

Inner-City Arts

Financial Statements

For the Eighteen Months Ended
June 30, 2021



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INDEPENDENT AUDITOR'S REPORT

To the 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 June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the eighteen months 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. 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 June 30, 2021, and the changes in its net assets and its cash flows for the eighteen months then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
Los Angeles, California

November 4, 2021



An independent firm
associated with Moore
Global Network Limited

Inner-City Arts
Statement of Financial Position
June 30, 2021

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,149,778
Investments	3,515,602
Grants and accounts receivable	219,363
Pledges receivable	1,607,458
Prepaid expenses	<u>60,384</u>
Total current assets	<u>6,552,585</u>
Property and equipment, net	<u>9,887,530</u>
Long term assets	
Donor-restricted endowment investments	1,950,861
Pledges receivable, net	<u>219,227</u>
Total long term assets	<u>2,170,088</u>
Total assets	<u>\$ 18,610,203</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 107,507
Accrued expenses	392,668
Deferred revenue	62,611
Note payable - Paycheck Protection Program	<u>657,367</u>
Total current liabilities	1,220,153
Deferred revenue, net of current portion	<u>52,666</u>
Total liabilities	<u>1,272,819</u>
Net assets	
Without donor restrictions	
Undesignated	1,415,379
Board-designated	1,000,000
Investment in property and equipment	<u>9,887,530</u>
Total without donor restrictions	12,302,909
With donor restrictions	<u>5,034,475</u>
Total net assets	<u>17,337,384</u>
Total liabilities and net assets	<u>\$ 18,610,203</u>

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

Inner-City Arts
Statement of Activities
For the Eighteen Months Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support			
Contributions	\$ 1,198,566	\$ 3,614,595	\$ 4,813,161
Investment income, net	570,649	289,439	860,088
Fee income	519,101	-	519,101
Special events, net	376,485	-	376,485
Government grants	245,823	-	245,823
In-kind contributions	46,502	-	46,502
Rental income	42,557	-	42,557
Miscellaneous	10,145	-	10,145
Forgiveness of note payable - Paycheck Protection Program	682,155	-	682,155
Net assets released from restriction	<u>2,315,983</u>	<u>(2,315,983)</u>	<u>-</u>
Total revenue, gains and other support	<u>6,007,966</u>	<u>1,588,051</u>	<u>7,596,017</u>
Functional expenses			
Program services	<u>5,292,246</u>	<u>-</u>	<u>5,292,246</u>
Support services			
Management and general	615,282	-	615,282
Fundraising	<u>874,616</u>	<u>-</u>	<u>874,616</u>
Total support services	<u>1,489,898</u>	<u>-</u>	<u>1,489,898</u>
Total functional expenses	<u>6,782,144</u>	<u>-</u>	<u>6,782,144</u>
Change in net assets from operations	(774,178)	1,588,051	813,873
Decrease in value of pledges receivable	<u>-</u>	<u>(14,673)</u>	<u>(14,673)</u>
Change in net assets	(774,178)	1,573,378	799,200
Net assets, beginning of period	<u>13,077,087</u>	<u>3,461,097</u>	<u>16,538,184</u>
Net assets, end of period	<u>\$ 12,302,909</u>	<u>\$ 5,034,475</u>	<u>\$ 17,337,384</u>

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

Inner-City Arts
Statement of Functional Expenses
For the Eighteen Months Ended June 30, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel expenses				
Salaries and wages	\$ 3,177,531	\$ 443,891	\$ 636,750	\$ 4,258,172
Payroll taxes	250,785	30,408	49,434	330,627
Employee benefits	<u>358,502</u>	<u>23,594</u>	<u>37,258</u>	<u>419,354</u>
Total personnel expenses	3,786,818	497,893	723,442	5,008,153
Depreciation	601,811	22,705	17,847	642,363
Services and professional fees	188,696	42,805	46,821	278,322
Facility and occupancy	300,397	21,109	18,300	339,806
Supplies and travel	137,377	6,890	950	145,217
Independent artists and art class services	39,342	-	-	39,342
Class transportation	121,904	2,313	341	124,558
Advertising and promotion	470	5,098	1,145	6,713
Insurance	55,912	1,784	1,785	59,481
Postage and printing	2,327	2,098	7,417	11,842
Program events and awards	42,765	-	-	42,765
Dues and subscriptions	2,844	8,325	9,736	20,905
Bad debt expense	11,100	-	46,500	57,600
Conferences, conventions and meetings	483	4,262	332	5,077
Direct benefit to donors	<u>-</u>	<u>-</u>	<u>9,321</u>	<u>9,321</u>
Total expenses	5,292,246	615,282	883,937	6,791,465
Less: expenses included with revenues on the statement of activities				
Direct benefit costs	<u>-</u>	<u>-</u>	<u>(9,321)</u>	<u>(9,321)</u>
	<u>\$ 5,292,246</u>	<u>\$ 615,282</u>	<u>\$ 874,616</u>	<u>\$ 6,782,144</u>
Percentage of total	<u>78.0 %</u>	<u>9.1 %</u>	<u>12.9 %</u>	<u>100.0 %</u>

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

Inner-City Arts
Statement of Cash Flows
For the Eighteen Months Ended June 30, 2021

Cash flows from operating activities	
Change in net assets	\$ 799,200
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	642,363
Net realized and unrealized gains on investments	(711,867)
Discount on pledges receivable	(56,535)
Forgiveness of note payable - Paycheck Protection Program	(682,155)
Changes in operating assets and liabilities	
Grants and accounts receivable	240,389
Pledges receivable	(1,131,898)
Prepaid expenses	(10,261)
Accounts payable	59,836
Accrued expenses	130,873
Deferred revenue	<u>(30,166)</u>
Net cash used in operating activities	<u>(750,221)</u>
Cash flows from investing activities	
Purchases of property and equipment	(140,976)
Purchases of investments	(388,550)
Proceeds from sales of investments	<u>500,000</u>
Net cash used in investing activities	<u>(29,526)</u>
Cash flows from financing activities	
Proceeds from note payable - Paycheck Protection Program	<u>1,339,522</u>
Net cash provided by financing activities	<u>1,339,522</u>
Net increase in cash and cash equivalents	559,775
Cash and cash equivalents, beginning of period	<u>590,003</u>
Cash and cash equivalents, end of period	<u><u>\$ 1,149,778</u></u>

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

Inner-City Arts
Notes to Financial Statements
June 30, 2021

1. NATURE OF OPERATIONS

Inner-City Arts (or the "Organization") 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).

Throughout its history, Inner-City Arts has provided diverse and professional experiences in the arts that enhance learning outcomes among those most under-resourced children coming from various socioeconomic and ethnic backgrounds. Many students served attend schools with high populations of English language learners who are working daily to increase knowledge and improve Cognitive Academic Language Proficiency (CALP).

What began as primarily a visual arts program has now grown to serve more than 15,000 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 relies primarily on gifts from foundations, corporations, public funds, fundraising events, and individuals to fund the ongoing operation of its programs.

In the 2020-2021 school years, service shifted significantly as Inner-City Arts pivoted to meet community needs during a time of civil unrest and a global pandemic. We continued to partner with a city school district while extending our reach to districts outside of the traditional commuting distance. All programs were made available utilizing multiple virtual learning platforms and learning management systems. When the world was on lockdown, Inner-City Arts focused on making the arts and creativity available to all who could access the services. The innate nature of the arts to encourage processing of the environment and one's emotions became an intentional focus creating opportunities for students, educators, parents, and guardians to make sense and, in some cases, escape to global issues. During this time, Inner-City Arts recommitted to the arts as a tool for transformation (and healing) highlighted in the core objectives across all programs of social and emotional learning, 21st-century skills, art skills, and mental wellbeing.

Inner-City Arts offers instructional day programs, after-school, summer programs, and weekends for special workshops and events to Kindergarten through 12th-grade students and young adults. Additionally, Inner-City Arts offers self-select classes in the Visual, Media & Performing Arts Institutes, college and career exploration in Work of Art, and professional development.

Core instructional day classes, Learning and Achieving through the Arts (LATA), reflect the foundational program offered at Inner-City Arts, providing elementary and middle school students learning in the visual and performing arts over multi-week sessions in 2020-2021 facilitated remotely through distance learning. 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. The core objective focus is social and emotional learning competencies, 21st-century skills, art skills, and mental wellbeing.

Inner-City Arts
Notes to Financial Statements
June 30, 2021

1. NATURE OF OPERATIONS (continued)

In the hundreds of 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 6,613 students that is 75% Latino, 7% African American, 7% Asian American, 6% White, and 2% representing 2 or more categories. Of the total population, 24% are classified as having limited English proficiency, and 87% are enrolled in Title I schools that participate in the free/reduced lunch program, coming from households that earn an income at or below the poverty level.

Inner-City Arts' Work of Art is a college and career exploration program whose primary purpose is to provide creative youth with the skills, training, and real-world experience necessary for life beyond high school. The program offers opportunities for career exploration, college readiness, and personal development.

Work of Art taps into the strengths of the diverse and vibrant youth of Los Angeles and supports their journey to assume their rightful place as drivers of the creative economy of California, the nation, and the world. We support the development of an abundant supply of new talent in the creative industries. Youth are paid interns of Inner-City Arts and participate in mandatory year-round activities that develop them as future professional visual, media, and or performing artists. Work of Art interns are paid to create content for Inner-City Arts in their respective disciplines. That content becomes part of the Permanent Collection. The pilot program with eight students began in 2013. Now established with year-round activities, Work of Art employed 67 students in January of 2020- June 2021, produced 30 graduates, with 98% of the graduates enrolling in a 4-year college or university or community college.

Additionally, Inner-City Arts launched its first-ever Social Enterprise Program. The Social Enterprise element of programs was piloted in 2020-21 as an extension of Work of Art to tap into the strengths of our graduates and support their journey to assume their rightful place as drivers of the Creative Economy of California, the nation, and the world. The young professionals provide creative services for hire, for outside clients, under the direction of Inner-City Arts mentors and teaching artists. While employed as "Enterprisers," the emerging artists receive training and build skills that support the development of an abundant and diverse supply of new talent into the Creative Industries. In 2020-21, Inner-City Arts successfully employed and offered continued training to 11 WOA alumni. In their post-secondary portfolio development, Enterprisers completed 7 commissioned works for local corporations and community organizations.

Inner-City Arts
Notes to Financial Statements
June 30, 2021

1. NATURE OF OPERATIONS (continued)

The Inner-City Arts Professional Development Institute provides training to in-service and pre-service teachers, educators, parents/guardians and served over 1,416 participants in 2020 and 404 in 2021, a period significantly impacted by the pandemic. Facilitation for Professional Development and Adult Education occurred via zoom and in-person when safely possible. The in-service components of the program serve teachers from primarily Los Angeles County and during the pandemic, extended internationally. Professional Development for Educators demonstrates how it is to an educator's advantage to fully integrate the arts into teaching and learning practices. Drawing explicit connections between arts and academic content areas and their respective standards, Inner-City Arts provides educators with strategies and exercises accessible to the classroom teacher and the students, regardless of their experience or comfort levels in visual and performing arts. The training provides strategy and insight into maintaining authentic arts teaching practices and successful partnerships with classroom educators while working within traditional education frameworks for professional teaching artists. We address Social-Emotional Learning best practices and show how creative critical-thinking skills in the arts are transferable to every learning area. Most importantly, professional development with Inner-City Arts demonstrates how the arts can serve as a vehicle for increasing and sustaining learner engagement across the academic spectrum.

Professional Development for Parents/Guardians is geared to provide essential knowledge and strategies for supporting learners, understanding the developmental and educational needs, and insight into how the arts are critical for helping students reach their greatest potential in education and life.

Overall, the 2020-21 school years posed many challenges due to the pandemic. Conversely, Inner-City Arts also experienced the opportunity to diversify services and meet stakeholders displaying the greatest need for and seeking creative outlets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principle

The Organization has implemented Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization has implemented ASU 2014-09 with a date of initial application of January 1, 2020, using the full retrospective method. The implementation of ASU 2014-09 had no impact on the financial statements for the period ended June 30, 2021.

Inner-City Arts
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiscal year

The Organization changed its fiscal year from December 31 to June 30 effective June 30, 2020. The previous audit performed for the Organization was for the calendar year ended December 31, 2019. The Organization was not required to be audited for the six-months ended June 30, 2020 as revenue for these six-months was less than \$2,000,000. Therefore, management elected to have this six-month period included in the Organization's initial June 30 fiscal year end audit. The audit of the period ended June 30, 2021 includes the eighteen months from January 1, 2020 through June 30, 2021.

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, general* - Net assets not subject to donor-imposed stipulations.
- *Net assets without donor restrictions, board-designated* - Net assets designated by the Organization's Board of Directors as reserves for future use.
- *Net assets without donor restrictions, investment in property and equipment* - Net assets the Organization currently has invested in property and equipment, net of accumulated depreciation and amortization.
- *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 are reported as without donor restrictions.

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 June 30, 2021 approximates its fair value. Inner-City Arts did not have any cash equivalents at June 30, 2021.

Investments

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

Inner-City Arts
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Inner-City Arts follows 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 June 30, 2021, all grants and accounts receivable were deemed collectible; therefore, no allowance for doubtful accounts has been provided.

Pledges receivable

Pledges receivable are unconditional promises to give and are discounted to present value utilizing risk-free interest rates for similar assets with a similar cash flow period. As of June 30, 2021, the discount rates range from 1.98% to 4.83% 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, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been substantially met.

Inner-City Arts
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Depreciation of property and equipment is computed using the straight-line 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 years ended June 30, 2021.

Concentrations 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 bond funds. 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 eighteen-month period ended June 30, 2021 in-kind contributions consisting of materials and facility use totaled \$46,502.

Inner-City Arts
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Contributions, including unconditional promises to give, are recognized as support in the period received. Contributions, including unconditional promises to give, are recorded as net assets with donor restrictions depending on the existence and/or nature of any restrictions and are then reclassified to net assets without donor restrictions upon satisfaction of any restrictions through the net assets released from restriction. Contributions and unconditional promises to give that are expected to be collected or paid in future years are discounted using a net present value technique, unless management determines the discount amount is insignificant.

Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are met, at which time, the gift is recognized as either contribution revenue with or without donor restrictions.

The Organization generates revenue from providing services for children through cost reimbursement government funded programs. The revenue generated from these services is included within government grants in the statement of activities. These government grants meet the criteria to be classified as conditional contributions under Generally Accepted Accounting Principles ("GAAP") revenue recognition for nonprofit organizations as they contain barriers related to the incurrence of qualifying expenditures and a right of return or release. The Organization has elected a simultaneous release option to account for these grants. Therefore, they are recorded as government grants without donor restrictions upon satisfaction of the barriers. In the event amounts are received and have not been earned, the Organization records such amounts as deferred revenue until earned. At June 30, 2021, the Organization had no conditional contributions related to open government grants.

Deferred revenue

Grant funds received as part of an exchange transaction are recorded as deferred revenue and recognized as they are earned. Conditional contributions received in advanced 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 statements of functional expenses. During the period presented, 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
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

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 2016.

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, and the reported revenues and expenses. Actual results could differ from these estimates.

Subsequent events

The Organization has evaluated events subsequent to June 30, 2021, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 4, 2021, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

Inner-City Arts
Notes to Financial Statements
June 30, 2021

3. PLEDGES RECEIVABLE

Future collections of pledges receivable are expected as follows:

<u>Year ending June 30,</u>	
2022	\$ 1,607,458
2023	125,000
2024	35,000
2025	35,000
2026	35,000
Thereafter	<u>35,000</u>
	1,872,458
Less: discount on pledges receivable	<u>(45,773)</u>
Pledges receivable, net of discount	1,826,685
Current portion	<u>(1,607,458)</u>
	<u><u>\$ 219,227</u></u>

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money market funds	\$ 713,340	\$ -	\$ -	\$ 713,340
Certificates of deposit	-	445,517	-	445,517
Equities	2,960,342	-	-	2,960,342
Fixed income	<u>1,347,264</u>	<u>-</u>	<u>-</u>	<u>1,347,264</u>
	<u>\$ 5,020,946</u>	<u>\$ 445,517</u>	<u>\$ -</u>	<u>\$ 5,466,463</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 1,623,072
Buildings	12,430,895
Building improvements	1,009,499
Furniture, fixtures and equipment	<u>649,007</u>
	15,712,473
Accumulated depreciation	<u>(5,824,943)</u>
	<u><u>\$ 9,887,530</u></u>

Inner-City Arts
Notes to Financial Statements
June 30, 2021

5. PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the eighteen-month period ended June 30, 2021 was \$642,363.

6. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

Accrued expenses	\$	62,890
Accrued salaries and wages		176,215
Accrued vacation		<u>153,563</u>
		<u><u>\$ 392,668</u></u>

7. COMMITMENTS AND CONTINGENCIES

Inner-City Arts leases a parking facility located in Los Angeles under a non-cancelable operating lease which expires in November 2023 for approximately \$6,500 per month.

Inner-City Arts leases office equipment under various non-cancelable operating leases. The leases require monthly payments ranging from \$22 to \$1,118 and expire on various dates through October 2025.

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

<u>Year ending June 30,</u>	<u>Equipment</u>	<u>Parking Facility</u>	<u>Total</u>
2022	\$ 22,767	\$ 79,642	\$ 102,409
2023	14,781	83,625	98,406
2024	13,411	35,550	48,961
2025	13,411	-	13,411
2026	<u>4,470</u>	<u>-</u>	<u>4,470</u>
	<u><u>\$ 68,840</u></u>	<u><u>\$ 198,817</u></u>	<u><u>\$ 267,657</u></u>

Total rent expense under all operating leases in effect during the eighteen-month period ended June 30, 2021 was \$149,205.

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.

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8. RETIREMENT PLAN

Inner-City Arts established a 403(b) plan, and 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 during the eighteen-month period ended June 30, 2021.

9. NET ASSETS

Net assets consisted of the following:

Net assets without donor restrictions	
Undesignated	\$ 1,415,379
Board-designated	1,000,000
Investment in property and equipment	<u>9,887,530</u>
Total net assets without donor restrictions	<u>12,302,909</u>
Net assets with donor restrictions:	
Restricted for a specified purpose	
Learning & Achieving Through the Arts	232,917
Dance Academy	423,367
Busing	44,500
Creativity Lab	76,866
Performing, Visual & Media Arts	437,500
Programs - Individually under \$25,000	9,757
Work of Art Program	<u>36,250</u>
	<u>1,261,157</u>
Time-restricted, including pledges receivable	<u>1,757,457</u>
Donor-restricted endowment	<u>2,015,861</u>
Total net assets with donor restrictions	<u>5,034,475</u>
Total net assets	<u>\$ 17,337,384</u>

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 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.

Inner-City Arts
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10. ENDOWMENT (continued)

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.

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 June 30, 2021.

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10. ENDOWMENT (continued)

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 Board has adopted a formal spending policy where the Organization is permitted to spend up to 3% of the average balance over a three-year period of the endowment fund.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	With Donor Restrictions		
	Original Gift Amount	Accumulated Gains (Losses) and Other	Total
Endowment	\$ 1,702,532	\$ 313,329	\$ 2,015,861

Changes in endowment net assets for the fiscal year ended June 30, 2021 is as follows:

	Original Gift Amount	Accumulated Gains (Losses) and Other	Total
Balance, beginning of period	\$ 1,702,532	\$ 71,315	\$ 1,773,847
Investment income	-	289,439	289,439
Appropriation for expenditure	-	(47,425)	(47,425)
Balance, end of period	\$ 1,702,532	\$ 313,329	\$ 2,015,861

Donor-restricted endowment funds at June 30, 2021 included \$65,000 of pledges receivable.

11. NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM

In May 2020, the Organization received loan proceeds totaling \$682,155 from a promissory note issued by a bank under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The term on the PPP loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first ten months of the loan.

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Notes to Financial Statements
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11. NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM (continued)

In February 2021, the Organization received a second loan under the Paycheck Protection Program ("2nd PPP") for \$657,367. The term on the 2nd PPP loan is five years and the annual interest rate is 1.00%.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization believes that it will likely qualify for forgiveness, but there is uncertainty around the standards and operations of the PPP, and no assurance is provided that the Organization will obtain forgiveness in whole or in part. As a result, the Organization has accounted for the PPP loan in accordance with the FASB's ASC 470-*Debt*.

In March 2021, the Organization's loan forgiveness application for the \$682,155 of loan proceeds received in May 2020 was fully approved by the SBA and has been recognized as "forgiveness of note payable - Paycheck Protection Program" in the accompanying statement of activities.

12. 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' statement of financial position sheet and discusses what may be a reasonable cash position to maintain.

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12. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 1,149,778
Grants and accounts receivable	219,363
Pledges receivable, net	1,826,685
Investments	3,515,602
Donor-restricted endowment investments	<u>1,950,861</u>
	<u>8,662,289</u>
Less: amounts unavailable for general expenditure within one year	
Board-designated investments (see Note 2)	(1,000,000)
Donor-restricted endowment investments (see Note 10)	(2,015,861)
Pledges receivable due past one year, net (see Note 3)	(219,227)
Net assets subject to expenditure for specified purpose (see Note 9)	<u>(1,261,157)</u>
	<u>(4,496,245)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,166,044</u>

Inner-City Arts has financial assets available at June 30, 2021 to cover approximately twelve months of operating expenses based on the fiscal year ending June 30, 2022 monthly budgeted run rate for all program and support services expense of approximately \$355,000, excluding depreciation.

It is highly probable that the majority of net assets with time and purpose restrictions of \$2,799,387 (Note 9) at June 30, 2021 (excluding long-term pledges receivable of \$219,227 and endowment net assets of \$2,015,861) will be released within one year given Inner-City Arts has budgeted total program service expense of approximately \$2,293,269 for the year ending June 30, 2022.

13. RISKS AND UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") originated in Wuhan, China and on March 11, 2020, the World Health Organization characterized COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter-in-place orders. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations. The Organization has transitioned to a work from home model and has otherwise maintained existing operations. The Organization has also obtained funding under the CARES Act through the Paycheck Protection Program. Although the Organization continues to monitor and assess the effects of the COVID-19 pandemic on the Organization's operations, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change.