

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2015 AND 2014

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 financial statements of Free Arts for Abused Children of NYC, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Free Arts for Abused Children of NYC, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
July 29, 2016

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|---|--------------------------|--------------------------|
| Assets | | |
| Cash (Note 8) | \$ 122,216 | \$ 154,963 |
| Investments (Notes 1b, 1c, and 3) | 283,507 | 318,931 |
| Unconditional promises to give (Notes 1d and 4) | 258,358 | 282,663 |
| Prepaid expenses and other assets | 39,207 | 27,124 |
| Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 5) | 40,953 | 34,770 |
| Security deposits | <u>21,496</u> | <u>21,496</u> |
| Total Assets | <u>\$ 765,737</u> | <u>\$ 839,947</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 24,019 | \$ 28,115 |
| Deferred rent (Note 1h) | <u>269,140</u> | <u>272,957</u> |
| Total Liabilities | <u>293,159</u> | <u>301,072</u> |
| Commitment (Note 6) | | |
| Net Assets | | |
| Unrestricted | 424,078 | 398,957 |
| Temporarily restricted (Note 2) | <u>48,500</u> | <u>139,918</u> |
| Total Net Assets | <u>472,578</u> | <u>538,875</u> |
| Total Liabilities and Net Assets | <u>\$ 765,737</u> | <u>\$ 839,947</u> |

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Change in Unrestricted Net Assets | | |
| Revenues and Support | | |
| Contributions | \$ 960,301 | \$1,143,556 |
| Donated services, materials, advertising and marketing (Note 7) | 85,545 | 222,234 |
| Fundraising events | 1,375,066 | 1,192,328 |
| Less: Direct benefit expenses | (153,705) | (137,277) |
| Net investment losses (Note 3) | (2,133) | (1,833) |
| Miscellaneous income | 2,963 | 7,909 |
| | <u>2,268,037</u> | <u>2,426,917</u> |
| Net assets released from restrictions | | |
| Satisfaction of time and program restrictions | <u>125,355</u> | <u>158,650</u> |
| Total Revenues and Support | <u>2,393,392</u> | <u>2,585,567</u> |
| Expenses | | |
| Program Services | <u>1,823,978</u> | <u>1,851,852</u> |
| Supporting Services | | |
| Management and general | 147,324 | 159,640 |
| Fundraising | 396,969 | 470,993 |
| Total Supporting Services | <u>544,293</u> | <u>630,633</u> |
| Total Expenses | <u>2,368,271</u> | <u>2,482,485</u> |
| Increase in Unrestricted Net Assets | <u>25,121</u> | <u>103,082</u> |
| Changes in Temporarily Restricted Net Assets | | |
| Contributions | 33,937 | 112,052 |
| Net assets released from restrictions | (125,355) | (158,650) |
| Uncollectible contribution | - | (5,000) |
| Decrease in Temporarily Restricted Net Assets | <u>(91,418)</u> | <u>(51,598)</u> |
| Increase (decrease) in net assets | (66,297) | 51,484 |
| Net assets, beginning of year | <u>538,875</u> | <u>487,391</u> |
| Net Assets, End of Year | <u>\$ 472,578</u> | <u>\$ 538,875</u> |

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Increase (decrease) in net assets | \$ (66,297) | \$ 51,484 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 15,726 | 16,962 |
| Bad debt | 200 | 10,000 |
| Realized loss | 5,436 | - |
| Unrealized loss | 9,969 | 8,592 |
| (Increase) decrease in: | | |
| Unconditional promises to give | 24,105 | 66,975 |
| Prepaid expenses and other assets | (12,083) | 10,801 |
| Security deposits | - | 200 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (4,096) | 3,054 |
| Deferred rent | (3,817) | 21,694 |
| Net Cash Provided (Used) By Operating Activities | <u>(30,857)</u> | <u>189,762</u> |
| Cash Flows From Investing Activities | | |
| Acquisition of property and equipment | (21,909) | - |
| Purchase of investments | (675,437) | 626,022 |
| Proceeds from sale of investments | 695,456 | (731,926) |
| Net Cash Used By Investing Activities | <u>(1,890)</u> | <u>(105,904)</u> |
| Net increase (decrease) in cash | (32,747) | 83,858 |
| Cash, beginning of year | <u>154,963</u> | <u>71,105</u> |
| Cash, End of Year | <u>\$ 122,216</u> | <u>\$ 154,963</u> |

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015 AND 2014****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 - Investments

Investments are measured at fair value on a recurring basis. Investments with fair values that are based on quoted market prices in active markets are, therefore, classified within Level 1, and include active listed equity securities, mutual funds and money market funds.

Investments that trade in markets that are not considered to be active, but are valued based on quoted prices, dealer quotations, or alternative pricing sources with observable inputs are classified within Level 2. These include certain debt securities, certificates of deposit and government agency and municipal obligations.

Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions 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.

c - Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances.

Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015 AND 2014****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Fair Value Measurements (continued)**

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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 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 - Advertising and Marketing

Advertising and marketing costs are charged to operations when incurred. Advertising expense incurred during the years ended December 31, 2015 and 2014 was \$14,925 and \$6,850, respectively. There was no donated advertising during 2015. During 2014, \$4,350 of the advertising expense was donated (Note 7).

g - 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.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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

h - Deferred Rent

The Organization records rent expense associated with its office leases on a straight-line basis over the life of the lease (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.

i - 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.

j - 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.

k - Subsequent Events

The Organization has evaluated subsequent event through July 29, 2016, the date that the financial statements are considered available to be issued.

Note 2 - Temporarily Restricted Net Assets

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

Note 3 - Investments

Investments are reported at fair value and consist of the following:

| | <u>2015</u> | | <u>2014</u> | |
|-------------------------|------------------|-------------------|------------------|-------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Money market funds | \$ 12,708 | \$ 12,708 | \$ 22,890 | \$ 22,890 |
| Equities | 52,086 | 46,966 | 56,283 | 56,220 |
| Mutual funds | 117,826 | 108,257 | 143,350 | 135,244 |
| Corporate bonds | 99,448 | 96,176 | 85,000 | 84,927 |
| Certificates of deposit | <u>20,000</u> | <u>19,400</u> | <u>20,000</u> | <u>19,650</u> |
| | <u>\$302,068</u> | <u>\$283,507</u> | <u>\$327,523</u> | <u>\$318,931</u> |

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 3 - Investments (continued)

Net investment losses for the years ended December 31, 2015 and 2014 is summarized as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|-------------------------|-------------------------|
| Interest and dividends | \$13,272 | \$ 6,759 |
| Realized loss on investments | (5,436) | - |
| Unrealized loss on investments | <u>(9,969)</u> | <u>(8,592)</u> |
| | <u><u>\$(2,133)</u></u> | <u><u>\$(1,833)</u></u> |

The following summarizes investments by fair value levels as of December 31, 2015 and 2014:

| | <u>2015</u> | | | <u>2014</u> | | |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> |
| Money market funds | \$ 12,708 | \$ 12,708 | \$ - | \$ 22,890 | \$ 22,890 | \$ - |
| Equities | 46,966 | 46,966 | - | 56,220 | 56,220 | - |
| Mutual funds | 108,257 | 108,257 | - | 135,244 | 135,244 | - |
| Corporate bonds | 96,176 | - | 96,176 | 84,927 | - | 84,927 |
| Certificates of deposit | <u>19,400</u> | <u>-</u> | <u>19,400</u> | <u>19,650</u> | <u>-</u> | <u>19,650</u> |
| | <u><u>\$283,507</u></u> | <u><u>\$167,931</u></u> | <u><u>\$115,576</u></u> | <u><u>\$318,931</u></u> | <u><u>\$214,354</u></u> | <u><u>\$104,577</u></u> |

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

| | <u>2015</u> | | |
|---------------------------|-------------------------|------------------------------------|-------------------------|
| | <u>Unrestricted</u> | <u>Future Programs and Periods</u> | <u>Total</u> |
| Due in less than one year | <u><u>\$225,608</u></u> | <u><u>\$32,750</u></u> | <u><u>\$258,358</u></u> |

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 4 - Unconditional Promises to Give (continued)

| | <u>2014</u> | | |
|---------------------------------|---------------------|------------------------------------|------------------|
| | <u>Unrestricted</u> | <u>Future Programs and Periods</u> | <u>Total</u> |
| Due in less than one year | \$235,713 | \$32,387 | \$268,100 |
| Due in one to five years | - | 15,000 | 15,000 |
| Less: Discount to present value | - | (437) | (437) |
| | <u>\$235,713</u> | <u>\$46,950</u> | <u>\$282,663</u> |

Uncollectible promises to give are expected to be insignificant. Unconditional promises to give due in excess of one year are discounted to net present value using a discount rate of 3%. As of December 31, 2015 and 2014, 22% and 28% of unconditional promises to give were due from one estate and three foundations, respectively.

Note 5 - Property and Equipment

Property and equipment consist of the following:

| | <u>Life</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------|-------------|------------------|------------------|
| Furniture, fixture and equipment | 5-7 years | \$119,825 | \$ 97,916 |
| Software | 3 years | 3,378 | 3,378 |
| Leasehold improvements | 10 years | <u>73,652</u> | <u>73,652</u> |
| | | 196,855 | 174,946 |
| Less: Accumulated depreciation | | <u>(155,902)</u> | <u>(140,176)</u> |
| | | <u>\$ 40,953</u> | <u>\$ 34,770</u> |

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$15,726 and \$16,962, respectively.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 6 - Lease Commitment

The Organization leases its office space under the terms of a lease through May 31, 2018. In addition to base rent, the lease requires additional rent for utilities and increases in real estate taxes. Minimum annual rental payments are as follows:

| <u>Year Ending December 31,</u> | |
|----------------------------------|-----------|
| 2016 | \$228,000 |
| 2017 | 309,351 |
| Thereafter, through May 31, 2018 | 130,481 |

Rent expense for the years ended December 31, 2015 and 2014 was \$224,183 and \$231,817, respectively.

Note 7 - Donated Services, Materials, Advertising and Marketing

Donated services, materials, advertising and marketing consist of:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|-----------------|------------------|
| Donated services | \$12,722 | \$ 5,200 |
| Donated materials | 72,823 | 212,684 |
| Donated advertising and marketing | - | 4,350 |
| | <u>\$85,545</u> | <u>\$222,234</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.

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of Free Arts for the Abused Children of NYC, Inc. as of and for the years ended December 31, 2015 and 2014, and our report thereon dated July 29, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2015 with comparative totals for 2014 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
July 29, 2016

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTAL FOR 2014

| | Program Services | Supporting Services | | 2015 | 2014 |
|--------------------------------------|---------------------|---------------------------|-------------------|--------------------|--------------------|
| | | Management and General | Fundraising | Total Expenses | Total Expenses |
| Salaries, payroll taxes and benefits | \$1,141,844 | \$ 66,387 | \$ 119,495 | \$1,327,726 | \$1,394,735 |
| Consultants | 11,395 | 19,924 | 12,570 | 43,889 | 23,319 |
| Curriculum writers | 16,897 | - | - | 16,897 | 11,814 |
| Counselor artist fees and workshops | 19,657 | - | - | 19,657 | 16,300 |
| Art supplies | 66,861 | - | - | 66,861 | 55,167 |
| Professional facilitators | 110,487 | - | - | 110,487 | 94,496 |
| Program food and refreshments | 41,190 | - | - | 41,190 | 45,549 |
| Volunteer, training and screening | 550 | - | - | 550 | 3,014 |
| Postage and materials transport | 34,121 | 670 | 578 | 35,369 | 37,110 |
| Workshops and conferences | 4,294 | 567 | 75 | 4,936 | 10,523 |
| Marketing and advertising | 1,850 | - | 13,075 | 14,925 | 6,850 |
| Printing expense | 2,482 | - | 2,750 | 5,232 | 7,920 |
| Occupancy | 217,783 | 14,849 | 14,849 | 247,481 | 252,054 |
| Office expenses | 18,471 | 1,647 | 1,321 | 21,439 | 18,188 |
| Insurance | 21,781 | 4,844 | - | 26,625 | 22,810 |
| Telephone | 11,000 | 750 | 750 | 12,500 | 12,176 |
| Software/hardware maintenance | 24,670 | 2,313 | 52 | 27,035 | 29,356 |
| Equipment rental | 11,717 | 784 | 783 | 13,284 | 11,483 |
| Travel | 7,822 | 315 | 362 | 8,499 | 5,167 |
| Supplies | 9,081 | 189 | 16 | 9,286 | 10,014 |
| Accounting | - | 16,517 | - | 16,517 | 17,521 |
| Indirect benefit expense | - | - | 226,364 | 226,364 | 189,236 |
| Gifts and recognition | 7,645 | 444 | 800 | 8,889 | 13,568 |
| Dues and subscriptions | 5,420 | 568 | 1,294 | 7,282 | 4,439 |
| Bank and credit card fees | - | 11,887 | - | 11,887 | 8,658 |
| Miscellaneous expenses | 3,409 | 3,354 | 740 | 7,503 | 15,444 |
| Bad debt | - | 200 | - | 200 | 5,000 |
| Tickets and merchandise | 15,620 | - | - | 15,620 | 138,213 |
| Meals | 4,094 | 170 | 151 | 4,415 | 5,399 |
| Depreciation | 13,837 | 945 | 944 | 15,726 | 16,962 |
| Total expenses, 2015 | <u>\$1,823,978</u> | <u>\$ 147,324</u> | <u>\$ 396,969</u> | <u>\$2,368,271</u> | |
| Total expenses, 2014 | <u>\$1,851,852</u> | <u>\$ 159,640</u> | <u>\$ 470,993</u> | | <u>\$2,482,485</u> |

See independent auditors' report on supplementary information.