# /NTERSECT/ON
FOR THE ARTS

# Financial Statements

**For the year ended**
**June 30, 2019**
With Independent Auditors' Report Thereon

(A California Not-for-Profit Corporation)

## About Intersection for the Arts:

Founded in the early 1960's and incorporated in 1965, Intersection for the Arts provides artists with resources in order to grow. Intersection's programs emphasize relationships, collaboration, and process. Intersection works with hundreds of artists and arts organizations throughout the Bay Area, providing resources, cultural space, and community to develop sustainable practices.

## Board of Directors 2018-2019

| Name | Position |
|---|---|
| Scott Flicker | Chair |
| Kari Harsel Gray | Vice-Chair |
| Pavan Singh | Secretary |
| Scott Nielsen | Treasurer |
| Victoria Oliver | Director |
| Chelsea Samuel | Director |
| Norman Shih | Director |
| Mimi Tsai | Director |
| Andy Wang | Director |
| Randy Rollison | Executive Director |

**Intersection for the Arts**
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# INDEPENDENT AUDITORS' REPORT

**The Board of Directors**
**Intersection for the Arts**

We have audited the accompanying financial statements of Intersection for the Arts (a California Not-For-Profit Corporation) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Intersection for the Arts as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Intersection for the Arts' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Regalia & Associates

***January 17, 2020***
***Danville, California***



REGALIA & ASSOCIATES, CPA'S, A PROFESSIONAL CORPORATION
WWW.MRCPA.COM

**Statement of Financial Position**
**June 30, 2019**
*(with Summarized Financial Information for the Year Ended June 30, 2018)*

**ASSETS**

| | Core Operations | Fiscally Sponsored Projects | Total 2019 | Total 2018 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 161,198 | $ 2,552,951 | **$ 2,714,149** | $ 2,373,371 |
| Grants and pledges receivable | 47,444 | 870,421 | **917,865** | 546,930 |
| Accounts and other receivables | 3,350 | 79,148 | **82,498** | 161,330 |
| Prepaid expenses and other assets | 58,031 | 4,949 | **62,980** | 32,807 |
| Total current assets | 270,023 | 3,507,469 | **3,777,492** | 3,114,438 |
| Noncurrent assets: | | | | |
| Deposits | 31,174 | - | **31,174** | - |
| Right of use asset - premises | 1,435,901 | - | **1,435,901** | - |
| Property and equipment, net | 12,117 | - | **12,117** | - |
| | $ 1,749,215 | $ 3,507,469 | **$ 5,256,684** | $ 3,114,438 |

**LIABILITIES AND NET ASSETS**

| | Core Operations | Fiscally Sponsored Projects | Total 2019 | Total 2018 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 16,958 | $ 223,664 | **$ 240,622** | $ 142,323 |
| Lease payable - current portion | 289,971 | - | **289,971** | - |
| Deferred revenue | 9,745 | - | **9,745** | 15,817 |
| Total current liabilities | 316,674 | 223,664 | **540,338** | 158,140 |
| Lease payable - noncurrent portion | 1,145,930 | - | **1,145,930** | - |
| Total liabilities | 1,462,604 | 223,664 | **1,686,268** | 158,140 |
| Net assets: | | | | |
| Without donor restrictions | 219,611 | 1,785,467 | **2,005,078** | 1,670,310 |
| With donor restrictions | 67,000 | 1,498,338 | **1,565,338** | 1,285,988 |
| Total net assets | 286,611 | 3,283,805 | **3,570,416** | 2,956,298 |
| | $ 1,749,215 | $ 3,507,469 | **$ 5,256,684** | $ 3,114,438 |

## Statement of Activities and Changes in Net Assets
### Year Ended June 30, 2019
*(with Summarized Financial Information for the Year Ended June 30, 2018)*

| | Without Donor Restrictions | | With Donor Restrictions | | | |
|---|---|---|---|---|---|---|
| | Core Operations | Fiscally Sponsored Projects | Core Operations | Fiscally Sponsored Projects | Total 2019 | Total 2018 |
| *Changes in net assets:* | | | | | | |
| Support: | | | | | | |
| Government | $ - | $ - | $ 86,940 | $ 1,154,804 | **$ 1,241,744** | $ 491,532 |
| Foundation and corporate | 10,250 | 485,438 | 35,000 | 1,215,642 | **1,746,330** | 1,296,284 |
| Individual | 16,447 | 852,968 | - | - | **869,415** | 764,416 |
| Other contributed revenue | - | 4,054 | - | - | **4,054** | 28,112 |
| In-kind | 400 | 5,390 | - | - | **5,790** | 21,194 |
| Transferred in from new fiscally sponsored projects | - | 127,075 | - | - | **127,075** | 199,670 |
| Net assets released from restrictions | 144,940 | 2,068,096 | (144,940) | (2,068,096) | **-** | - |
| Total support | 172,037 | 3,543,021 | (23,000) | 302,350 | **3,994,408** | 2,801,208 |
| Revenue: | | | | | | |
| Fees | 403,790 | 660,982 | - | - | **1,064,772** | 911,913 |
| Fiscal sponsorship fees remitted | - | (385,855) | - | - | **(385,855)** | (314,479) |
| Admissions, sales and concessions | 33,016 | 304,170 | - | - | **337,186** | 548,796 |
| Facility charges | 151,341 | 19,348 | - | - | **170,689** | 156,631 |
| Tuition | 2,915 | 11,753 | - | - | **14,668** | 10,705 |
| Interest | 18 | 169 | - | - | **187** | 187 |
| Other | 93,280 | 16,130 | - | - | **109,410** | 32,720 |
| Total revenue | 684,360 | 626,697 | - | - | **1,311,057** | 1,346,473 |
| Total support and revenue | 856,397 | 4,169,718 | (23,000) | 302,350 | **5,305,465** | 4,147,681 |
| Expenses: | | | | | | |
| Program | 611,827 | 2,778,236 | - | - | **3,390,063** | 3,017,759 |
| General and Administrative | 262,852 | 949,749 | - | - | **1,212,601** | 751,281 |
| Fundraising | 60,884 | 27,799 | - | - | **88,683** | 193,209 |
| Total expenses | 935,563 | 3,755,784 | - | - | **4,691,347** | 3,962,249 |
| Increase (decrease) in net assets | (79,166) | 413,934 | (23,000) | 302,350 | **614,118** | 185,432 |
| Net assets at beginning of year | 298,777 | 1,371,533 | 90,000 | 1,195,988 | **2,956,298** | 2,770,866 |
| Net assets at end of year | $ 219,611 | $ 1,785,467 | $ 67,000 | $ 1,498,338 | **$ 3,570,416** | $2,956,298 |

## Statements of Cash Flows
## For the Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| *Operating activities:* | | |
| Increase in net assets | $ 614,118 | $ 185,432 |
| Adjustments to reconcile to cash provided by operating activities: | | |
| Depreciation expense | 3,029 | - |
| Changes in: | | |
| Grants and pledges receivable | (402,109) | 276,100 |
| Accounts and other receivables | 78,832 | (150,984) |
| Prepaid expenses and other assets | (30,173) | 21,173 |
| Accounts payable and accrued liabilities | 98,299 | 77,846 |
| Deferred revenue | (6,072) | 8,500 |
| Cash provided by operating activities | 355,924 | 418,067 |
| *Investing activities:* | | |
| Acquisition of property and equipment | (15,146) | - |
| Cash used for investing activities | (15,146) | - |
| Net increase in cash and cash equivalents | 340,778 | 418,067 |
| Cash and cash equivalents at beginning of year | 2,373,371 | 1,955,304 |
| Cash and cash equivalents at end of year | $ 2,714,149 | $ 2,373,371 |
| *Additional cash flow information:* | | |
| State registration taxes paid | $ 150 | $ 150 |
| Interest paid | $ - | $ - |

**Statement of Functional Expenses**
**Year Ended June 30, 2019**
*(with Summarized Financial Information for the Year Ended June 30, 2018)*

| | Core Operations | | | | Fiscally Sponsored Projects | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Program | General and Admin-istrative | Fund-raising | Total Core Operations | Program | General and Admin-istrative | Fund-raising | Total Fiscally Sponsored Projects | Total 2019 | Total 2018 |
| Salaries and wages | $ 186,722 | $ 63,058 | $ 27,384 | $ 277,164 | $ 302,222 | $ - | $ - | $ 302,222 | **$ 579,386** | $ 477,547 |
| Employee benefits | 21,143 | 7,551 | 1,510 | 30,204 | - | 23,729 | - | 23,729 | **53,933** | 51,105 |
| Payroll taxes and other staffing costs | 17,557 | 6,270 | 1,254 | 25,081 | 25,664 | 7,236 | - | 32,900 | **57,981** | 52,450 |
| | 225,422 | 76,879 | 30,148 | 332,449 | 327,886 | 30,965 | - | 358,851 | **691,300** | 581,102 |
| Bad debts | - | - | - | - | - | 6,000 | - | 6,000 | **6,000** | 7,400 |
| Contract services | 114,493 | 78,843 | 71 | 193,407 | 1,841,036 | 723,282 | 23,553 | 2,587,871 | **2,781,278** | 2,389,151 |
| Depreciation | - | 3,029 | - | 3,029 | - | - | - | - | **3,029** | - |
| Equipment rental/maintenance | 24,724 | 8,582 | 3,626 | 36,932 | 197 | 31,482 | - | 31,679 | **68,611** | 19,543 |
| Fees, dues and subscriptions | 3,567 | 1,262 | - | 4,829 | 12,257 | 6,598 | - | 18,855 | **23,684** | 26,099 |
| Information technology | 5,755 | 2,467 | - | 8,222 | 23,330 | - | - | 23,330 | **31,552** | 31,192 |
| In-kind expenses | 400 | - | - | 400 | 5,390 | - | - | 5,390 | **5,790** | 21,194 |
| Insurance | 11,260 | 3,802 | 1,651 | 16,713 | - | 21,240 | - | 21,240 | **37,953** | 34,124 |
| Miscellaneous | - | 14 | - | 14 | 9,988 | 18,854 | - | 28,842 | **28,856** | 18,778 |
| Occupancy | 182,562 | 73,575 | 25,377 | 281,514 | 147,971 | 73,741 | 1,742 | 223,454 | **504,968** | 338,823 |
| Postage and delivery | 2,501 | - | 11 | 2,512 | 2,261 | 142 | - | 2,403 | **4,915** | 4,522 |
| Printing | 6,341 | 1,465 | - | 7,806 | 60,584 | 1,428 | | 62,012 | **69,818** | 55,944 |
| Production expense | 2,355 | - | - | 2,355 | 150,827 | - | - | 150,827 | **153,182** | 183,520 |
| Promotion and development | 1,640 | - | - | 1,640 | 48,167 | - | 1,115 | 49,282 | **50,922** | 55,552 |
| Supplies | 25,065 | 12,346 | - | 37,411 | - | 24,207 | 525 | 24,732 | **62,143** | 25,358 |
| Telephone | 423 | 181 | - | 604 | - | 2,746 | - | 2,746 | **3,350** | 2,164 |
| Travel and hospitality | 5,319 | 407 | - | 5,726 | 148,342 | 9,064 | 864 | 158,270 | **163,996** | 167,783 |
| Total expenses | $ 611,827 | $ 262,852 | $ 60,884 | $ 935,563 | $2,778,236 | $ 949,749 | $ 27,799 | $ 3,755,784 | **$ 4,691,347** | $ 3,962,249 |

Notes to Financial Statements
June 30, 2019

## 1. Organization

Intersection for the Arts (IFTA) was incorporated in 1965 in California and is a tax-exempt, non-profit corporation which directly supports the creative work of artists through the INTERSECT SF Program, and engages community through artist residencies. IFTA also fiscally sponsors art and cultural projects in the Bay Area across many disciplines-from visual art to performance to arts education and advocacy. Fiscal sponsorship encourages funding agencies and contributors to take risks in financially supporting new projects and emerging artists, ensuring that money is well-managed and spent according to guidelines. IFTA provides assistance in funding, developing and promoting artistic work, as well as providing low-cost office space in San Francisco.

IFTA's staff reviews each potential FSP's application for sponsorship before accepting them as an FSP, verifying that their charitable purpose is consistent with IFTA's nonprofit purpose, that they have viable plans for raising funds, and have a committed project director. At any given time, IFTA sponsors roughly 150 projects, which include projects of limited duration, start-up nonprofit organizations, and others.

All of the financial activity of IFTA's FSPs is combined for financial statement purposes. However, each FSP's funds are accounted for separately in IFTA's books and records. Because of the nature of the business of fiscal sponsorship, IFTA's portfolio of FSPs is volatile, with time-limited projects completing, with maturing projects receiving their own 501(c)(3) status, and with new projects coming on board throughout the year. As such, individual line items may vary considerably from year to year, and typical financial analyses are not always meaningful.

## 2. Summary of Significant Accounting Policies

***Basis of Presentation*** – The financial statements of IFTA have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("US GAAP").

***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 those items attributable to IFTA's ongoing operations which include a variety of programmatic activities. Nonoperating activities are limited to resources that generate return from interest-bearing deposits and other activities considered to be of a more unusual or nonrecurring nature.

***Comparative Financial Information*** - The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with our audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

***Cash and Cash Equivalents*** – IFTA's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

*(continued)*

## 2. Summary of Significant Accounting Policies *(continued)*

***Concentrations of Credit Risk*** – Financial instruments that potentially subject IFTA to concentrations of credit risk consist principally of cash and cash equivalents. IFTA maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. IFTA manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy.

To date, IFTA has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from reputable organizations and foundations supportive of IFTA's mission.

***Accounts, Grants and Pledges Receivable*** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization, if applicable, is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

***Property and Equipment*** – IFTA's policy is to record acquisitions of property and equipment at cost or, if donated, at fair market value on the date of donation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets.

Costs of maintenance and repairs are expensed currently. IFTA reviews the carrying values of all assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated economic utility and/or future cash flows expected to result from its use and eventual disposition.

***Fair Value Measurements*** – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions.

The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). IFTA groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

<u>Level 1</u>
Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

*(continued)*

## 2. Summary of Significant Accounting Policies *(continued)*

***Fair Value Measurements*** (*continued*)

Level 2
Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3
Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing model of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

***Net Assets*** - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Thus, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has the ability to designate, from net assets without donor restrictions, net assets for an operating reserve or board-designated endowment, but it has opted not to do so as of June 30, 2019.

Net Assets with Donor Restrictions
Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions can be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

***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 certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

*(continued)*

**2. Summary of Significant Accounting Policies** *(continued)*

***Donated Services and In-Kind Contributions*** – Contributed services and costs are reflected at the fair value of the contribution received. The contributions of services and costs are recognized 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.

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

***Functional Allocation of Expenses*** - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among services and supporting services benefited. Such allocations are determined by management on an equitable basis. A majority of expenses (such as salaries and wages, payroll taxes, employee benefits, insurance, and occupancy) have been allocated based on time and effort using IFTA's payroll allocations. Other expenses (such as contract services and other direct costs) have been allocated in accordance with the specific services received.

***Revenue and Revenue Recognition*** - Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. When applicable, revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as services are provided.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

***Reclassifications*** – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

***Income Taxes*** – IFTA is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. IFTA is required to annually file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. IFTA files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income, if any.

*(continued)*

## 2. Summary of Significant Accounting Policies *(continued)*

***Income Taxes*** – *(continued)*
IFTA has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The exemptions are subject to periodic review by the federal and state taxing authorities and management is confident that IFTA continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status.

***Recent and Relevant Accounting Pronouncements*** – The following pronouncements became effective for fiscal years beginning subsequent to December 15, 2017:

In August 2016, the FASB issued *ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. IFTA has adjusted the presentation of these statements accordingly.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842) Accounting for Leases*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by multiple ASUs. This new pronouncement is effective for fiscal years beginning after December 15, 2019, but IFTA has elected early implementation.

The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities and changes in net assets.

In August 2014, the FASB issued *ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires an organization's management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). As of January 17, 2020 (the date of the Independent Auditors' Report), management has made this evaluation and has determined that IFTA has the ability to continue as a going concern.

## 3. Cash and Cash Equivalents

Cash and cash equivalents include all funds in financial institutions (checking, savings and money market) and consist of the following at June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Checking and petty cash (noninterest-bearing) | **$ 2,386,219** | $ 2,045,628 |
| Savings (bearing interest at 0.06% per annum at June 30, 2019) | **297,699** | 297,521 |
| Money market (bearing interest at 0.03% per annum at June 30, 2019) | **30,231** | 30,222 |
| Total cash and cash equivalents | **$ 2,714,149** | $ 2,373,371 |

At June 30, 2019, certain accounts exceeded the FDIC insured limit, resulting in $2,464,149 in funds that were not covered by insurance provided by the federal government. Such financial instruments potentially subject IFTA to concentrations of credit risk. It is the opinion of management that the solvencies of the referenced financial institutions are satisfactorily strong and that IFTA's financial position will not be compromised. IFTA attempts to limit its credit risk associated with cash and cash equivalents by placing all deposits with highly rated corporate and financial institutions.

## 4. Receivables

Receivables include grants, pledges and contractually earned income related to operating activities and various grants made to IFTA's fiscally sponsored groups and consist of the following at June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Grants receivable | **$ 887,659** | $ 539,267 |
| Pledges receivable | **30,206** | 7,663 |
| Subtotal: grants and pledges receivable | **917,865** | 546,930 |
| | | |
| Contract income receivable | **70,393** | 146,430 |
| Other receivables | **12,105** | 14,900 |
| Subtotal: accounts and other receivables | **82,498** | 161,330 |
| | | |
| Total receivables | **$ 1,000,363** | $ 708,260 |

IFTA uses the direct write-off method with regard to receivables deemed uncollectible. An allowance for estimated losses has not been established because management believes the grants, pledges, and other receivables are fully collectible based on the financial strength of the particular donors and payers.

## 5. Property and Equipment

Property and equipment consist of the following at June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Furniture and fixtures | **$ 15,146** | $ - |
| Less: accumulated depreciation | **(3,029)** | - |
| Property and equipment, net | **$ 12,117** | $ - |

Depreciation expense amounted to $3,029 for the year ended June 30, 2019. During the year ended June 30, 2018, IFTA disposed of fully depreciated components of equipment and leasehold improvements with an original cost basis and accumulated depreciation of $371,974. There were no disposals during the year ended June 30, 2019.

## 6. Liquidity

IFTA regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the safeguarding of its available funds. IFTA has various sources of liquidity at its disposal, including cash and cash equivalents and the future collection of receivables. For purposes of analyzing resources available to meet general expenditures over a 12-month period, IFTA considers all expenditures related to its ongoing support of artists to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, IFTA operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of IFTA's cash and shows positive cash generated by operations for the years ended June 30, 2019 and 2018.

The following table shows the total financial assets held by IFTA and the amounts of those financial assets readily available within one year of the balance sheet date to meet general expenditures:

| | |
|---|---|
| Cash and cash equivalents | $ 2,714,149 |
| Grants and pledges receivable | 917,865 |
| Accounts and other receivables | 82,498 |
| Less: amounts not available to be used within one year: | |
| Net assets with donor restrictions for programs and projects | (1,565,338) |
| Financial assets available to meet general expenditures over the next twelve months | $ 2,149,174 |

Much of the support that IFTA receives is restricted by donors. Because donor restrictions require resources to be used in a particular manner or in a future period, IFTA must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of IFTA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

## 7. Lease Commitments and Right of Use Asset - Premises

IFTA leases its corporate office premises in San Francisco under an operating lease agreement which expires November 30, 2023. The lease requires a monthly rental payment of $27,625 as of June 30, 2019, with stipulated increases of 3% each December 1. IFTA is responsible for its share of operating expenses, including maintenance and utilities.

IFTA also leases certain office equipment under a separate rental contract expiring July 2023. From time to time, IFTA and its fiscally sponsored projects rent performance halls under specific usage agreements and are obligated to pay rent based upon the number of performances for which the facilities are utilized.

In accordance with *ASU 2016-02, Leases*, IFTA is required to reflect the present value of future operating lease payments (discounted at an appropriate borrowing rate) as a “Right of Use” asset and a corresponding lease liability. Accordingly, IFTA has recorded a total lease liability in the amount of $1,435,901 for its office space (split between the current amount of $289,971 and noncurrent amount of $1,145,930) and a corresponding right of use asset for the premises in the amount of $1,435,901. The weighted average discount rate associated with the calculation of the present value of the future lease payments as of June 30, 2019 was 4.0%, which represents an estimate of IFTA’s incremental borrowing rate.

Future minimum rental payments under all operating leases extending beyond one year are as follows at June 30, 2019:

| | | |
|---|---|---|
| Year ending June 30, 2020 | $ | 340,123 |
| Year ending June 30, 2021 | | 350,239 |
| Year ending June 30, 2022 | | 360,664 |
| Year ending June 30, 2023 | | 371,399 |
| Thereafter | | 155,695 |

Rent expense for the offices and performance spaces amounted to $469,927 and $327,646 for the years ended June 30, 2019 and 2018, respectively, and these amounts are included with occupancy expense on the statement of functional expenses.

## 8. Deferred Revenue

Deferred revenue of $9,745 and $15,817 at June 30, 2019 and 2018, respectively, represents funds received under binding contracts in advance for future activities to be held during the following fiscal year. Such amounts have been reflected as short-term liabilities and will be classified as earned revenue on the statement of activities and changes in net assets in the subsequent fiscal period.

## 9. Advertising and Promotion

Advertising and promotion costs are expensed as incurred. Advertising and promotion expense amounted to $15,536 and $9,553 for the years ended June 30, 2019 and 2018, respectively.

## 10. Fair Value Measurements

In accordance with fair value measurement accounting, IFTA has classified certain current assets at June 30, 2019 as follows:

| | Totals | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Grants and pledges receivable | $ 917,865 | $ - | $ 917,865 | $ - |
| Accounts and other receivables | 82,498 | - | 82,498 | - |
| Totals | $ 1,000,363 | $ - | $ 1,000,363 | $ - |

Composition of assets utilizing fair value measurements at June 30, 2018 is as follows:

| | Totals | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Grants and pledges receivable | $ 546,930 | $ - | $ 546,930 | $ - |
| Accounts and other receivables | 161,330 | - | 161,330 | - |
| Totals | $ 708,260 | $ - | $ 708,260 | $ - |

## 11. Net Assets with Donor Restrictions

IFTA recognizes support from net assets with donor restrictions when the restrictions imposed by the donors have been satisfied or expire. Net assets with donor restrictions consist of the following at June 30:

| | **2019** | 2018 |
|---|---|---|
| *Restricted for:* | | |
| Fiscally sponsored projects | **$ 1,498,338** | $ 1,195,988 |
| Capacity building | **-** | 50,000 |
| Future periods | **67,000** | 40,000 |
| | **$ 1,565,338** | $ 1,285,988 |

During the years ended June 30, 2019 and 2017, additions to net assets with donor restrictions amounted to $2,492,386 and $1,572,466, respectively. During the years ended June 30, 2019 and 2018, IFTA released $2,213,036 and $1,757,302, respectively, from net assets with donor restrictions to net assets without donor restrictions.

## 12. Compensated Absences (Accrued Payroll and Related Benefits)

Financial statement presentation follows the recommendations of *ASC 710.25, Compensated Absences*. Under ASC 710.25, IFTA is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the statement of financial position based on hourly rates in effect at the end of the year. Accrued payroll liabilities amounted to $14,487 and $13,864 at June 30, 2019 and 2018, respectively, and are included with accounts payable and accrued liabilities on the statement of financial position.

## 13. In-kind Contributions (Donated Services and Materials)

During the years ended June 30, 2019 and 2018, IFTA was the recipient of a substantial amount of in-kind contributions and these donated services, materials and facilities were recorded at their estimated fair values as program and supporting revenues and expenses. The estimated values of these contributions are summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Hospitality and travel | $ 290 | $ 2,103 |
| Facility and equipment usage | - | 12,188 |
| Professional services | 5,500 | 2,386 |
| Auction | - | 2,050 |
| Supplies | - | 748 |
| Other | - | 1,719 |
| Total in-kind donations reflected as contributions | $ 5,790 | $ 21,194 |

## 14. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future performances, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate IFTA to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond IFTA's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management and operating personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material adverse effect on the financial statements. Certain of the grants and contracts (including current and prior costs) are subject to audit and final acceptance by the granting entities.

## 15. Subsequent Events

In compliance with ASC 855, *Subsequent Events*, IFTA has evaluated subsequent events through January 17, 2020, the date the financial statements were available to be issued and, in the opinion of management, there are no subsequent events which need to be disclosed.