Arts has provided diverse and professional experiences in the arts that serve to enhance learning outcomes among those most at risk - children with limited English proficiency enrolled in schools where students struggle to meet minimum standards of literacy and academic achievement. What began as primarily a visual arts program has now grown to serve over 10,000 children, teachers and family members each year, offering a broad spectrum of experiences in the visual and performing arts. Inner-City Arts operates in partnership with a city school district to bus children from inner-city schools during their instructional day. Inner-City Arts relies primarily on gifts from foundations, corporations, public funds, fundraising events, and individuals to fund the ongoing operation of its programs.

Inner-City Arts' students are among the nation's most at risk of failure to achieve in school, facing severe challenges manifesting from conditions of poverty. A high proportion of its students struggle to meet minimum standards of academic achievement, impaired in part by language barriers. The more than 50 elementary, middle and high schools served by Inner-City Arts reflect a combined enrollment of more than 48,500 that is 78% Latino, 14% African American, and 8% Asian American. Of the total population, 80% are classified as having limited English proficiency and 100% participate in the free/reduced lunch program, coming from households that earn an income that is at or below poverty level.

Inner-City Arts offers instructional day programs, after-school and weekend programs to Kindergarten through 12th grade students and young adults. Core instructional day classes reflect the basic program offering at Inner-City Arts, providing elementary and middle school students learning in the visual and performing arts over multi-week sessions held at the Inner-City Arts campus. Through the delivery of sequential arts-based literacy instruction provided at the Inner-City Arts campus, studies have shown its programs are successful in fostering improved literacy levels, while building art and other academic skills.

The Inner-City Arts - Annenberg Professional Development Program provides training to in-service and pre-service teachers, serving over 1,000 annually. The in-service components of the program serve teachers from Los Angeles County, California and other states. The pre-service component of the program provides two accredited courses for UCLA graduate students receiving their teaching credential and M.A. degree. This program supports the essential role that teachers play in their students' ability to think, learn and achieve, creating classrooms where learning is enhanced in all core subjects. The program exposes teachers to new ways of thinking about creativity and the arts and also provides new approaches to student learning in all core subject areas. All instruction in the program is aligned with current research on brain-based teaching strategies (as delineated in the growing field of neuro-education), the strands of the California Content Standards for the Visual and Performing Arts (VAPA), and best practices in stand-alone arts instruction, as well as arts-integrated approaches. Teachers' capacity to create successful learning environments is increased as they gain tools to provide learning-centered education.

Inner-City Arts currently serves over 1,400 students, families, and community members during after-school hours and on weekends. Working with local social service agencies, local agencies and schools, other arts institutions, and local communities, students and their families travel to Inner-City Arts after school and on the weekends for workshops in the visual and performing arts, and for performances and workshops in the Rosenthal Theater.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - ORGANIZATION (continued)

Local long-term research in 1997-2002, funded by the U.S. Department of Education, has shown that students who attend Inner-City Arts classes show dramatic increases in statewide standardized test scores: 25% in mathematics, 18% in reading, 8% in English proficiency. They also learn skills that are highly valued in the workforce such as collaboration, and creative and conceptual thinking. Research indicates students who receive education in the arts are able to create a whole new vision of self- a new world of hope that includes increased self-confidence, accomplishment, and belonging.

Inner-City Arts campus features visual arts and performing arts buildings, two ceramic studios, a state-of-the-art theater, a curriculum development center and a parent-teacher resource center.

Inner-City Arts received the prestigious Rudy Bruner Award for Urban Excellence in 2009. Inner-City Arts was recognized for the high quality design of the campus and how it contributes to the social, economic and environmental conditions to improve our nation's cities.

The after-school programs were expanded in 2010 to include new programming for high school students in animation, dance, theater, visual and media arts, and stand-up comedy.

In 2010, Los Angeles Unified School District (LAUSD), together with Inner-City Arts, was awarded a four-year, \$1.3 million U.S. Department of Education Arts in Education Model Development and Dissemination (AEMDD) grant. The project allows for the expansion and evaluation of an innovative, cohesive model which provides standards-based arts education effective in improving academic performance among LAUSD English learners. Inner-City Arts' contract with LAUSD runs through 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Inner-City Arts are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted Net Assets.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Unrestricted Board Designated Net Assets.** Board Designated Reserves are intended to assure long-term sustainability of programs, program expansion and capital expenditures. For purposes of complying with net assets accounting, this fund is included in unrestricted net assets at December 31, 2013. Inner-City Arts has a total of \$700,000 of board designated net assets at December 31, 2013.
- **Temporarily Restricted Net Assets.** Inner-City Arts reports gifts of cash and other assets as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. Inner-City Arts has \$1,515,820 in temporarily restricted net assets at December 31, 2013.
- **Permanently Restricted Net Assets.** Donors stipulate that these resources are to be maintained permanently but permit Inner-City Arts to expend the income that is over the "Provision for Inflation" amount as established by the Board of Directors (See Note 11). Inner-City Arts has \$792,547 in permanently restricted net assets at December 31, 2013.

(c) CASH AND CASH EQUIVALENTS

Inner-City Arts has defined cash and cash equivalents as cash in banks and other financial instruments with an original maturity date of three months or less. The carrying value of cash and cash equivalents at December 31, 2013 approximates its fair value.

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

(e) GRANTS AND ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. As of December 31, 2013, all grants and accounts receivable are deemed collectible; therefore, no allowance for doubtful accounts has been provided.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional promises to give are recorded at fair value and are recognized as revenues in the period received. Unconditional promises are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

(g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation, if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Estimated useful lives are as follows:

Buildings	39 Years
Building Improvements	36 - 39 Years
Furniture, Fixtures and Equipment	3 - 12 Years

Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the unit cost is greater than or equal to five thousand dollars and the useful life is greater than one year.

(h) LONG-LIVED ASSETS

Inner-City Arts evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated value. No such impairment losses have been recognized during the year ended December 31, 2013.

(i) DEFERRED REVENUE

Grant funds received in advance are recorded as deferred revenue and recognized as they are earned.

(j) CONTRIBUTIONS IN-KIND

Contributions of donated non-cash 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 which 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. For the year ended December 31, 2013, contributions in-kind consisting of materials and facility use totaled \$8,147.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) CONCENTRATION OF CREDIT RISK

Inner-City Arts' operating cash accounts are held with high-credit, quality financial institutions. At times, such cash accounts may be in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit. Inner-City Arts has not incurred losses related to these cash accounts.

Inner-City Arts holds investments in the form of certificates of deposit, U.S. and international equities index funds, and fixed income bonds. Market values of such investments are routinely reviewed by the Finance Committee. Investments in certificates of deposit do not exceed the FDIC's insurance limit (See Note 3).

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect those amounts reported in the financial statements.

(l) INCOME TAXES

Inner-City Arts is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Inner-City Arts' programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Inner-City Arts uses salary dollars, headcount, and square footage to allocate indirect costs.

(n) USE OF ESTIMATES

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

(o) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Inner-City Arts' financial statements for the year ended December 31, 2012 from which the summarized information was derived.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) SUBSEQUENT EVENTS

Inner-City Arts has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2013 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 23, 2014, the date these financial statements were available to be issued. No such material events and transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

Investments at December 31, 2013 consist of the following:

Money Market Funds	\$ 1,049,501
Certificates of Deposit	2,404,998
U.S. Equities - Large Cap Index Funds	295,877
U.S. Equities - Middle Cap Index Funds	119,359
U.S. Equities - Small Cap Index Funds	128,446
International Equities Index Funds - Large Blend	54,145
Equities - Large and Middle Cap	500
Fixed Income - Intermediate Term Bonds	298,460
<i>TOTAL INVESTMENTS</i>	<u><u>\$ 4,351,286</u></u>

All certificates of deposit mature within one year.

Investment income for the year ended December 31, 2013 consists of the following:

Interest and Dividend Income	\$ 25,908
Realized Losses on Investments	(2,565)
Unrealized Gains on Investments	120,271
<i>TOTAL INVESTMENT INCOME</i>	<u><u>\$ 143,614</u></u>

NOTE 4 - FAIR VALUE MEASUREMENTS

Inner-City Arts implemented an accounting standard which defines fair value for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. The statement applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

The following table presents information about Inner-City Arts' assets that are measured at fair value on a recurring basis at December 31, 2013 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2013	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 1,049,501	\$ 1,049,501	\$ -	\$ -
Certificates of Deposit	2,404,998	-	2,404,998	-
U.S. Equities - Large Cap Index Funds	295,877	295,877	-	-
U.S. Equities - Middle Cap Index Funds	119,359	119,359	-	-
U.S. Equities - Small Cap Index Funds	128,446	128,446	-	-
International Equities Index Funds - Large Blend	54,145	54,145	-	-
Equities - Large and Middle Cap	500	500	-	-
Fixed Income - Intermediate Term Bonds	298,460	298,460	-	-
TOTAL INVESTMENTS	\$ 4,351,286	\$ 1,946,288	2,404,998	\$ -

The fair values of marketable securities within Level 1 were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The fair values of the certificates of deposit within Level 2 were determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2013 are expected to be collected as follows:

Years Ending December 31	
2014	\$ 247,250
2015	208,500
2016	67,500
2017	17,500
2018	3,542
TOTAL	544,292
Less: Discount on Pledges Receivable	(33,418)
Less: Allowance for Uncollectible Pledges	(10,750)
PLEDGES RECEIVABLE (NET)	\$ 500,124

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NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5 - PLEDGES RECEIVABLE (continued)

Current Portion	\$ 247,250
Non-Current Portion	<u>252,874</u>
TOTAL	\$ <u>500,124</u>

Conditional promises to give are not included in the financial statements as contributions receivable and revenue is not recognized until conditions are met.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 consist of the following:

Buildings	\$ 12,430,895
Land	1,623,072
Building Improvements	661,033
Furniture, Fixtures and Equipment	<u>215,189</u>
TOTAL	14,930,189
Less: Accumulated Depreciation	<u>(2,854,850)</u>
PROPERTY AND EQUIPMENT (NET)	\$ <u>12,075,339</u>

Depreciation expense for the year ended December 31, 2013 was \$358,648.

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2013 consist of the following:

Accrued Vacation	\$ 60,827
Accrued Expense	<u>74,998</u>
TOTAL ACCRUED LIABILITIES	\$ <u>135,825</u>

NOTE 8 - DEFERRED REVENUE

In May 1999, Inner-City Arts was awarded a \$702,213 grant from Proposition K- L.A. for Kids Funds through the City of Los Angeles. The grant was for the construction of one of Inner-City Arts' buildings and for providing services to inner-city children and their families for a period of twenty years. The grant is earned at \$35,111 annually. The deferred revenue at December 31, 2013 was \$351,107.

In January 2007, Inner-City Arts was awarded a \$190,000 grant from the Community Development Department (CDD) of the City of Los Angeles of which only \$98,641 will be repaid with services monitored by CDD and will be amortized over a period of five years. Amortization began when Inner-City Arts utilized the building in September 2008. The grant paid for allowable expenses relating to construction of the performing arts theater. The grant is earned at \$19,728 annually. There was no deferred revenue at December 31, 2013 related to this grant, as the award was fully earned as of December 31, 2013.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 - DEFERRED REVENUE (continued)

Inner-City Arts pre-sold tickets related to an event that occurred in January, 2014. Inner-City Arts received funds for these pre-sale tickets in the amount of \$746. Additionally, Inner-City Arts pre-billed program services through May 2014 of \$8,056 and received \$25,000 in sponsorship revenue for its 2014 Summer on 7th fundraising event, resulting in a deferred revenue balance of \$33,802 at December 31, 2013.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

Inner-City Arts leases a parking facility located in Los Angeles under a non-cancelable operating lease expiring on October 31, 2014, with an option to extend the lease through October 31, 2016.

Minimum future rental payments under this operating lease are as follows:

Year Ending December 31, 2014	\$	40,000
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Rent expense under this facility operating lease for the year ended December 31, 2013 was \$48,000.

(b) GOVERNMENT GRANTS

Inner-City Arts' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Inner-City Arts has no provision for the possible disallowance of program costs on its financial statements. The reader should review the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" dated April 23, 2014 which contains the auditors' report on compliance with government requirements and on the internal control structure of Inner-City Arts and which states that auditors' tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013 consist of the following:

Dance Academy	\$	307,297
Time Restriction		197,917
Ceramics		180,354
Animation		159,048
Work of Art		149,130
Graphic Design		128,216
Busing		88,786
Performing, Visual & Media Arts Institutes		80,000
Learning & Achieving Through the Arts		52,083
Endowment Management Account		25,198
Visual Arts		25,000
Programs-Individually under \$25,000		122,791
<i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i>	\$	<u>1,515,820</u>

NOTE 11 - ENDOWMENTS

Inner-City Arts endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to provide a permanent endowment.

Inner-City Arts management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for Inner-City Arts' endowments is to preserve the real purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The endowments are also managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds Inner-City Arts' existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that is based on inflation as measured by the Consumer Price Index. Over the short term, Inner-City Arts seeks to obtain a return for each element of the endowment portfolio that would match or exceed each of the returns for the broader capital markets in which assets are invested. Inner-City Arts shall not engage in margin transactions, short selling, commodity transactions or use of derivatives.

Inner-City Arts has established a spend rate policy for distribution of investment return (excluding unrealized gains) in excess of the following inflationary provision:

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 11 - ENDOWMENTS (continued)

To guard against inflation, all or part of the investment return on endowment fund is to be added to the fund's principal at the end of the calendar year by the lower of:

1. That calendar year's average monthly percent change on Consumer Price Index, All Urban Consumers, U.S. city average, All items (CPI), or 1%, on average fund balance for the year, whichever is higher.
2. The net earnings of the endowment fund during the year.

Inner City Arts' endowments at December 31, 2013 consist of the following:

Changes in Endowment Net Assets for the Year Ended December 31, 2013	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 91,685	\$ 778,552	\$ 870,237
Contributions		2,600	2,600
Inflationary Growth	(11,395)	11,395	-
Investment Income	13,931	-	13,931
Unrealized Gain	99,492	-	99,492
Appropriation of Endowment Assets for Expenditure	(658)	-	(658)
Endowment Annual Fee	(215)	-	(215)
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	<i>\$ 192,840</i>	<i>\$ 792,547</i>	<i>\$ 985,387</i>