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#### INDEPENDENT AUDITOR'S REPORT

Board of Directors Inner-City Arts Los Angeles, California

We have audited the accompanying financial statements of Inner-City Arts (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of December 31, 2017, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inner-City Arts as of December 31, 2017, 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.

### **Change in Accounting Principle**

Inner-City Arts has early adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 Presentation of Financial Statements of Not-for-Profit Entities as discussed in Note 2. Our opinion is not modified with respect to that matter

# Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 3, 2018, on our consideration of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Armanino<sup>LLP</sup>

San Francisco, California

amarino LLP

May 3, 2018

# Inner-City Arts Statement of Financial Position December 31, 2017

### **ASSETS**

Current assets Cash Investments Grants and accounts receivable Pledges receivable, net Prepaid expenses Total current assets	\$ 801,579 2,556,496 311,507 450,940 67,066 4,187,588
Property and equipment, net	10,944,816
Long term assets Board-designated investments Endowment investments Pledges receivable, net of current portion Total long term assets	1,000,000 1,385,267 122,260 2,507,527
Total assets	\$ 17,639,931
LIABILITIES AND NET ASSETS	
Current liabilities Accounts payable Accrued liabilities Deferred revenue Total current liabilities	\$ 62,300 91,150 40,111 193,561
Deferred revenue, net of current portion Total liabilities	175,553 369,114
Commitments (Note 7)	
Net assets Net assets without donor restriction Net assets with donor restrictions Total net assets	14,386,241 <u>2,884,576</u> 17,270,817
Total liabilities and net assets	<u>\$ 17,639,931</u>

# Inner-City Arts Statement of Activities For the Year Ended December 31, 2017

		thout Donor estrictions	With Donor Restrictions		Total
Revenue and support					
Contributions	\$	1,424,371	\$ 1,062,230	\$	2,486,601
Special events (net of \$543,662 of direct benefit to		785,206	2,000		787,206
donors)		•	2,000		384,750
Grants		384,750	-		253,241
Fee income		253,241	-		
In-kind contributions		75,452	-		75,452
Investment income, net		254,578	90,242		344,820
Rental income		59,578	-		59,578
Miscellaneous		7,537	-		7,537
Net assets released from restriction		1,168,749	 (1,168,749)		-
Total revenue and support		4,413,462	 (14,277)		4,399,185
Functional expenses					
Program services		3,417,235	-		3,417,235
Management and general		467,473	-		467,473
Fundraising		664,990	 _		664,990
Total functional expenses		4,549,698	 -		4,549,698
Change in net assets from operations		(136,236)	(14,277)		(150,513)
Inflationary growth on endowment			 37,067	_	37,067
Change in net assets		(136,236)	22,790		(113,446)
Net assets, beginning of year		14,522,477	 2,861,786		17,384,263
Net assets, end of year	<u>\$</u>	14,386,241	\$ 2,884,576	\$	17,270,817

# Inner-City Arts Statement of Functional Expenses For the Year Ended December 31, 2017

D I		Program Services	Management and General	]	Fundraising	Total
Personnel expenses	_					
Salaries and wages	\$	1,955,211	\$ 303,488	\$	436,436	\$ 2,695,135
Payroll taxes		162,678	23,544		38,562	224,784
Employee benefits		169,933	 28,154		26,606	224,693
Total personnel expenses		2,287,822	355,186		501,604	3,144,612
Depreciation		370,469	12,429		11,676	394,574
Services and professional fees		169,358	33,262		99,259	301,879
Facility and occupancy		194,015	10,785		8,965	213,765
Supplies and travel		113,175	9,170		6,851	129,196
Independent artists and art class		112,170	5,170		0,051	129,190
services		124,353	_		_	124,353
Class transportation		77,380	_		_	77,380
Advertising and promotion		3,006	27,456		20,315	50,777
Insurance		33,773	1,078		1,078	35,929
Postage and printing		10,281	6,561		1,078	,
Program events and awards		27,684	0,501		11,374	28,416
Dues and subscriptions		3,393	10,587		2 121	27,684
Conferences, conventions and meetings		,			3,131	17,111
comercines, conventions and meetings		2,526	 959		537	 4,022
	<u>\$</u>	3,417,235	\$ 467,473	<u>\$</u>	664,990	\$ 4,549,698

# Inner-City Arts Statement of Cash Flows For the Year Ended December 31, 2017

Cash flows from operating activities Change in net assets	\$	(113,446)
Adjustments to reconcile change in net assets to net cash		
used in operating activities		
Depreciation		394,574
Reinvested interest and dividends		(68,209)
Unrealized and realized gains on investments		(313,678)
Contributions for endowment		(1,000)
Endowment investment income		(37,067)
Discount on pledges receivable		(8,081)
Changes in operating assets and liabilities		
Grants and accounts receivable		(126,111)
Pledges receivable		(302,814)
Prepaid expenses		(6,555)
Accounts payable		14,067
Accrued liabilities		(68,947)
Deferred revenue		(566,361)
Net cash used in operating activities	<u></u>	(1,203,628)
Cash flows from investing activities		
Purchases of property and equipment		(107,781)
Purchases of investments		(2,730,131)
Proceeds on sales of investments		4,163,781
Net cash provided by investing activities	<u></u>	1,325,869
Cash flows from financing activities		
Contributions for endowment		1,000
Endowment investment income		37,067
Net cash provided by financing activities		38,067
1.00 Calcar p. 20 Calcar C. 20		
Net increase in cash		160,308
Cash, beginning of year		641,271
Cash, end of year	<u>\$</u>	801,579
•		

#### 1. NATURE OF OPERATIONS

Inner-City Arts was incorporated on September 6, 1989 under the California nonprofit 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 enrolled a total of 55 students in 2017.

### 1. NATURE OF OPERATIONS (continued)

The Inner-City Arts Professional Development Institute provides training to inservice and preservice 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 neuroeducation), the strands of the California Content Standards for the Visual and Performing Arts (VAPA), and best practices in standalone 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Basis of accounting and financial statement presentation

The financial statements are reported according to the existence or absence of donor-imposed restrictions. Accordingly, balances and transactions are reported in the following classes of net assets:

- Net assets without donor restrictions Net assets not subject to donor-imposed stipulations.
- Net assets with donor restrictions Net assets subject to donor-imposed stipulations that will
  be met by actions of the Organization, and/or the passage of time, or are maintained in
  perpetuity by the Organization. When the donor-imposed stipulation ends or the Organization
  satisfies an action, the Organization reclassifies net assets with donor restrictions to net
  assets without donor restrictions. Donor-imposed stipulations which are met in the same
  reporting period as reported as without donor restriction.

#### 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, 2017 approximates its fair value.

#### **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. Realized and unrealized gains and losses are included in the statement of activities.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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

#### Grants and accounts receivable

Grants and accounts receivable 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, 2017, all grants and accounts receivable are deemed collectible; therefore, no allowance for doubtful accounts has been provided.

#### Pledges receivable

Pledges receivable are unconditional promises to give are discounted to present value utilizing risk free interest rates for similar assets with a similar cash flow period. As of December 31, 2017, the discount rates range from 3.1% to 5.13% 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.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment

Depreciation and amortization of property and equipment is computed using the straightline method over the following estimated useful lives:

Buildings	39 years
Building improvements	36-39 years
Furniture, fixtures and equipment	3 - 12 years

#### 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, 2017.

#### 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.

#### In-kind contributions

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, 2017, in-kind contributions consisting of materials and facility use totaled \$75,452.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deferred revenue

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

#### Functional 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.

#### Income tax status

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 current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. Management evaluated Inner-City Arts' tax positions and concluded that Inner-City Arts had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. Inner-City Arts is no longer subject to tax examinations by Federal and State tax authorities for tax years before 2013.

#### 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.

#### Subsequent events

Inner-City Arts has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 20, 2018, the date these financial statements were available to be issued. No such material events and transactions were noted to have occurred.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New accounting pronouncements

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. Inner-City Arts elected to early adopt the provisions of this new standard for the year ended December 31, 2017. In addition to the changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources, and the addition of a statement of expenses by both nature and classification, and disclosures related to the functional allocation of expenses were expanded.

#### 3. PLEDGES RECEIVABLE

Pledges receivable are expected to be collected as follows:

2018	\$ 480,940
2019	70,000
2020	68,000
	618,940
Less: discount on pledges receivable	(15,740)
Less: allowance for uncollectible amounts	(30,000)
	<u>\$ 573,200</u>

#### 4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Fair Value
Money market funds Certificates of deposit U.S. equities International equities Fixed income	\$ 355,936 1,777,526 181,681 1,140,429	\$ - 1,486,191 - -	\$ - - - -	\$ 355,936 1,486,191 1,777,526 181,681 1,140,429
	\$ 3,455,572	<u>\$ 1,486,191</u>	<u>\$</u>	<u>\$ 4,941,763</u>

### 5. PROPERTY AND EQUIPMENT

6.

Property and equipment consist of the following:

Land Buildings Building improvements Furniture, fixtures and equipment Accumulated depreciation	\$ 1,623,0 12,430,8 900,5 368,4 15,322,9 (4,378,1 \$ 10,944,8	95 58 <u>06</u> 31 <u>15</u> )
ACCRUED LIABILITIES		
Accrued liabilities consist of the following:		
Accrued vacation Accrued expenses	\$ 88,2 2,9 <sup>2</sup>	

### 7. COMMITMENTS AND CONTINGENCIES

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.

91,150

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

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,	Equipment		Parking Facility			Total
2018 2019	\$	4,632 3,860	\$	48,670 	\$	53,302 3,860
	\$	8,492	\$	48,670	<u>\$</u>	57,162

Total rent expense under all operating leases in effect during the year ended December 31, 2017 was \$61,967.

## 7. COMMITMENTS AND CONTINGENCIES (continued)

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.

#### 8. 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, 2017.

#### 9. NET ASSETS

Net assets consist of the following:

Net assets without donor restrictions Investment in property and equipment	\$ 10,944,816
	2,441,425
Undesignated	1,000,000
Board-designated	14,386,241
Total net assets without donor restrictions	14,360,241
Net assets with donor restrictions	
Restricted for a specified purpose	
Animation	117,500
Learning & Achieving Through the Arts	168,459
Dance Academy	152,713
Busing	55,000
Creativity Lab	155,930
Music	3,750
Performing, Visual & Media Arts	12,500
Programs - Individually under \$25,000	26,210
Teacher Professional Development	120,833
Strategic Planning	250,000
Total net assets restricted for a specified purpose	1,062,895
Total liet assets restricted for a specified purpose	-,,
Time-restricted, including pledges receivable	186,175
Donor-restricted endowment	1,635,506
Total net assets with donor restrictions	2,884,576
Total net assets	\$ 17,270,817
Total not assets	

#### 10. ENDOWMENT

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of relevant law

The Organization's Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as donor-restricted net assets (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

### Return objectives and risk parameters

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.

#### 10. ENDOWMENT (continued)

#### Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017.

#### Spending policy

Inner-City Arts will only incur costs that are reasonable in relation to the assets, the purposes of the organization, and the skills available to Inner-City Arts.

The appropriation for expenditure in any year of an amount greater than 7% of the fair market value of an endowment fund calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure is made creates a rebuttable presumption of imprudence. To show prudence, the decision-making process on expenditure in any year greater than 7% will be documented.

#### **Endowment composition**

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	Total Fund
Donor-restricted funds	<u>\$</u>	<u>\$ 1,557,532</u>	<u>\$ 77,974</u>	\$ 1,635,506	\$ 1,635,506

#### 10. ENDOWMENT (continued)

### **Endowment composition (continued)**

Changes in endowment net assets for the fiscal year ended December 31, 2017 is as follows:

	With Donor Restrictions			
	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	_Total Fund
Balance, beginning of year	\$ 1,519,465	<u>\$ 116,102</u>	\$ 1,635,567	\$ 1,635,567
Investment return,net Contributions Inflationary growth Appropriation for expenditure	1,000 37,067 - 38,067	90,242 (37,067) (91,303) (38,128)	90,242 1,000 - (91,303) (61)	90,242 1,000 - (91,303) (61)
Balance, end of year	\$ 1,557,532	<u>\$ 77,974</u>	<u>\$ 1,635,506</u>	\$ 1,635,506

Donor-restricted endowment funds at December 31, 2017 included \$172,265 of pledges receivable.

### 11. LIQUIDITY AND FUNDS AVAILABLE

As part of Inner-City Arts liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, Inner-City Arts has cash and investments, which consist of certificates of deposit, equity securities and fixed income securities that are separate from the investments related to the board-designated investments and endowment investments. These investments are considered short term as there are no preventative lockups or restrictions and can be readily liquidated to pay for operating needs. Additionally, grants and accounts receivable consist primarily of amounts due from third parties that have been historically collected within 60 days of the year end. Pledges receivable that are considered current will be collected from donors within one year from the date of the Statement of Financial Position.

Quarterly, the Finance Committee of the Board of Directors reviews Inner-City Arts' balance sheet and discusses what may be a reasonable cash position to maintain.

### 11. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2017 to fund general expenditures and other obligations when they become due:

Financial assets	_	
Cash and cash equivalents	\$	801,579
Grants and accounts receivable		311,507
Pledges receivable, net		573,200
Investments		2,556,496
Board-designated investments		1,000,000
Endowment investments		1,385,267
		6,628,049
Less: amounts unavailable for general expenditure within one year Long-term pledges receivable Board-designated investments Endowment investments		(122,260) (1,000,000) (1,385,267) (2,507,527)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$</u>	4,120,522

Inner-City Arts has financial assets available at December 31, 2017 to cover approximately 11 months of operating expenses based on the 2018 monthly budgeted run rate for all program and support services expense of approximately \$346,000, excluding depreciation.

It is highly probable that net assets with time and purpose restrictions of \$1,126,810 (Note 9) at December 31, 2017 (excluding long-term pledges receivable of \$122,260 and endowment net assets of \$1,635,506) will be released within one year given Inner-City Arts has budgeted total program service expense of \$3,340,203 for 2018.