# **Inner-City Arts**

Financial Statements

June 30, 2022



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#### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Inner-City Arts Los Angeles, California

#### **Opinion**

We have audited the accompanying financial statements of Inner-City Arts (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

# **Basis of Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Inner-City Arts and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Inner-City Arts's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



# **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Inner-City Arts's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that
  raise substantial doubt about Inner-City Arts's ability to continue as a going concern for a reasonable
  period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

 $Armanino^{LLP} \\$ 

Los Angeles, California

amanino LLP

November 14, 2022

# Inner-City Arts Statement of Financial Position June 30, 2022

# **ASSETS**

Current assets	
Cash and cash equivalents	\$ 577,640
Investments	3,674,905
Grants and accounts receivable	316,616
Pledges receivable, current porton	271,787
Prepaid expenses	46,417
Total current assets	4,887,365
Property and equipment, net	9,513,843
Long term assets	
Donor-restricted endowment investments	1,759,853
Pledges receivable, net	94,227
Total long term assets	1,854,080
Total assets	\$ 16,255,288
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 98,318
Accrued expenses	197,217
Deferred revenue	93,626
Total current liabilities	389,161
Deferred revenue, net of current portion	17,555
Total liabilities	406,716
Net assets	
Without donor restrictions	
Undesignated	1,663,337
Board-designated	1,000,000
Investment in property and equipment	9,513,843
Total without donor restrictions	12,177,180
With donor restrictions	3,671,392
Total net assets	15,848,572
Total liabilities and net assets	\$ 16,255,288

# Inner-City Arts Statement of Activities For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions	\$ 998,525	\$ 748,983	\$ 1,747,508
Investment loss, net	(373,996)	(163,457)	(537,453)
Fee income	362,397	-	362,397
Special events, net of direct benefit costs of			
\$11,956	287,294	-	287,294
Government grants	169,259	-	169,259
In-kind contributions	24,808	-	24,808
Rental income	137,265	-	137,265
Miscellaneous	1,203	-	1,203
Forgiveness of note payable - Paycheck Protection			
Program	657,367	-	657,367
Net assets released from restriction	1,948,609	(1,948,609)	· -
Total revenue, gains and other support	4,212,731	(1,363,083)	2,849,648
Functional expenses			
Program services	3,431,640	-	3,431,640
Support services			
Management and general	446,633	-	446,633
Fundraising	460,187	-	460,187
Total support services	906,820		906,820
Total functional expenses	4,338,460		4,338,460
Change in net assets	(125,729)	(1,363,083)	(1,488,812)
Net assets, beginning of year	12,302,909	5,034,475	17,337,384
Net assets, end of year	<u>\$ 12,177,180</u>	\$ 3,671,392	\$ 15,848,572

# Inner-City Arts Statement of Functional Expenses For the Year Ended June 30, 2022

	Program Services				undraising	Total	
Personnel expenses							
Salaries and wages	\$	1,866,236	\$	311,362	\$	337,818	\$ 2,515,416
Payroll taxes		150,807		23,711		29,171	203,689
Employee benefits		223,926		23,958		21,797	 269,681
Total personnel expenses		2,240,969		359,031		388,786	2,988,786
Depreciation		421,811		15,587		11,621	449,019
Services and professional fees		193,021		29,555		20,317	242,893
Facility and occupancy		261,795		10,615		7,247	291,231
Supplies and travel		100,549		2,737		1,508	104,864
Independent artists and art class							
services		31,314		-		-	31,314
Class transportation		90,918		206		702	91,826
Advertising and promotion		-		801		19,099	19,900
Insurance		36,132		1,153		1,153	38,438
Postage and printing		861		385		5,038	6,284
Program events and awards		17,151		-		-	17,151
Dues and subscriptions		4,707		3,141		4,666	12,514
Bad debt expense		32,412		22,607		-	43,375
Conferences, conventions and meetings		-		815		50	865
Direct benefit to donors		_				11,956	11,956
Total expenses		3,431,640		446,633		472,143	4,350,416
Less: expenses included with revenues on the statement of activities							
Direct benefit costs			_	<u>-</u>		(11,956)	 (11,956)
	\$	3,431,640	\$	446,633	\$	460,187	\$ 4,338,460
Percentage of total	_	79.1 %		10.3 %		10.6 %	 100.0 %

# Inner-City Arts Statement of Cash Flows For the Year Ended June 30, 2022

Cash flows from operating activities	
Change in net assets	\$ (1,488,812)
Adjustments to reconcile change in net assets to net cash	
provided by operating activities	
Depreciation	449,019
Net realized and unrealized losses on investments	610,753
Forgiveness of note payable - Paycheck Protection Program	(657,367)
Changes in operating assets and liabilities	
Grants and accounts receivable	(97,253)
Pledges receivable	1,460,671
Prepaid expenses	13,967
Accounts payable	(9,189)
Accrued expenses	(195,451)
Deferred revenue	(4,096)
Net cash provided by operating activities	 82,242
Cash flows from investing activities	
Purchases of property and equipment	(75,332)
Net purchases and redemptions of certificates of deposit	(505,748)
Reinvested dividends and interest, net	 (73,300)
Net cash used in investing activities	 (654,380)
Net decrease in cash and cash equivalents	(572,138)
Cash and cash equivalents, beginning of year	 1,149,778
Cash and cash equivalents, end of year	\$ 577,640

#### 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 2021-2022 school years, service started transitioning to a hybrid model which included virtual classes and on school site classes to meet community needs of returning back to school. We continued to partner with a city school district while maintaining service to schools outside of reasonable commuting distance during the school day. All programs remained available utilizing virtual learning platforms and learning management systems while responding to schools' requests to provide service at their school sites in all grade levels. Inner-City Arts stayed focused on making the arts and creativity available to all who could access the services.

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 2021-2022 facilitated remotely through distance learning and in the Spring Term returning back to in-person through our residency model on school campuses. The core objective focus is social and emotional learning competencies, 21st-century skills, art skills, and mental wellbeing.

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 3,673 students that is 71% Latino, 7% African American, 5% Asian American, 14% White, and 2% representing 2 or more categories. Of the total population, 29% are classified as having limited English proficiency, and 80% 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.

### 1. NATURE OF OPERATIONS (continued)

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. 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 19 students in this fiscal year, produced 16 graduates, with 99% 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 2021-22, Inner-City Arts successfully employed and offered continued training to 13 Work of Art alumni. In their post-secondary portfolio development, Enterprisers completed 3 commissioned works for local corporations and community organizations engaging in over 400 work hours collectively.

The Inner-City Arts Professional Development Institute provides training to in-service and preservice teachers, educators, parents/guardians and served over 250 participants in a program significantly impacted by the transition back to school and competing priorities in schools to support recovery from the learning slides and decreased enrollments across all schools. 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. Professional Development for Educators demonstrates how it is to an educator's advantage to fully integrate the arts into teaching and learning practices. 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.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Change in accounting principle

The Organization has adopted the Financial Accounting Standards Board Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfiancial Assets*, which requires enhancements to presentation and disclosure to increase transparency of contributed nonfinancial assets. ASU 2020-07 is effective for annual reporting periods beginning after June 15, 2021. The Organization adopted ASU 2020-07 during the year ended June 30, 2022.

# 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.

### 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.

# 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, 2022 approximates its fair value. Inner-City Arts did not have any cash equivalents at June 30, 2022.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 statement of activities.

#### 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, 2022, 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, 2022, 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.

# 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, 2022.

### 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 year ended June 30, 2022 in-kind contributions consisting of materials and facility use totaled \$24,808.

# 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, 2022, 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.

### <u>Functional expenses</u>

The costs of providing Inner-City Arts' programs and other activities have been presented in the statement 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.

# 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 2017.

# Subsequent events

The Organization has evaluated events subsequent to June 30, 2022, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 14, 2022, 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.

## 3. PLEDGES RECEIVABLE

Future collections of pledges receivable are expected as follows:

Year ending June 30,	
2023	\$ 271,787
2024	35,000
2025	35,000
2026	35,000
2027	 35,000
	411,787
Less: discount on pledges receivable	 (45,773)
Pledges receivable, net of discount	366,014
Current portion	 (271,787)
	\$ 94,227

# 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, 2022:

	Level 1	Level 2	Level 3	Fair Value	
Money market funds Certificates of deposit Equities Fixed income	\$ 509,995 - 2,539,782 1,192,843	\$ - 1,192,138 -	\$ - - -	\$ 509,995 1,192,138 2,539,782 1,192,843	
	<u>\$ 4,242,620</u>	\$ 1,192,138	<u>\$</u>	\$ 5,434,758	

# 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	724,339
	15,787,805
Accumulated depreciation	(6,273,962)
	\$ 9,513,843

Depreciation expense for the year ended June 30, 2022 was \$449,019.

### 6. ACCRUED LIABILITIES

Accrued expenses consisted of the following:

Accrued salaries and wages Accrued vacation	\$ 8,449 147,172
Other accrued expenses	 41,596
	\$ 197,217

# 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 \$7,000 per month.

# 7. COMMITMENTS AND CONTINGENCIES (continued)

Inner-City Arts leases office equipment under various non-cancelable operating leases. The leases require monthly payments ranging from approximately \$20 to \$1,000 and expire on various dates through October 2025.

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

Year ending June 30,	]	<u>Equipment</u>		king Facility	Total		
2023 2024 2025 2026	\$	20,959 12,036 12,036 4,012	\$	83,625 35,550	\$	104,584 47,586 12,036 4,012	
	\$	49,043	\$	119,175	\$	168,218	

Total rent expense under all operating leases in effect during the year ended June 30, 2022 was \$109,458.

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, 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 year ended June 30, 2022.

### 9. NET ASSETS

Net assets consisted of the following:

Net assets without donor restrictions Undesignated Board-designated Investment in property and equipment Total net assets without donor restrictions	\$ 1,663,337 1,000,000 9,513,843 12,177,180
Net assets with donor restrictions:	
Restricted for a specified purpose	
Learning & Achieving Through the Arts	86,632
Dance Academy	423,367
Creativity Lab	89,835
Performing, Visual & Media Arts	116,667
Programs - Individually under \$25,000	65,501
Work of Art Program	53,750
	835,752
Time-restricted	
Pledges receivable	411,787
LA Arts Recovery Fund	624,000
·	1,035,787
Donor-restricted endowment	1,799,853
Total net assets with donor restrictions	3,671,392
Total liet assets with donor restrictions	
Total net assets	\$ 15,848,572

### 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.

### 10. ENDOWMENT (continued)

#### Interpretation of relevant law

The Organization's Board of Directors has interpreted California's Uniform Prudent Management of Institutional Funds Act ("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, 2022.

# 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, 2022 is as follows:

	With Donor Restrictions					
	Accumulated					
	Original Gift Gains (Losses)					
	Amount		and Other		Total	
Endowment	\$	1,702,532	\$	97,321	\$	1,799,853

Changes in endowment net assets for the fiscal year ended June 30, 2022 is as follows:

	Original Gift Amount		Accumulated Gains (Losses) and Other		Total	
Balance, beginning of year	\$	1,702,532	\$	313,329	\$	2,015,861
Investment loss Appropriation for expenditure		- -		(163,457) (52,551)	_	(163,457) (52,551)
Balance, end of period	\$	1,702,532	\$	97,321	\$	1,799,853

Donor-restricted endowment funds at June 30, 2022 included \$40,000 of pledges receivable.

#### 11. NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM

In February 2021, the Organization received loan proceeds totaling \$657,367 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 five years and the annual interest rate is 1.00%.

### 11. NOTE PAYABLE - PAYCHECK PROTECTION PROGRAM (continued)

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 April 2022, the Organization's loan forgiveness application for the \$657,367 of loan proceeds received in February 2021 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.

# 12. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2022 to fund general expenditures and other obligations when they become due:

Financial assets Cash and cash equivalents Grants and accounts receivable Pledges receivable, net Investments	\$	577,640 316,616 271,787 3,674,905 4,840,948
Less: amounts unavailable for general expenditure within one year Board-designated net assets (see Note 2)  Net assets subject to expenditure for specified purpose (see Note 9)	_	(1,000,000) (835,752) (1,835,752)
Financial assets available to meet cash needs for general expenditures within one year	\$	3,005,196

Inner-City Arts has financial assets available at June 30, 2022 to cover approximately eight months of operating expenses based on the fiscal year ending June 30, 2023 monthly budgeted run rate for all program and support services expense of approximately \$373,000, excluding depreciation.

It is highly probable that the majority of net assets with time and purpose restrictions of \$1,777,312 (Note 9) at June 30, 2022 (excluding long-term pledges receivable of \$94,227 and endowment net assets of \$1,799,853) will be released within one year given Inner-City Arts has budgeted total program service expense of approximately \$2,545,000 for the year ending June 30, 2022.

# 13. EMPLOYEE RETENTION CREDIT

The CARES Act provides an employee retention credit ("CARES Employee Retention credit"), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter.

# 13. EMPLOYEE RETENTION CREDIT (continued)

The Organization has been evaluating its eligibility for the tax credit under the CARES Act, and is accounting for the credits under the provisions of FASB ASC 958-605, Not-for-Profit Entities: Revenue Recognition. The Organization has concluded that preparing and submitting the required payroll forms is a substantive barrier that must be overcome. The Organization did not submit its applications for refund until July 2022. The Organization expects that it will receive approximately \$900,000 in employee retention credits.