

Audited Financial Statements



June 30, 2023

Quigley & Miron

Inner-City Arts
Audited Financial Statements
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June 30, 2023

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Independent Auditor's Report

Board of Directors
Inner-City Arts
Los Angeles, California

Opinion

We have audited the accompanying financial statements of Inner-City Arts (Organization), a nonprofit organization, which comprise the statement of financial position as of June 30, 2023, 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 the Organization as of June 30, 2023, and the changes in its net assets and 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 (GAAS). 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 the Organization 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 the 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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor 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 GAAS 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 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 GAAS, 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 the Organization’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 the Organization’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.

A handwritten signature in black ink that reads "Zugley & Diron". The signature is written in a cursive, flowing style.

Los Angeles, California
December 12, 2023

Inner-City Arts
Statement of Financial Position
June 30, 2023

Assets

Cash and cash equivalents	\$ 947,825
Investments—Note 3	5,056,233
Grants and contributions receivable, net—Note 4	580,925
Government grants receivable	92,932
ERC grants receivable—Note 8	511,269
Accounts receivable	470,688
Prepaid expenses and other assets	40,490
Operating lease right-of-use asset—Note 11	19,870
Property and equipment, net—Note 5	9,210,518

Total Assets \$ 16,930,750

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 164,476
Salaries and employee benefits payable	230,601
Deferred revenue	11,760
Operating lease liability—Note 11	19,870

Total Liabilities 426,707

Net Assets

Without donor restrictions—Note 6	13,020,360
With donor restrictions—Note 7	3,483,683

Total Net Assets 16,504,043

Total Liabilities and Net Assets \$ 16,930,750

See notes to financial statements.

Inner-City Arts
Statement of Activities
Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Activities			
Public Support and Revenue			
Grants and contributions	\$ 1,515,143	\$ 1,219,688	\$ 2,734,831
Government grants	194,927		194,927
ERC grants—Note 8	942,735		942,735
Special events			
Gross revenue	270,781		270,781
Less cost direct benefits to donors	(268,708)		(268,708)
Special Events, Net	2,073		2,073
In-kind contributions—Note 10	11,442		11,442
Program revenue	864,264		864,264
Space and art rental income	62,118		62,118
Interest and dividend income	50,623	58,142	108,765
Net assets released from restrictions	1,663,272	(1,663,272)	
Total Public Support and Revenue	5,306,597	(385,442)	4,921,155
Expenses			
Art education program services	3,320,788		3,320,788
Supporting services			
Management and general	970,918		970,918
Fund development	303,333		303,333
Total Expenses	4,595,039		4,595,039
Change in Net Assets from Operations	711,558	(385,442)	326,116
Nonoperating Activities			
Investment return, net—Note 3	131,622	197,733	329,355
Total Nonoperating Activities	131,622	197,733	329,355
Change in Net Assets	843,180	(187,709)	655,471
Net Assets at Beginning of Year	12,177,180	3,671,392	15,848,572
Net Assets at End of Year	\$ 13,020,360	\$ 3,483,683	\$ 16,504,043

See notes to financial statements.

**Inner-City Arts
Statement of Functional Expenses
Year Ended June 30, 2023**

	Art Education Program Services	Management and General	Fund Development	Special Events	Total
Salaries	\$ 1,722,022	\$ 594,009	\$ 218,604	\$	\$ 2,534,635
Employee benefits	126,862	92,713	10,815		230,390
Payroll taxes	143,638	39,025	16,477		199,140
Total Personnel Expenses	1,992,522	725,747	245,896		2,964,165
Professional fees	269,870	182,622	29,361		481,853
Depreciation	439,466	2,806	530		442,802
Facility and occupancy	411,799	2,675	7,534		422,008
Cost of direct benefit to donors				268,708	268,708
Program supplies	128,041				128,041
Office expenses	38,425	14,558	7,011		59,994
Insurance	22,649	22,649			45,298
Dues and subscriptions	9,192	2,339	10,091		21,622
Other expenses		15,308	2,901		18,209
Awards	6,000				6,000
Travel	2,475	130	9		2,614
Bank and merchant fees		2,084			2,084
Advertising and promotion	349				349
Total Expenses by Function	3,320,788	970,918	303,333	268,708	4,863,747
Less expenses included with revenues in the statement of activities					
Cost of direct benefits to donors				(268,708)	(268,708)
Total Expenses	\$ 3,320,788	\$ 970,918	\$ 303,333	\$	\$ 4,595,039

See notes to financial statements.

Inner-City Arts
Statement of Cash Flows
Year Ended June 30, 2023

Cash Flows from Operating Activities

Change in net assets	\$ 655,471
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	442,802
Noncash lease expenses	11,750
Investment gains	(330,170)
Changes in operating assets and liabilities:	
Grants and contributions receivable	(214,911)
Government grants receivable	(23,299)
ERC grants receivable	(511,269)
Accounts receivable	(223,705)
Prepaid expenses and other assets	927
Accounts payable and accrued expenses	19,074
Salaries and employee benefits payable	74,980
Deferred revenue	(99,421)
Operating lease liability	(11,750)

**Net Cash Used in
Operating Activities** (209,521)

Cash Flows from Investing Activities

Purchases of property and equipment	(139,477)
Purchases of investments	(1,148,299)
Proceeds from sales and maturities of investments	1,347,000

**Net Cash Provided by
Investing Activities** 59,224

**Net Decrease in
Cash and Cash Equivalents** (150,297)

**Cash and Cash Equivalents
at Beginning of Year**

1,098,122

**Cash and Cash Equivalents
Cash and Cash Equivalents at End of Year** \$ 947,825

Supplementary Disclosures

Income taxes paid	<u>\$</u>
Interest paid	<u>\$</u>

See notes to financial statements.

Inner-City Arts
Notes to Financial Statements
June 30, 2023

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Inner-City Arts (Organization) is a California not-for-profit public benefit corporation incorporated in 1989. 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.

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. The Organization relies primarily on gifts from foundations, corporations, public funds, fundraising events, and individuals to fund the ongoing operation of its programs.

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

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.

In the 2022-2023 school year, Inner-City Arts' focus shifted to in-person Kohler campus instruction across all programs. Virtual options offered post-Covid pandemic in the previous year were no longer the primary mode of delivery. Instead, the Organization has prioritized face-to-face engagement and immersive, hands-on learning experiences. However, the Organization has maintained flexibility and adaptability, offering virtual alternatives only when necessary, based on specific service requirements. This approach allowed Inner-City Arts to emphasize in-person interactions while ensuring that virtual accommodations were readily available.

Simultaneously, the Organization's overarching goal for the 22-23 school year included stabilizing enrollment and program accessibility to align with the Organization's projections. Exceeding expectations, fee income increased by an additional \$233k. This increase in revenue was attributed to the provision of supplementary services to various schools and community partners with surplus budgetary funds. The Organization's expanded offerings consisted of a range of activities, including field trips supported by the Cultural Arts Passport funding for the Los Angeles Unified School District (approximately \$124,000 in revenue), four new schools and 839 students, plus their teachers and school support staff; the implementation of a full-time residency program at Haskell Elementary, \$34,473 in revenue, and 300 students and Para Los Niños, \$137,940 in revenue and 263 students, as well as the introduction of after-school programming and strategic partnerships and servicing 21 families in a new community.

Inner-City Arts
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. The Organization reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. The net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of program fees, fundraising, and interest and dividend earned on investments. Nonoperating activities are limited to resources that generate return from investments, rental income, and other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—The Organization is a nonprofit entity, exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Accordingly, no provision has been made for income taxes in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘more likely than not’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2023. Generally, the Organization’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash and Cash Equivalents—The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments—Investments are recorded at fair market value, based on investment prices provided by the broker-dealer investment custodian. Interest and dividends earned on investments is recognized when received and reported as interest and dividend income under public support and revenue in the statement of activities. Gains and losses on investments are recognized as changes in their fair market values occur in the period reported and are reported on the statement of activities under the investment return, net caption.

Inner-City Arts
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Property and Equipment—Property and equipment are stated at cost when purchased, or estimated fair market value at the date of gift or bequest. Depreciation is provided on the straight-line method over the following estimated useful lives:

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

Individual property items value at less than \$2,500 are expensed when purchased or donated.

Recently Adopted Accounting Principle

Leases—In February 2016, the the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This standard requires lessees to recognize the assets and liabilities that arise from the leases on the balance sheet. Additionally, in July 2018, the FASB issued ASU 2018-11 *Leases (Topic 842)—Targeted Improvements*, which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative effect adjust to the opening balance of net assets without donor restrictions in the period of adoption. The Organization adopted ASU No. 2016-02 and its related amendments on a retrospective approach as of July 1, 2022, which resulted in the recognition of an operating right-of-use asset totaling \$31,620, as well as an operating lease liability totaling \$31,620. The Organization elected to adopt the transition relief from provisions ASU 2018-11 as of July 1, 2022, without restating any prior year amounts or disclosures.

Concentration of Credit Risk—Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments in securities, and receivables.

The Organization places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Such cash balances may exceed FDIC insurance limits during the normal course of business. Cash held in investment accounts at investment custodians is insured by the Securities Investors Protection Corporation (SIPC) up to \$250,000 and the investments in securities are insured up to \$500,000, per institution. SIPC insurance protects the custody function of the investment custodian; it does not provide protection against fluctuations in market value. At times, such balances are in excess of the SIPC coverage limits.

The Organization is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. The Organization’s management has assessed the credit risk associated with its cash deposits and investments held at June 30, 2023 and believes it is not exposed to any significant credit risk with its cash and cash equivalents and investments, however, due to the current risk and uncertainties affecting financial institutions (see Note 12), the related impact cannot be reasonably estimated at this time.

Receivables are due from well-known charitable organizations with substantial assets, government entities, individuals, and other entities well-known to the Organization. The Organization’s management has assessed the credit risk associated with the cash and cash equivalents balances and receivables outstanding at June 30, 2023 and has determined that an allowance for potential uncollectible amounts is not necessary.

Inner-City Arts
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Contracts with Customers—Accounting standards require an organization to recognize revenue arising from contracts with customers at the time the customer obtains control of a contracted goods or service. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers.

Revenue Recognition—The Organizations revenue recognition policies are as follows:

Government grants—Revenues from government grants are reported as increases in net assets without donor restrictions as allowable expenditures under such agreements as incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Special events—The Organization conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of benefits received by the participants at the event. The Organization values such benefits at actual cost.

Program revenue—Program revenues consist of fees charged for various art education programs and are recognized at the time services are provided.

Space and art rental income—Space and art rental income is recognized at the time services are provided.

In-Kind Contributions—The Organization records the value of donated program supplies and services at their fair value at the date of donation. In-kind services are recognized only if they (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. Salaries, employee benefits, payroll taxes, office expenses, and dues and subscriptions are allocated based on time and effort of employees and are used to allocate all indirect expenses. Depreciation and amortization, and facility and occupancy are allocated based on space estimates. All other expenses are indirectly allocated based on the time and effort of employees. All other expenses are charged directly to the program or supporting service benefitted.

Advertising and Promotion Expense—Advertising and promotion costs are expensed as incurred and amounted to \$349 for the year ended June 30, 2023.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inner-City Arts
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,200,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts, common stocks, and corporate bonds.

The following represents the availability and liquidity of the Organization's financial assets at June 30, 2023 to cover operating expenses for the next fiscal year:

Financial assets	
Cash and cash equivalents	\$ 947,825
Investments	5,056,233
Grants and contributions receivable	580,925
Government grants receivable	92,932
ERC grants receivable	511,269
Accounts receivable	470,688
	<hr/>
Total Financial Assets	7,659,872
Less net assets subject to purpose restrictions	(318,734)
Less net assets subject to appropriation and expenditure	(1,031,003)
Less net assets held in perpetuity	(1,553,021)
Less board-designated net assets	(1,000,000)
	<hr/>
Current Availability of Financial Assets	\$ 3,757,114

Note 3—Investments and Fair Value

In determining the fair value of investments, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Organization at the measurement date.

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

The Organization may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Organization to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. The Organization had no assets or liabilities classified at NAV as a practical expedient during the year ended June 30, 2023.

Inner-City Arts
Notes to Financial Statements—Continued

Note 3—Investments and Fair Value—Continued

At June 30, 2023, the Organization investments consist of endowment funds held in perpetuity totaling \$2,584,024 (see Note 9) and board-designated funds.

Fair values of investments measured on a recurring basis at are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate bonds	\$ 942,546	\$	\$ 942,546	\$
Equities	2,937,604	2,937,604		
Mutual funds	1,176,083	1,176,083		
Totals	<u>\$ 5,056,233</u>	<u>\$ 4,113,687</u>	<u>\$ 942,546</u>	<u>\$</u>

Investment activity for the year ended June 30, 2023 were as follows:

Investment gains	\$ 330,170
Investment management fees	(815)
Investment Return, Net	<u>329,355</u>
Interest and dividend income	108,765
Total Investment Return	<u>\$ 438,120</u>

Note 4—Grants and Contributions Receivable, Net

Net grants and contributions receivable at June 30, 2023 are as follows:

Amounts due in:	
One year or less	\$ 518,833
Greater than one year but less than five years	70,000
Total Grants and Contributions Receivable	<u>588,833</u>
Less unamortized discount at 1.98%	(7,908)
Grants and Contributions Receivable, Net	<u>\$ 580,925</u>

Note 5—Property and Equipment, Net

Net property and equipment consist of the following at June 30, 2023:

Building and improvements	\$ 13,440,394
Furniture and equipment	863,816
	<u>14,304,210</u>
Less accumulated depreciation	(6,716,764)
Depreciable Property and Equipment, Net	<u>7,587,446</u>
Land	1,623,072
Property and Equipment, Net	<u>\$ 9,210,518</u>

Depreciation expense recorded during the year ended June 30, 2023 totaled \$442,802.

Inner-City Arts
Notes to Financial Statements—Continued

Note 6—Net Assets without Donor Restrictions

Net assets with donor without restrictions at June 30, 2023 consist of the following:

Undesignated	\$ 12,020,360
Board-designated net assets	<u>1,000,000</u>
Total Net Assets without Donor Restrictions	<u><u>\$ 13,020,360</u></u>

The board designated investment fund is intended to hold funds that are not generally needed for use in the near future to finance the Organization’s operations. Funds in the board-designated fund are invested in securities.

Note 7—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 consist of the following:

Subject to expenditure for specified purpose:	
Institute	\$ 131,234
Theater lighting upgrades	75,000
Learning and Achieving Through the Arts (LATA)	81,250
Work of Art Program	<u>31,250</u>
Total Subject to Purpose Restrictions	318,734
Subject to time restrictions:	
General operations	360,925
Learning and Achieving Through the Arts (LATA)	170,000
Institute	<u>50,000</u>
Total Subject to Time Restrictions	580,925
Subject to endowment spending policy and appropriation:	
Kaufman endowment	598,556
Bob Bates Chair of Creativity endowment	180,357
Hearst endowment	88,640
Schreter scholarship endowment fund	44,456
Endowment for student transportation	<u>118,994</u>
Total Subject to Appropriation	1,031,003
Held in perpetuity:	
Bob Bates Chair of Creativity endowment	795,000
Kaufman endowment	500,000
Schreter scholarship endowment fund	129,021
Hearst endowment	100,000
Endowment for student transportation	<u>29,000</u>
Total Held in Perpetuity	<u>1,553,021</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 3,483,683</u></u>

Inner-City Arts
Notes to Financial Statements—Continued

Note 7—Net Assets with Donor Restrictions—Continued

Net assets released from donor restrictions for the year ended June 30, 2023 are as follows:

Satisfaction of purpose restrictions:	
Institute	\$ 343,033
Learning and Achieving Through the Arts (LATA)	327,049
Work of Art Program	122,500
Theater lighting upgrades	75,000
Total Satisfaction of Purpose Restrictions	867,582
Satisfaction of time restrictions:	
Specified time period	624,000
General operations	121,282
Total Satisfaction of Time Restrictions	745,282
Satisfaction of endowment spending policy and appropriation:	
Kaufman endowment	41,562
Hearst endowment	7,346
Schreter scholarship endowment	1,500
Total Satisfaction of Appropriation and Expenditure	50,408
Total Net Assets Released from Donor Restrictions	\$ 1,663,272

Note 8—ERC Grants

During the year ended June 30, 2023, the Organization was eligible and applied for employee retention credits (ERC) in the amount of \$942,735. This is included in ERC grants in the statement of activities and in ERC grants receivable in the statement of financial position. ERC grants receivable amounted to \$511,269 for the year ended June 30, 2023 and was collected subsequent to year end.

Note 9—Endowment Net Assets

The Organization's endowment consists of several funds established for a variety of art education program purposes.

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

Inner-City Arts
Notes to Financial Statements—Continued

Note 9—Endowment Net Assets—Continued

Return Objectives and Risk Parameters—The Organization has adopted investment and spending policies for endowment assets set by the donor and the donor advised fund that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

Strategies Employed for Achieving Objectives—To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk restraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy—The Organization currently seeks to promote growth of its endowment funds for the purpose of creating a fund that will generate income for support of the Organization operations in the future. The gift agreement provides for annual distributions to the Organization of \$100,000, adjusted for inflation, until the funds are depleted. The annual distribution is restricted to the funding of scholarships and program expenses at the Organization. The board-designated endowment spending policy authorizes the Board of Directors to distribute up to 3% of the average balance over a three-year period of the endowment fund. In establishing these policies, the Organization and donor considered the long-term expected return on its endowment, as well as the operational needs of the Organization.

Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to achieve annual growth above inflation. This is consistent with the Organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the year ended June 30, 2023 were as follows:

	<u>Subject to Appropriation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Endowment Net Assets at June 30, 2022	\$ 825,535	\$ 1,553,021	\$ 2,378,556
Interest and dividend income	58,142		58,142
Unrealized gain on investments	198,128		198,128
Investment management fees	(395)		(395)
Total Investment Return on Endowment Funds	255,875		255,875
Appropriation of expenditure pursuant to spending-rate policy	(50,407)		(50,407)
Endowment Net Assets at June 30, 2023	<u>\$ 1,031,003</u>	<u>\$ 1,553,021</u>	<u>\$ 2,584,024</u>

Included in the donor-restricted endowment funds at June 30, 2023 are \$15,000 of grants receivable.

Inner-City Arts
Notes to Financial Statements—Continued

Note 10—In-Kind Contributions

For the year ended June 30, 2023, in-kind contributions are included in the statement of activities under public support and revenue and included in the respective expense captions in the statement of functional expenses as follows:

Program supplies	\$ 10,938
Facility and occupancy	504
Total	\$ 11,442

The following fair value techniques are used to value in-kind contributions:

Program supplies—The Organization values donated program supplies at actual costs incurred by donor.

Facility and occupancy—Valued using provided fair market value rate of services provided from donor for storage space.

The Organization uses in-kind program supplies and facility and occupancy in its art education services.

Note 11—Commitments

In March 2020, the Organization signed a lease agreement for office equipment under a non-cancellable operating lease agreement which expires February 2025. The lease calls for monthly payments of \$1,003 over the term of the lease. Future minimum annual rental commitments by year for this operating lease with maturity greater than one year from June 30, 2023 are as follows:

<u>Year Ending December 31,</u>		
2024		\$ 12,036
2025		8,024
	Gross Rental Payments	20,060
Less effect of discounting at 1.09%		(190)
	Operating Lease Liability	\$ 19,870

With the adoption of ASU 2016-02, an operating lease right-of-use asset and an operating lease liability of \$19,870 and \$19,870, respectively, were recorded at June 30, 2023 related to this operating lease, using the lease term and monthly rental amounts \$1,003, and a discount rate of 1.09%.

Equipment rental expense totaled \$12,036 for the year ended June 30, 2023.

Inner-City Arts
Notes to Financial Statements—Continued

Note 11—Commitments—Continued

Subsequent to year-end, the Organization signed a 61-month lease agreement for parking lot space which began November 2023 and expires December 2028. The lease calls for monthly payments of \$9,600 with annual increases of 5%. Future minimum annual rental commitments by year for this lease are as follows:

<u>Year Ending December 31,</u>	
2024	\$ 76,800
2025	119,040
2026	124,992
2027	131,242
2028	137,804
Thereafter	58,344
Total	\$ <u>648,222</u>

Note 12—Risks and Uncertainties

In March 2023 the shut-down of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system, however, there can be no certainty that the actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy, which may include limits on access to short-term liquidity in the near term or other adverse effects. As disclosed in Note 1, at times, the Organization maintains cash and cash equivalents and investment balances in excess of federally insured limits. Given the uncertainty of the situation, the related financial impact cannot be reasonably estimated at this time.

Note 13—Subsequent Events

Management evaluated all activities of the Organization through December 12, 2023, which is the date the financial statements were available to be issued, and concluded that, other than the ERC grant collected described in Note 8, and the lease entered into described in Note 11, no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.