

**FREE ARTS FOR ABUSED CHILDREN  
OF NYC, INC.**

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**DECEMBER 31, 2008 AND 2007**

**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, 2008 and 2007, 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, 2008 and 2007, 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  
August 31, 2009

## FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash (Note 8)	\$ 109,980	\$ 182,496
Investments (Notes 1c and 3)	412,557	391,698
Unconditional promises to give (Notes 1d and 4)	106,482	177,735
Prepaid expenses and other assets	8,965	35,020
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 5)	143,665	23,722
Security deposits	<u>21,656</u>	<u>21,495</u>
<b>Total Assets</b>	<u>\$ 803,305</u>	<u>\$ 832,166</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 14,115	\$ 28,692
Deferred rent (Note 1g)	14,911	-
Total Liabilities	<u>29,026</u>	<u>28,692</u>
Commitments (Note 6)		
Net Assets		
Unrestricted	720,974	716,649
Temporarily restricted (Note 2)	<u>53,305</u>	<u>86,825</u>
Total Net Assets	<u>774,279</u>	<u>803,474</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 803,305</u>	<u>\$ 832,166</u>

See notes to financial statements.

## FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>Change in Unrestricted Net Assets</b>		
Revenues and Support		
Contributions	\$ 835,736	\$ 613,165
Donated services, materials and use of facility (Note 7)	175,848	55,230
Fundraising event	876,367	845,720
Less: Direct benefit expenses	(104,963)	(116,006)
Interest and dividend income	16,532	21,886
Realized loss on sale of investments	(1,955)	-
Unrealized gain (loss) on investments	1,025	(787)
Miscellaneous income	137	4,456
	<u>1,798,727</u>	<u>1,423,664</u>
Net assets released from restriction		
Satisfaction of time and program restrictions	<u>86,825</u>	<u>-</u>
Total Unrestricted Revenues and Support	<u>1,885,552</u>	<u>1,423,664</u>
Expenses		
Program Services	<u>1,435,529</u>	<u>1,026,152</u>
Supporting Services		
Management and general	183,922	111,099
Fundraising	<u>261,776</u>	<u>237,362</u>
Total Supporting Services	<u>445,698</u>	<u>348,461</u>
Total Expenses	<u>1,881,227</u>	<u>1,374,613</u>
Increase in Unrestricted Net Assets	<u>4,325</u>	<u>49,051</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	53,305	86,825
Net assets released from restriction	<u>(86,825)</u>	<u>-</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(33,520)</u>	<u>86,825</u>
Increase (decrease) in net assets	(29,195)	135,876
Net assets, beginning of year	<u>803,474</u>	<u>667,598</u>
<b>Net Assets, End of Year</b>	<u>\$ 774,279</u>	<u>\$ 803,474</u>

See notes to financial statements.

## FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ (29,195)	\$ 135,876
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	14,117	5,989
Realized loss on sale of investments	1,955	-
Unrealized (gain) loss on investments	(1,025)	787
Donated stock	(5,415)	-
Donated property and equipment	(63,550)	-
(Increase) decrease in:		
Unconditional promises to give	71,253	(98,574)
Prepaid expenses and other assets	26,055	(25,201)
Security deposits	(161)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(14,577)	13,536
Deferred rent	14,911	-
Net Cash Provided By Operating Activities	<u>14,368</u>	<u>32,413</u>
 <b>Cash Flows From Investing Activities</b>		
Acquisition of property and equipment	(70,510)	(6,341)
Purchase of investments	(475,773)	(423,755)
Proceeds from sale of investments	459,399	331,869
Net Cash Used By Investing Activities	<u>(86,884)</u>	<u>(98,227)</u>
 Net decrease in cash	(72,516)	(65,814)
Cash, beginning of year	<u>182,496</u>	<u>248,310</u>
 <b>Cash, End of Year</b>	<u>\$ 109,980</u>	<u>\$ 182,496</u>

See notes to financial statements.

**FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2008 AND 2007****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 realized 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 Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective January 1, 2008.

SFAS 157 clarifies 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). Under SFAS 157, fair value measurements are not adjusted for transaction costs. SFAS 157 provides 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. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

**FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2008 AND 2007****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Investments (continued)**

An asset's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

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 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 depend on future events and circumstances and therefore valuations estimates may differ from the value realized upon disposition of individual positions.

**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 are reported at cost if purchased, and at fair value at date of donation if contributed. Depreciation is computed using the straight line method over the estimated useful lives of the assets.

**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 leases (see Note 6) on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as deferred rent and an expense in the accompanying financial statements.

**FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

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.

**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>2008</u>	<u>2007</u>
Cash and money market funds	\$311,182	\$ 16,698
Certificates of deposit	101,375	-
Mutual funds - Bonds	-	<u>375,000</u>
	<u>\$412,557</u>	<u>\$391,698</u>

Cost of investments at December 31, 2008 and 2007 approximates fair value.

## FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

**Note 4 - Unconditional Promises to Give**

Unconditional promises to give are due as follows:

	<u>2008</u>		
	Future Programs and		
	<u>Unrestricted</u>	<u>Periods</u>	<u>Total</u>
Less than one year	\$74,077	\$18,800	\$ 92,877
One to five year	-	15,000	15,000
	<u>74,077</u>	<u>33,800</u>	<u>107,877</u>
Less: Discount to present value	-	(1,395)	(1,395)
	<u>\$74,077</u>	<u>\$32,405</u>	<u>\$106,482</u>
	<u>2007</u>		
	Future Programs and		
	<u>Unrestricted</u>	<u>Periods</u>	<u>Total</u>
	<u>\$126,735</u>	<u>\$51,000</u>	<u>\$177,735</u>

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>2008</u>	<u>2007</u>
Furniture, fixture and equipment	\$120,581	\$ 60,173
Software	45,008	45,008
Leasehold improvements	<u>73,652</u>	-
	239,241	105,181
Less: Accumulated depreciation	<u>(95,576)</u>	<u>(81,459)</u>
	<u>\$143,665</u>	<u>\$ 23,722</u>

Depreciation expense for the years ended December 31, 2008 and 2007 totaled \$14,117 and \$5,989, respectively.

**FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**

**Note 6 - Lease Commitments**

On December 28, 2007, the Organization extended its existing lease for additional office space through May 31, 2018. This lease was amended in January 2009 which reduced the Organization's minimum rental payments for 2009 and 2010. In addition to base rent, the lease requires additional rent for utilities and increases in real estate taxes.

<u>Year Ending December 31,</u>	
2009	\$200,000
2010	200,000
2011	259,068
2012	266,840
2013	274,850

Rent expense for the years ended December 31, 2008 and 2007 were \$187,438 and \$87,553, respectively.

**Note 7 - Donated Services, Materials and Use of Facility**

Donated services, materials and use of facility consist of:

	<u>2008</u>	<u>2007</u>
Donated services	\$113,851	\$15,070
Donated materials	51,997	10,160
Donated use of facility	<u>10,000</u>	<u>30,000</u>
	<u>\$175,848</u>	<u>\$55,230</u>

The increase in 2008 donated services is primarily attributable to advertising, food and catering, architecture and design, and tickets for cultural performances. The increase 2008 donated materials is primarily attributable to art supplies and furniture and fixtures.

**FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2008 AND 2007****Note 8 - Concentration of Credit Risk**

The Organization's cash is on deposit with a financial institution located in New York.

**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 2008 and 2007 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, 2008 with comparative totals for 2007 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  
August 31 2009

## FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Program Services	Supporting Services		2008	2007
		Management and General	Fundraising	Total Expenses	Total Expenses
Salaries, payroll taxes and benefits	\$ 790,447	\$ 49,452	\$ 152,575	\$ 992,474	\$ 725,312
Consultants	455	-	2,906	3,361	112,516
Curriculum writers	6,420	-	-	6,420	10,217
Counselor artist fees	27,190	-	-	27,190	23,857
Art supplies	76,250	359	3,652	80,261	37,241
Professional facilitators	50,850	375	-	51,225	42,650
Program food and refreshments	35,353	245	3,588	39,186	23,238
Volunteer and screening	3,866	-	-	3,866	4,834
Program evaluation	24,625	-	-	24,625	30,849
Postage and materials transport	36,275	989	2,915	40,179	29,446
Workshops and conferences	17,444	-	1,860	19,304	8,223
Marketing and advertising	26,404	599	16,407	43,410	11,342
Printing expense	27,168	7,767	4,296	39,231	34,329
Occupancy	191,768	14,614	8,899	215,281	110,460
Office expenses	3,152	8,871	418	12,441	7,510
Insurance	-	18,159	-	18,159	14,234
Telephone	5,341	4,912	189	10,442	10,161
Software/Hardware maintenance	27,839	10,733	340	38,912	17,633
Equipment rental	9,212	622	766	10,600	4,416
Travel	10,975	493	1,007	12,475	9,689
Supplies	14,977	3,979	-	18,956	6,222
Accounting and legal fees	910	43,268	-	44,178	12,818
Indirect benefit expense	-	-	56,389	56,389	60,511
Gifts and recognition	16,825	1,543	59	18,427	6,024
Dues and subscriptions	2,810	329	2,266	5,405	5,269
Bank and credit card fees	3,019	672	456	4,147	4,503
Miscellaneous expenses	6,171	1,371	1,529	9,071	2,304
Tickets	17,447	-	-	17,447	-
Meals	2,336	453	1,259	4,048	2,816
Depreciation	-	14,117	-	14,117	5,989
Total Expenses, 2008	<u>\$1,435,529</u>	<u>\$ 183,922</u>	<u>\$ 261,776</u>	<u>\$1,881,227</u>	
Total Expenses, 2007	<u>\$1,026,152</u>	<u>\$ 111,099</u>	<u>\$ 237,362</u>		<u>\$1,374,613</u>

See independent auditors' report on additional information.