

INNER-CITY ARTS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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YEAR ENDED DECEMBER 31, 2015

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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, 2015, 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, 2015 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' 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, 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 October 6, 2016, 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

October 6, 2016
Los Angeles, California

INNER-CITY ARTS

STATEMENT OF FINANCIAL POSITION December 31, 2015 With Summarized Totals at December 31, 2014

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 259,888	\$ -	\$ -	\$ 259,888	\$ 255,360
Investments	1,914,842	957,515	-	2,872,357	3,280,285
Grants and Accounts Receivable	230,864	-	-	230,864	298,650
Pledges Receivable (Net)	136,173	199,276	60,000	395,449	817,022
Prepaid Expenses	58,919	-	-	58,919	57,305
TOTAL CURRENT ASSETS	2,600,686	1,156,791	60,000	3,817,477	4,708,622
PROPERTY AND EQUIPMENT (Net)	11,622,565	-	-	11,622,565	11,847,662
OTHER ASSETS:					
Investments-Board Designated	1,012,872	-	-	1,012,872	725,575
Investments-Permanently Restricted	-	-	1,227,511	1,227,511	1,066,388
Pledges Receivable (Net)	-	152,077	209,262	361,339	220,718
TOTAL OTHER ASSETS	1,012,872	152,077	1,436,773	2,601,722	2,012,681
TOTAL ASSETS	\$ 15,236,123	\$ 1,308,868	\$ 1,496,773	\$ 18,041,764	\$ 18,568,965
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts Payable	\$ 43,562	\$ -	\$ -	\$ 43,562	\$ 20,251
Accrued Liabilities	134,593	-	-	134,593	210,859
Deferred Revenue	311,111	-	-	311,111	253,111
TOTAL CURRENT LIABILITIES	489,266	-	-	489,266	484,221
OTHER LIABILITIES:					
Deferred Revenue	465,774	-	-	465,774	716,885
TOTAL LIABILITIES	955,040	-	-	955,040	1,201,106
NET ASSETS:					
Unrestricted	13,268,211	-	-	13,268,211	13,713,497
Unrestricted Board Designated	1,012,872	-	-	1,012,872	725,575
Temporarily Restricted	-	1,308,868	-	1,308,868	1,862,399
Permanently Restricted	-	-	1,496,773	1,496,773	1,066,388
TOTAL NET ASSETS	14,281,083	1,308,868	1,496,773	17,086,724	17,367,859
TOTAL LIABILITIES AND NET ASSETS	\$ 15,236,123	\$ 1,308,868	\$ 1,496,773	\$ 18,041,764	\$ 18,568,965

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT:					
Contributions	\$ 1,008,123	\$ 1,275,900	\$ 416,986	\$ 2,701,009	\$ 2,584,574
Special Events (Net of \$315,537 of Direct Benefit to Donors)	791,689	-	-	791,689	1,069,768
Grants	175,794	-	-	175,794	244,693
Investment Income (Loss) (Net)	(10,465)	(15,516)	13,399	(12,582)	97,115
Contributions In-Kind	24,848	-	-	24,848	19,018
Rental Income	15,740	-	-	15,740	46,480
Fee Income	32,848	-	-	32,848	42,586
Miscellaneous	544	-	-	544	(463)
Net Assets Released from Purpose Restrictions	1,813,915	(1,813,915)	-	-	-
TOTAL REVENUE AND SUPPORT	3,853,036	(553,531)	430,385	3,729,890	4,103,771
EXPENSES:					
Program Services	2,930,095	-	-	2,930,095	2,885,502
Management and General	497,864	-	-	497,864	440,279
Fundraising	583,066	-	-	583,066	556,046
TOTAL EXPENSES	4,011,025	-	-	4,011,025	3,881,827
CHANGE IN NET ASSETS	(157,989)	(553,531)	430,385	(281,135)	221,944
Net Assets - Beginning of Year	14,439,072	1,862,399	1,066,388	17,367,859	17,145,915
NET ASSETS - END OF YEAR	<u>\$ 14,281,083</u>	<u>\$ 1,308,868</u>	<u>\$ 1,496,773</u>	<u>\$ 17,086,724</u>	<u>\$ 17,367,859</u>

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015			Total Expenses	2014 Total Expenses
	Program Services	Management and General	Fundraising		
Salaries	\$ 1,688,297	\$ 275,721	\$ 425,562	\$ 2,389,580	\$ 2,210,428
Payroll Taxes	146,414	19,697	34,472	200,583	177,407
Employee Benefits	146,260	23,829	35,096	205,185	189,189
TOTAL PERSONNEL COSTS	1,980,971	319,247	495,130	2,795,348	2,577,024
Depreciation	362,148	11,335	11,335	384,818	360,196
Independent Artists and Art Class Services	109,680	-	-	109,680	122,707
Professional and Other Service Fees	51,191	33,470	16,851	101,512	209,052
Utilities	75,658	2,415	2,415	80,488	83,158
Studio and Office Supplies	56,809	3,444	2,808	63,061	63,618
Strategic Planning	-	61,735	-	61,735	-
Repairs and Maintenance	57,027	1,150	1,150	59,327	74,856
Children Transportation and Parking Expenses	58,927	-	-	58,927	57,492
Equipment	48,564	3,712	2,576	54,852	97,581
Donor Cultivation and Board Meetings	-	9,539	24,855	34,394	-
Property and Liability Insurance	29,398	938	938	31,274	29,551
Program Evaluation and Other Services	30,008	-	-	30,008	72,639
Telephone	11,695	2,785	7,797	22,277	16,556
Bad Debt Expense	-	21,760	-	21,760	14,250
In-Kind Expenses	17,001	1,135	663	18,799	9,322
Advertising, Promotions and Entertainment	2,165	6,574	8,449	17,188	13,729
Taxes and Licenses	11,636	700	371	12,707	12,640
Credit Card Merchant Fees and Bank Charges	-	12,216	-	12,216	12,091
Program Events Expenses	11,922	-	-	11,922	24,854
Travel	5,635	1,826	31	7,492	9,648
Dues and Subscriptions	2,262	2,781	2,051	7,094	4,876
Conferences	3,881	282	1,060	5,223	5,184
Postage	307	529	2,446	3,282	4,298
Printing	585	291	2,140	3,016	3,410
Awards to Individuals	2,625	-	-	2,625	3,095
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 2,930,095	\$ 497,864	\$ 583,066	\$ 4,011,025	
TOTAL 2014 FUNCTIONAL EXPENSES		\$ 440,279	\$ 556,046		\$ 3,881,827

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

With Summarized Totals for the Year Ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (281,135)	\$ 221,944
Adjustment to Reconcile Change in Net Assets to Cash Provided by (Used in) Operating Activities:		
Depreciation	384,818	360,196
Unrealized Losses (Gains) on Investments	96,270	(21,805)
Re-invested Dividends, Interest, and Realized Losses (Gains) on Investments	(83,688)	(75,310)
Allowance for Doubtful Pledges	21,760	14,250
Contributions Restricted for Long-Term Purposes	(416,986)	(253,550)
Investment Income Restricted for Long-Term Purposes	(13,399)	(20,291)
Discount on Pledges Receivable	10,433	11,779
(Increase) Decrease in:		
Grants and Accounts Receivable	46,026	(15,875)
Pledges Receivable	539,781	(563,645)
Prepaid Expenses	(1,614)	(7,306)
Increase (Decrease) in:		
Accounts Payable	23,311	2,617
Accrued Liabilities	(76,266)	75,034
Deferred Revenue	(193,111)	585,087
	56,200	313,125
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	56,200	313,125
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(159,721)	(132,519)
Purchase of Investments	(7,143,387)	(8,137,001)
Sale of Investments	7,090,313	7,513,154
	(212,795)	(756,366)
NET CASH USED IN INVESTING ACTIVITIES		
	(212,795)	(756,366)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Long-Term Purposes	147,724	253,550
Investment Income Restricted for Long-Term Purposes	13,399	20,291
	161,123	273,841
NET CASH PROVIDED BY FINANCING ACTIVITIES		
	161,123	273,841
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,528	(169,400)
Cash and Cash Equivalents - Beginning of Year	255,360	424,760
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 259,888	\$ 255,360

The Accompanying Notes are an Integral Part of These Financial Statements

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 more than 10,000 children and youth, educators, school community 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, as well as, offering programs during out of school hours. 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 70 elementary, middle and high schools (primarily within the Los Angeles Unified School District's (LAUSD) Educational Service Centers-East, South and Central) served by Inner-City Arts reflect a combined enrollment of more than 56,000 that is 74% Latino, 12% African American, and 14% Asian American. Of the total population, 83% are classified as having limited English proficiency and 100% are enrolled in Title I schools that 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, weekend and summer programs to Kindergarten through 12th grade students and young adults. Core instructional day classes reflect the foundational 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.

A new program that is an extension of Inner-City Arts' High School Institutes is Work of Art. Work of Art is a college and career exploration model designed to prepare teens with the skills, training and real-world experience necessary to prepare them for life beyond high school. The pilot program with eight students began in 2013. Now established with year-round activities, Work of Art will enroll a total of 50 students in 2016.

The Inner-City Arts Professional Development Program provides training to in-service and pre-service teachers, serving 1,000 annually. The in-service components of the program serve teachers from primarily Los Angeles County. 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

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - ORGANIZATION (continued)

Inner-City Arts also engages 3,500 members of the students' families and school communities, and the community at large, in a variety of activities each year anchored by the Rosenthal Theater. Working with local social service agencies, community groups, schools and other arts institutions, participants travel to Inner-City Arts after school and on the weekends for workshops in the visual and performing arts performances and presentations.

Partnering with the Los Angeles Unified School District (LAUSD), Inner-City Arts recently completed a four-year evaluation of Learning and Achieving Through the Arts (LATA) funded by the U.S. Department of Education. The project implemented a systemic model for bringing arts integration to the core of learning in elementary schools. The results of the evaluation demonstrate that the LATA model successfully achieved the vast majority of its objectives throughout the project and brought a significant change to the participating elementary schools, including measurable impact on: student academic achievement in mathematics and English language arts (particularly among English language learners), student creativity and learning in the arts, and improved overall professional learning communities among teachers, particularly increasing teacher use of stand-alone and arts-integrated instruction.

The 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. Because of its focus on excellence in creative place making, the Inner-City Arts campus was recognized with the prestigious Rudy Bruner Award for Urban Excellence in 2009. Inner-City Arts was acknowledged 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.

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, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Unrestricted Board Designated Net Assets.** Board Designated Reserves and investment earnings on these 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, 2015. Inner-City Arts has a total of \$1,012,872 of board designated net assets at December 31, 2015.
- **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 \$1,308,868 in temporarily restricted net assets at December 31, 2015.
- **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 \$1,496,773 in permanently restricted net assets at December 31, 2015.

(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, 2015 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, 2015, 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, 2015

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, 2015.

(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, 2015, contributions in-kind consisting of materials and facility use totaled \$24,848.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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, 2014 from which the summarized information was derived.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) NEW ACCOUNTING PRONOUNCEMENT

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Inner-City Arts, the ASU will be effective for the year ending December 31, 2019.

(q) SUBSEQUENT EVENTS

Inner-City Arts has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2015 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 6, 2016, 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, 2015 consist of the following:

Money Market Funds	\$	1,150,242
Certificates of Deposit		1,628,128
U.S. Equities - Large Cap Index Funds		703,474
U.S. Equities - Middle Cap Index Funds		268,051
U.S. Equities - Small Cap Index Funds		266,468
International Equities Index Funds - Large Blend		134,705
Fixed Income - Intermediate Term Bonds		961,672
TOTAL INVESTMENTS	\$	5,112,740

All certificates of deposit mature within one year.

Investment loss (net) for the year ended December 31, 2015 consists of the following:

Interest and Dividend Income	\$	85,467
Realized Losses on Investments		(1,779)
Unrealized Losses on Investments		(96,270)
TOTAL INVESTMENT LOSS (NET)	\$	(12,582)

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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).

The following table presents information about Inner-City Arts' assets that are measured at fair value on a recurring basis at December 31, 2015 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2015	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	\$ 1,150,242	\$ 1,150,242	\$ -	\$ -
Certificates of Deposit	1,628,128	-	1,628,128	-
U.S. Equities -				
Large Cap Index Funds	703,474	703,474	-	-
U.S. Equities -				
Middle Cap Index Funds	268,051	268,051	-	-
U.S. Equities -				
Small Cap Index Funds	266,468	266,468	-	-
International Equities Index				
Funds - Large Blend	134,705	134,705	-	-
Fixed Income -				
Intermediate Term Bonds	961,672	961,672	-	-
TOTAL INVESTMENTS	\$ 5,112,740	\$ 3,484,612	\$ 1,628,128	\$ -

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.

* Please refer to Note 11 - Endowments.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2015 are expected to be collected as follows:

Years Ending December 31	
2016	\$ 395,449
2017	137,185
2018	121,134
2019	115,000
2020	<u>60,000</u>
TOTAL	828,768
Less: Discount on Pledges Receivable Ranging from 3.1% to 5.13%	(55,630)
Less: Allowance for Uncollectible Pledges	<u>(16,350)</u>
PLEDGES RECEIVABLE (NET)	\$ 756,788
Current Portion	\$ 395,449
Non-Current Portion	<u>361,339</u>
TOTAL	\$ 756,788

Conditional promises to give are not included in the financial statements as contributions receivable and revenue is not recognized until conditions are met, refer to Note 8.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 consist of the following:

Buildings	\$ 12,430,895
Land	1,623,072
Building Improvements	889,071
Furniture, Fixtures and Equipment	<u>272,112</u>
TOTAL	15,215,150
Less: Accumulated Depreciation	<u>(3,592,585)</u>
PROPERTY AND EQUIPMENT (NET)	\$ 11,622,565

Depreciation expense for the year ended December 31, 2015 was \$384,818.

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2015 consist of the following:

Accrued Vacation	\$ 78,347
Accrued Payroll	30,068
Accrued Expense	<u>26,178</u>
TOTAL ACCRUED LIABILITIES	\$ 134,593

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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. Included in deferred revenue at December 31, 2015 is \$280,885 related to this grant.

In September 2014, Inner-City Arts was awarded a conditional \$1,000,000 grant by The Walt Disney Company to support the capital and program expansion of the Creative Lab over four years, starting in 2014 and ending in 2017. As a result, \$564,000 of the grant has been recognized in revenue as of December 31, 2015, with the remaining balance of \$436,000 included in deferred revenue at December 31, 2015, as cash was received in 2014. Per the award, the remaining revenue will be recognized as follows: \$216,000 in 2016 and \$220,000 in 2017.

In October 2015, a \$10,000 donation was received for sponsorship of the 2016 Imagine Awards, which is included in deferred revenue at December 31, 2015. In November 2015, a \$50,000 donation was received for the permanent endowment with a condition that was not met as of December 31, 2015 and therefore this amount was included in deferred revenue.

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, which was amended in August 2014 to extend until October 31, 2016, with an option to extend the lease through October 31, 2018.

In November 2014, Inner-City Arts entered into a lease for a copying machine effective for a five year period expiring in November 2019.

Minimum future payments under non-cancelable operating leases and service contracts as segregated by major classes are as follows:

Years Ending December 31	Equipment	Parking Facility	Total
2016	\$ 4,632	\$ 43,264	\$ 47,896
2017	4,632	-	4,632
2018	4,632	-	4,632
2019	3,860	-	3,860
TOTAL	\$ 17,756	\$ 43,264	\$ 61,020

Total rent expense under all operating leases in effect during the year ended December 31, 2015 was \$56,979.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

(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 October 6, 2016 which contains the auditor's report on compliance with government requirements and on the internal control structure of Inner-City Arts and which states that auditor's tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 consist of the following:

Time Restriction	\$	410,042
Animation		200,000
Learning & Achieving Through the Arts		371,250
Dance Academy		123,717
Busing		77,786
Programs-Individually under \$25,000		58,573
Theater		40,833
Teacher Professional Development		26,667
		<hr/>
TOTAL TEMPORARILY		
RESTRICTED NET ASSETS	\$	<u>1,308,868</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.

INNER-CITY ARTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - ENDOWMENTS (continued)

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. Funds are invested in securities designated as Level 1 (refer to Note 4). 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:

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, 2015 consist of the following:

Changes in Endowment Net Assets for the Year Ended December 31, 2015	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 208,271	\$ 1,066,388	\$ 1,274,659
Contributions	-	416,986	416,986
Inflationary Growth	(13,399)	13,399	-
Investment Income	46,971	-	46,971
Unrealized Loss	(48,568)	-	(48,568)
Appropriation of Endowment Assets for Expenditure	(60,277)	-	(60,277)
Endowment Annual Fee	-	-	-
<i>ENDOWMENT NET ASSETS - END OF YEAR</i>	<i>\$ 132,998</i>	<i>\$ 1,496,773</i>	<i>\$ 1,629,771</i>

Included in permanently restricted endowments at December 31, 2015 are pledges receivable of \$269,262.

NOTE 12 - RETIREMENT PLAN

Inner-City Arts established a 403(b) plan, full-time employees are eligible to participate in the plan. Eligible employees may make a salary reduction election under the plan. Inner-City Arts did not contribute to the plan for the year ended December 31, 2015.