

**INNER-CITY ARTS**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

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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, 2016, 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, 2016 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' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 28, 2017, 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 28, 2017  
Los Angeles, California

## INNER-CITY ARTS

### STATEMENT OF FINANCIAL POSITION December 31, 2016 With Summarized Totals at December 31, 2015

ASSETS	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>CURRENT ASSETS:</b>					
Cash and Cash Equivalents	\$ 641,271	\$ -	\$ -	\$ 641,271	\$ 259,888
Investments	2,279,832	1,299,281	-	3,579,113	2,872,357
Grants and Accounts Receivable	185,396	-	-	185,396	230,864
Pledges Receivable (Net)	-	21,126	60,000	81,126	395,449
Prepaid Expenses	60,511	-	-	60,511	58,919
<b>TOTAL CURRENT ASSETS</b>	3,167,010	1,320,407	60,000	4,547,417	3,817,477
<b>PROPERTY AND EQUIPMENT (Net)</b>	11,231,609	-	-	11,231,609	11,622,565
<b>OTHER ASSETS:</b>					
Investments-Board Designated	1,114,213	-	-	1,114,213	1,012,872
Investments-Permanently Restricted	-	-	1,300,200	1,300,200	1,227,511
Pledges Receivable (Net)	-	21,914	159,265	181,179	361,339
<b>TOTAL OTHER ASSETS</b>	1,114,213	21,914	1,459,465	2,595,592	2,601,722
<b>TOTAL ASSETS</b>	\$ 15,512,832	\$ 1,342,321	\$ 1,519,465	\$ 18,374,618	\$ 18,041,764
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts Payable	\$ 48,233	\$ -	\$ -	\$ 48,233	\$ 43,562
Accrued Liabilities	160,097	-	-	160,097	134,593
Deferred Revenue	571,361	-	-	571,361	311,111
<b>TOTAL CURRENT LIABILITIES</b>	779,691	-	-	779,691	489,266
<b>OTHER LIABILITIES:</b>					
Deferred Revenue	210,664	-	-	210,664	465,774
<b>TOTAL LIABILITIES</b>	990,355	-	-	990,355	955,040
<b>NET ASSETS:</b>					
Unrestricted	13,408,264	-	-	13,408,264	13,268,211
Unrestricted Board Designated	1,114,213	-	-	1,114,213	1,012,872
Temporarily Restricted	-	1,342,321	-	1,342,321	1,308,868
Permanently Restricted	-	-	1,519,465	1,519,465	1,496,773
<b>TOTAL NET ASSETS</b>	14,522,477	1,342,321	1,519,465	17,384,263	17,086,724
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 15,512,832	\$ 1,342,321	\$ 1,519,465	\$ 18,374,618	\$ 18,041,764

The Accompanying Notes are an Integral Part of These Financial Statements

## INNER-CITY ARTS

### STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

With Summarized Totals for the Year Ended December 31, 2015

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>REVENUE AND SUPPORT:</b>					
Contributions	\$ 981,320	\$ 1,588,264	\$ 2,030	\$ 2,571,614	\$ 2,701,009
Special Events (Net of \$399,699 of Direct Benefit to Donors)	800,314	-	-	800,314	791,689
Grants	271,804	-	-	271,804	175,794
Investment Income (Loss) (Net)	250,765	(5,621)	20,662	265,806	(12,582)
Contributions In-Kind	29,264	-	-	29,264	24,848
Rental Income	48,845	-	-	48,845	15,740
Fee Income	285,969	-	-	285,969	32,848
Miscellaneous	4,524	-	-	4,524	544
Net Assets Released from Purpose Restrictions	1,549,190	(1,549,190)	-	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>4,221,995</b>	<b>33,453</b>	<b>22,692</b>	<b>4,278,140</b>	<b>3,729,890</b>
<b>EXPENSES:</b>					
Program Services	2,883,417	-	-	2,883,417	2,930,095
Management and General	503,327	-	-	503,327	497,864
Fundraising	593,857	-	-	593,857	583,066
<b>TOTAL EXPENSES</b>	<b>3,980,601</b>	<b>-</b>	<b>-</b>	<b>3,980,601</b>	<b>4,011,025</b>
<b>CHANGE IN NET ASSETS</b>	<b>241,394</b>	<b>33,453</b>	<b>22,692</b>	<b>297,539</b>	<b>(281,135)</b>
Net Assets - Beginning of Year	14,281,083	1,308,868	1,496,773	17,086,724	17,367,859
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 14,522,477</b>	<b>\$ 1,342,321</b>	<b>\$ 1,519,465</b>	<b>\$ 17,384,263</b>	<b>\$ 17,086,724</b>

The Accompanying Notes are an Integral Part of These Financial Statements

## INNER-CITY ARTS

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

With Summarized Totals for the Year Ended December 31, 2015

	2016			Total Expenses	2015 Total Expenses
	Program Services	Management and General	Fundraising		
Salaries	\$ 1,690,134	\$ 294,003	\$ 439,914	\$ 2,424,051	\$ 2,389,580
Payroll Taxes	144,636	20,932	34,285	199,853	200,583
Employee Benefits	161,785	25,616	23,882	211,283	205,185
<b>TOTAL PERSONNEL COSTS</b>	<b>1,996,555</b>	<b>340,551</b>	<b>498,081</b>	<b>2,835,187</b>	<b>2,795,348</b>
Depreciation	367,916	11,520	11,520	390,956	384,818
Professional and Other Service Fees	47,210	35,413	46,979	129,602	101,512
Utilities	75,413	2,407	2,407	80,227	80,488
Independent Artists and Art Class Services	64,067	-	-	64,067	109,680
Children Transportation and Parking Expenses	60,757	55	55	60,867	58,927
Repairs and Maintenance	57,081	1,822	1,822	60,725	59,327
Studio and Office Supplies	50,647	3,613	3,384	57,644	63,061
Strategic Planning	-	-	-	-	61,735
Property and Liability Insurance	37,883	1,209	1,209	40,301	31,274
Bad Debt Expense	-	32,942	-	32,942	21,760
Advertising, Promotions and Entertainment	3,018	17,281	8,940	29,239	17,188
In-Kind Expenses	21,720	6,839	15	28,574	18,799
Program Evaluation and Other Services	27,814	-	-	27,814	30,008
Equipment	20,263	2,300	2,567	25,130	54,852
Telephone	14,344	3,586	5,977	23,907	22,277
Donor Cultivation and Board Meetings	-	19,763	-	19,763	34,394
Taxes and Licenses	11,665	1,535	372	13,572	12,707
Program Events Expenses	12,587	-	-	12,587	11,922
Credit Card Merchant Fees and Bank Charges	-	12,109	-	12,109	12,216
Printing	2,494	1,332	5,876	9,702	3,016
Dues and Subscriptions	2,303	5,740	1,529	9,572	7,094
Awards to Individuals	6,000	-	-	6,000	2,625
Travel	1,544	2,093	84	3,721	7,492
Postage	373	787	2,450	3,610	3,282
Conferences	1,763	430	590	2,783	5,223
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 2,883,417</b>	<b>\$ 503,327</b>	<b>\$ 593,857</b>	<b>\$ 3,980,601</b>	
<b>TOTAL 2015 FUNCTIONAL EXPENSES</b>		<b>\$ 497,864</b>	<b>\$ 583,066</b>		<b>\$ 4,011,025</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**INNER-CITY ARTS**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2016

With Summarized Totals for the Year Ended December 31, 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 297,539	\$ (281,135)
Adjustment to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Depreciation	390,956	384,818
Unrealized Losses (Gains) on Investments	(199,673)	96,270
Re-invested Dividends, Interest, and Realized Losses (Gains) on Investments	(66,133)	(83,688)
Allowance for Doubtful Pledges	32,942	21,760
Contributions Restricted for Long-Term Purposes	(2,030)	(416,986)
Investment Income Restricted for Long-Term Purposes	(20,662)	(13,399)
Discount on Pledges Receivable	(31,809)	10,433
(Increase) Decrease in:		
Grants and Accounts Receivable	45,468	46,026
Pledges Receivable	493,350	539,781
Prepaid Expenses	(1,592)	(1,614)
Increase (Decrease) in:		
Accounts Payable	4,671	23,311
Accrued Liabilities	25,504	(76,266)
Deferred Revenue	5,140	(193,111)
	<b>973,671</b>	<b>56,200</b>
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
	<b>973,671</b>	<b>56,200</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	-	(159,721)
Purchase of Investments	(6,747,192)	(7,143,387)
Sale of Investments	6,132,212	7,090,313
	<b>(614,980)</b>	<b>(212,795)</b>
 <b>NET CASH USED IN INVESTING ACTIVITIES</b>		
	<b>(614,980)</b>	<b>(212,795)</b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions Restricted for Long-Term Purposes	2,030	147,724
Investment Income Restricted for Long-Term Purposes	20,662	13,399
	<b>22,692</b>	<b>161,123</b>
 <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
	<b>22,692</b>	<b>161,123</b>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>381,383</b>	<b>4,528</b>
Cash and Cash Equivalents - Beginning of Year	<b>259,888</b>	<b>255,360</b>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>		
	<b>\$ 641,271</b>	<b>\$ 259,888</b>

The Accompanying Notes are an Integral Part of These Financial Statements



# INNER-CITY ARTS

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### 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 within 7 miles of 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 12,000 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 and the effects of living in poverty. 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. This foundational program is taught by professional teaching artists, and is designed to engage students in their own creativity, strengthen language development, develop critical thinking skills, promote literacy and improve learning outcomes overall.

Inner-City Arts' Work of Art, is a college and career exploration program designed to prepare teens with the skills, training and real-world experience necessary to prepare them for employment and college 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 55 students in 2017.

# INNER-CITY ARTS

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### NOTE 1 - ORGANIZATION (continued)

The Inner-City Arts Professional Development Institute provides training to in-service and pre-service teachers, serving 1,100 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 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 professional artists and arts organizations, local social service agencies, community groups, and other schools, participants travel to Inner-City Arts after school and on the weekends for live performance by professional artists, and workshops in the visual and performing arts.

Partnering with the Los Angeles Unified School District (LAUSD), Inner-City Arts has completed four independent rigorous evaluations of Learning and Achieving Through the Arts (LATA), funded by the U.S. Department of Education (1996-2013). The evaluation projects have implemented a systemic model for bringing arts integration to the core of learning in elementary schools. The results of the evaluations demonstrated that the LATA model successfully achieved the vast majority of its objectives, bringing 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 black box 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.

# INNER-CITY ARTS

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### 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.
- **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, 2016. Inner-City Arts has a total of \$1,114,213 of board designated net assets at December 31, 2016.
- **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 \$1,342,321 in temporarily restricted net assets at December 31, 2016.
- **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 \$1,519,465 in permanently restricted net assets at December 31, 2016.

**INNER-CITY ARTS**

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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, 2016 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, 2016, all grants and accounts receivable are deemed collectible; therefore, no allowance for doubtful accounts has been provided.

**(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.

## INNER-CITY ARTS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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, 2016.

**(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, 2016, contributions in-kind consisting of materials and facility use totaled \$29,264.

**(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.

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.

# INNER-CITY ARTS

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(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, 2015 from which the summarized information was derived.

#### **(p) NEW ACCOUNTING PRONOUNCEMENTS**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For Inner-City Arts, the ASU will be effective for the year ending December 31, 2020.

In August 2016, FASB issued 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 Inner-City Arts, the ASU will be effective for the year ending December 31, 2019.

## INNER-CITY ARTS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (q) SUBSEQUENT EVENTS

Inner-City Arts has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 28, 2017, 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, 2016 consist of the following:

Money Market Funds	\$	975,265
Certificates of Deposit		2,223,157
U.S. Equities - Large Cap Index Funds		823,102
U.S. Equities - Middle Cap Index Funds		350,355
U.S. Equities - Small Cap Index Funds		365,804
International Equities Index Funds - Large Blend		149,175
Fixed Income - Intermediate Term Bonds		<u>1,106,668</u>
<b>TOTAL INVESTMENTS</b>	\$	<u><u>5,993,526</u></u>

All certificates of deposit mature within one year.

Investment income (net) for the year ended December 31, 2016 consists of the following:

Interest and Dividend Income	\$	67,004
Realized Losses on Investments		(871)
Unrealized Gains on Investments		<u>199,673</u>
<b>TOTAL INVESTMENT INCOME (NET)</b>	\$	<u><u>265,806</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, 2016

#### 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, 2016 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2016	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	\$ 975,265	\$ 975,265	\$ -	\$ -
Certificates of Deposit	2,223,157	-	2,223,157	-
U.S. Equities -				
Large Cap Index Funds	823,102	823,102	-	-
U.S. Equities -				
Middle Cap Index Funds	350,355	350,355	-	-
U.S. Equities -				
Small Cap Index Funds	365,804	365,804	-	-
International Equities Index				
Funds - Large Blend	149,175	149,175	-	-
Fixed Income -				
Intermediate Term Bonds	1,106,668	1,106,668	-	-
<b>TOTAL INVESTMENTS</b>	<b>\$ 5,993,526</b>	<b>\$ 3,770,369</b>	<b>\$ 2,223,157</b>	<b>\$ -</b>

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, 2016

#### NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2016 are expected to be collected as follows:

<b>Years Ending December 31</b>	
2017	\$ 111,126
2018	75,000
2019	70,000
2020	<u>60,000</u>
<b>TOTAL</b>	<b>316,126</b>
Less: Discount on Pledges Receivable Ranging from 3.1% to 5.13%	(23,821)
Less: Allowance for Uncollectible Pledges	<u>(30,000)</u>
<b>PLEDGES RECEIVABLE (NET)</b>	<b><u>\$ 262,305</u></b>
Current Portion	\$ 81,126
Non-Current Portion	<u>181,179</u>
<b>TOTAL</b>	<b><u>\$ 262,305</u></b>

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, 2016 consist of the following:

Buildings	\$ 12,430,895
Land	1,623,072
Building Improvements	889,071
Furniture, Fixtures and Equipment	<u>272,112</u>
<b>TOTAL</b>	<b>15,215,150</b>
Less: Accumulated Depreciation	<u>(3,983,541)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	<b><u>\$ 11,231,609</u></b>

Depreciation expense for the year ended December 31, 2016 was \$390,956.

#### NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2016 consist of the following:

Accrued Vacation	\$ 70,860
Accrued Payroll	45,067
Accrued Expense	<u>44,170</u>
<b>TOTAL ACCRUED LIABILITIES</b>	<b><u>\$ 160,097</u></b>

## INNER-CITY ARTS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### 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, 2016 is \$245,775 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, \$216,000 of the grant has been recognized in revenue as of December 31, 2016, with a balance of \$220,000 included in deferred revenue at December 31, 2016, as cash was received in 2015. Per the award, the remaining \$220,000 will be recognized to revenue in 2017.

In November 2015, a \$50,000 donation was received for the permanent endowment with a condition that was not met as of December 31, 2016 and therefore this amount was included in deferred revenue. In December 2016, a \$260,000 donation was received with conditions to be met in 2017 related to various program activities. The remainder of deferred revenue received in 2016 of \$6,250 is for other 2017 events or programs and as such will be recognized in 2017 as 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 October 2016 to extend until October 2018, with an option to extend the lease through October 31, 2020.

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:

<b>Years Ending December 31</b>	<b>Equipment</b>	<b>Parking Facility</b>	<b>Total</b>
2017	\$ 4,632	\$ 56,528	\$ 61,160
2018	4,632	48,670	53,302
2019	3,860	-	3,860
<b>TOTAL</b>	<b>\$ 13,124</b>	<b>\$ 105,198</b>	<b>\$ 118,322</b>

Total rent expense under all operating leases in effect during the year ended December 31, 2016 was \$57,255.

## INNER-CITY ARTS

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### 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 April 28, 2017 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, 2016 consist of the following:

Time Restriction	\$	115,000
Animation		150,000
Learning & Achieving Through the Arts		327,778
Dance Academy		177,360
Busing		55,000
Creativity Lab		49,759
Music		32,000
Performing, Visual & Media Arts		92,917
Programs-Individually under \$25,000		159,174
Teacher Professional Development		183,333
		<hr/>
<b>TOTAL TEMPORARILY</b>		
<b>RESTRICTED NET ASSETS</b>	\$	<b>1,342,321</b>
		<hr/>

#### 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, 2016

#### 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, 2016 consist of the following:

<b>Changes in Endowment Net Assets for the Year Ended December 31, 2016</b>	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	\$ 132,998	\$ 1,496,773	\$ 1,629,771
Contributions	-	2,030	2,030
Inflationary Growth	(20,662)	20,662	-
Investment Income	1,525	-	1,525
Unrealized Gain	5,029	-	5,029
Appropriation of Endowment Assets for Expenditure	(2,738)	-	(2,738)
Endowment Annual Fee	(50)	-	(50)
<b><i>ENDOWMENT NET ASSETS - END OF YEAR</i></b>	<b><u>\$ 116,102</u></b>	<b><u>\$ 1,519,465</u></b>	<b><u>\$ 1,635,567</u></b>

Included in permanently restricted endowments at December 31, 2016 are pledges receivable of \$219,265.

#### 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, 2016.