

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2009 AND 2008

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Free Arts for Abused Children of NYC, Inc.

We have audited the accompanying statements of financial position of Free Arts for Abused Children of NYC, Inc. (a not-for-profit corporation) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Free Arts for Abused Children of NYC, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
July 23, 2010

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash (Note 8)	\$ 166,191	\$ 109,980
Certificates of deposit and cash held for investments (Notes 1c, 3 and 8)	414,700	412,557
Unconditional promises to give (Notes 1d and 4)	78,485	106,482
Prepaid expenses and other assets	31,279	8,965
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 5)	121,577	143,665
Security deposits	<u>21,656</u>	<u>21,656</u>
Total Assets	<u>\$ 833,888</u>	<u>\$ 803,305</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,074	\$ 14,115
Deferred rent (Note 1g and 6)	80,472	14,911
Total Liabilities	<u>82,546</u>	<u>29,026</u>
Commitment (Note 6)		
Net Assets		
Unrestricted	736,342	720,974
Temporarily restricted (Note 2)	15,000	53,305
Total Net Assets	<u>751,342</u>	<u>774,279</u>
Total Liabilities and Net Assets	<u>\$ 833,888</u>	<u>\$ 803,305</u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Change in Unrestricted Net Assets		
Revenues and Support		
Contributions	\$ 894,641	\$ 835,736
Donated services, materials and use of facility (Note 7)	124,045	175,848
Fundraising event	635,474	876,367
Less: Direct benefit expenses	(104,871)	(104,963)
Interest and dividend income	2,301	16,532
Realized loss on sale of investments	-	(1,955)
Unrealized gain on investments	-	1,025
Miscellaneous income	8	137
	<u>1,551,598</u>	<u>1,798,727</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>39,700</u>	<u>86,825</u>
Total Unrestricted Revenues and Support	<u>1,591,298</u>	<u>1,885,552</u>
Expenses		
Program Services	<u>1,241,468</u>	<u>1,435,529</u>
Supporting Services		
Management and general	96,436	183,922
Fundraising	<u>238,026</u>	<u>261,776</u>
Total Supporting Services	<u>334,462</u>	<u>445,698</u>
Total Expenses	<u>1,575,930</u>	<u>1,881,227</u>
Increase in Unrestricted Net Assets	<u>15,368</u>	<u>4,325</u>
Changes in Temporarily Restricted Net Assets		
Contributions	1,395	53,305
Net assets released from restrictions	<u>(39,700)</u>	<u>(86,825)</u>
Decrease in Temporarily Restricted Net Assets	<u>(38,305)</u>	<u>(33,520)</u>
Decrease in net assets	(22,937)	(29,195)
Net assets, beginning of year	<u>774,279</u>	<u>803,474</u>
Net Assets, End of Year	<u><u>\$ 751,342</u></u>	<u><u>\$ 774,279</u></u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (22,937)	\$ (29,195)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	23,320	14,117
Realized loss on sale of investments	-	1,955
Unrealized (gain) loss on investments	-	(1,025)
Donated stock	-	(5,415)
Donated property and equipment	-	(63,550)
(Increase) decrease in:		
Unconditional promises to give	27,997	71,253
Prepaid expenses and other assets	(22,314)	26,055
Security deposits	-	(161)
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,041)	(14,577)
Deferred rent	65,561	14,911
Net Cash Provided By Operating Activities	<u>59,586</u>	<u>14,368</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(1,232)	(70,510)
Purchase of investments	(103,143)	(475,773)
Proceeds from sale of investments	101,000	459,399
Net Cash Used By Investing Activities	<u>(3,375)</u>	<u>(86,884)</u>
Net increase (decrease) in cash	56,211	(72,516)
Cash, beginning of year	<u>109,980</u>	<u>182,496</u>
Cash, End of Year	<u>\$ 166,191</u>	<u>\$ 109,980</u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2009 AND 2008****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Free Arts for Abused Children of NYC, Inc. (the "Organization") was established to provide under-served children and families with a unique combination of educational arts and mentoring programs that help them to foster the self-confidence and resiliency needed to realize their fullest potential.

b - Cash

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less, to be cash equivalents, except for those short-term investments managed by the Organization's investment managers as part of their long-term investment strategies.

c - Investments

The Organization reports investments in marketable securities at fair value in the statements of financial position. Unrealized gains and losses on investments are reflected in the statements of activities as increases and decreases in unrestricted net assets.

The Organization was required to adopt "Fair Value Measurements" standards, effective January 1, 2008.

These standards clarify that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). These standards also provide for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels. Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs.

All of the Organization's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

The values assigned to these investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2009 AND 2008****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Contributions and Unconditional Promises to Give**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

e - Property and Equipment

Property and equipment is recorded at cost, if purchased and at fair value at date of donation, if contributed, and is being depreciated using the straight-line method over the estimated useful life of the asset.

f - Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

g - Deferred Rent

The Organization records rent expense associated with its office lease on a straight-line basis over the life of the lease (see Note 6). The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

h - 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.

i - Tax Status

The Organization is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

j - Subsequent Events

The Organization has evaluated subsequent events through July 23, 2010, the date that the financial statements are considered available to be issued.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Note 2 - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for future programs and periods.

Note 3 - Investments

Investments, which are all classified as Level 1 in fair value hierarchy, are reported at fair value and consist of the following:

	<u>2009</u>	<u>2008</u>
Cash and money market funds	\$414,700	\$311,182
Certificates of deposit	<u>-</u>	<u>101,375</u>
	<u>\$414,700</u>	<u>\$412,557</u>

Cost of investments at December 31, 2009 and 2008 approximates fair value.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>
Less than one year	<u>\$63,485</u>	<u>\$15,000</u>	<u>\$78,485</u>
	<u>2008</u>		
	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>
Less than one year	\$74,077	\$18,800	\$ 92,877
One to five years	<u>-</u>	<u>15,000</u>	<u>15,000</u>
	74,077	33,800	107,877
Less: Discount to present value	<u>-</u>	<u>(1,395)</u>	<u>(1,395)</u>
	<u>\$74,077</u>	<u>\$32,405</u>	<u>\$106,482</u>

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Note 4 - Unconditional Promises to Give (continued)

Uncollectible promises to give are expected to be insignificant. Unconditional promises to give are discounted to net present value using a discount rate of 5%.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Furniture, fixture and equipment	\$121,813	\$120,581
Software	45,008	45,008
Leasehold improvements	<u>73,652</u>	<u>73,652</u>
	240,473	239,241
Less: Accumulated depreciation	<u>(118,896)</u>	<u>(95,576)</u>
	<u>\$121,577</u>	<u>\$143,665</u>

Depreciation expense for the years ended December 31, 2009 and 2008 totaled \$23,320 and \$14,117, respectively.

Note 6 - Lease Commitments

The Organization is obligated under the terms of a lease for office space through December 31, 2017. In addition to base rent, the lease requires additional rent for utilities and increases in real estate taxes. This lease was amended in January 2009, reducing the Organization's minimum rental payments for 2009 and 2010. Minimum annual rental payments over the next five years are as follows:

<u>Year Ending December 31,</u>	
2010	\$200,000
2011	259,068
2012	266,840
2013	274,850
2014	283,095

Rent expense for the years ended December 31, 2009 and 2008 was \$265,428 and \$187,438, respectively.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Note 7 - Donated Services, Materials and Use of Facility

Donated services, materials and use of facility consist of:

	<u>2009</u>	<u>2008</u>
Donated services	\$ 93,946	\$113,851
Donated materials	25,099	51,997
Donated use of facility	<u>5,000</u>	<u>10,000</u>
	<u>\$124,045</u>	<u>\$175,848</u>

Note 8 - Concentration of Credit Risk

The Organization's cash is on deposit with a financial institution located in New York. The balances, at times, may exceed federally insured limits.

Note 9 - Functional Allocation of Expenses

The cost of providing the various program and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services in reasonable ratios determined by management.

ADDITIONAL INFORMATION



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**INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION**

To the Board of Directors of
Free Arts for Abused Children of NYC, Inc.

Our report on our audits of the basic financial statements of Free Arts for Abused Children of NYC, Inc. for 2009 and 2008 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended December 31, 2009 with comparative totals for 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
July 23, 2010

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009 WITH COMPARATIVE TOTAL FOR 2008

	Program Services	Supporting Services		2009	2008
		Management and General	Fundraising	Total Expenses	Total Expenses
Salaries, payroll taxes and benefits	\$ 637,912	\$ 42,273	\$ 157,575	\$ 837,760	\$ 992,474
Consultants	13,750	-	-	13,750	3,361
Curriculum writers	4,375	-	-	4,375	6,420
Counselor artist fees	11,400	-	-	11,400	27,190
Art supplies	48,519	-	-	48,519	80,261
Professional facilitators	50,712	-	-	50,712	51,225
Program food and refreshments	27,571	-	7,917	35,488	39,186
Volunteer and screening	3,965	-	-	3,965	3,866
Program evaluation	-	-	-	-	24,625
Postage and materials transport	18,573	331	2,370	21,274	40,179
Workshops and conferences	2,555	-	130	2,685	19,304
Marketing and advertising	802	-	-	802	43,410
Printing expense	11,182	285	1,333	12,800	39,231
Occupancy	254,055	17,321	17,320	288,696	215,281
Office expenses	13,009	883	764	14,656	12,441
Insurance	15,805	928	928	17,661	18,159
Telephone	8,518	531	531	9,580	10,442
Software/hardware maintenance	20,913	519	7,616	29,048	38,912
Equipment rental	10,299	1,669	693	12,661	10,600
Travel	2,998	-	540	3,538	12,475
Supplies	6,077	207	70	6,354	18,956
Accounting and legal fees	-	17,281	-	17,281	44,178
Indirect benefit expense	-	-	36,806	36,806	56,389
Gifts and recognition	5,746	777	423	6,946	18,427
Dues and subscriptions	2,564	250	125	2,939	5,405
Bank and credit card fees	-	8,088	-	8,088	4,147
Miscellaneous expenses	2,309	2,591	1,365	6,265	9,071
Tickets	45,519	-	-	45,519	17,447
Meals	1,818	1,103	121	3,042	4,048
Depreciation	20,522	1,399	1,399	23,320	14,117
Total Expenses, 2009	<u>\$1,241,468</u>	<u>\$ 96,436</u>	<u>\$ 238,026</u>	<u>\$1,575,930</u>	
Total Expenses, 2008	<u>\$1,435,529</u>	<u>\$ 183,922</u>	<u>\$ 261,776</u>		<u>\$1,881,227</u>

See independent auditors' report on additional information.