

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Free Arts for Abused Children of NYC, Inc. as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Free Arts for Abused Children of NYC, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Free Arts for Abused Children NYC, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Free Arts for Abused Children NYC, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Free Arts for Abused Children NYC, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lotz + Carr, LLP

New York, New York
June 12, 2023

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash (Note 10)	\$ 507,582	\$ 273,522
Investments (Notes 1b, 1c and 4)	1,277,574	1,050,418
Contributions receivable (Notes 1d and 5)	242,328	139,052
Prepaid expenses and other assets (Note 11)	334,721	32,409
Operating lease right of use asset (Notes 1e, 1n and 6)	58,946	-
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 7)	36,116	52,980
Security deposits	<u>21,447</u>	<u>21,447</u>
Total Assets	<u><u>\$2,478,714</u></u>	<u><u>\$1,569,828</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 23,167	\$ 15,717
Operating lease liability (Notes 1e, 1n and 6)	<u>58,946</u>	<u>-</u>
Total Liabilities	<u>82,113</u>	<u>15,717</u>
Commitment (Note 6)		
Net Assets		
Without donor restrictions (Note 1d)	2,065,594	1,385,611
With donor restrictions (Notes 1d and 3)	<u>331,007</u>	<u>168,500</u>
Total Net Assets	<u>2,396,601</u>	<u>1,554,111</u>
Total Liabilities and Net Assets	<u><u>\$2,478,714</u></u>	<u><u>\$1,569,828</u></u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Change in Net Assets Without Donor Restrictions		
Revenues and Support		
Contributions (Notes 5 and 9)	\$1,381,775	\$1,782,931
Fundraising events, net of auction fees and commissions (\$80,354 in 2022)	1,139,244	215,313
Fundraising events - Gifts-in-kind (Note 8)	53,820	-
Less: Direct benefit expenses	(215,982)	-
Federal relief grant - Employee Retention Tax Credit (Note 11)	313,253	-
Other - Gifts-in-kind (Note 8)	73,673	44,171
Sublet income	-	4,850
Merchandise sales	18,043	9,239
Net investment income (loss) (Note 4)	(132,589)	17,590
Miscellaneous income	-	887
	<u>2,631,237</u>	<u>2,074,981</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	168,500	223,500
	<u>2,799,737</u>	<u>2,298,481</u>
Expenses		
Program Services	1,484,119	1,302,542
Supporting Services		
Management and general	245,661	207,155
Fundraising	389,974	305,086
Total Supporting Services	<u>635,635</u>	<u>512,241</u>
Total Expenses	<u>2,119,754</u>	<u>1,814,783</u>
Increase in Net Assets Without Donor Restrictions	<u>679,983</u>	<u>483,698</u>
Changes in Net Assets With Donor Restrictions		
Contributions	331,007	147,000
Net assets released from restrictions	<u>(168,500)</u>	<u>(223,500)</u>
Increase (Decrease) in Net Assets With Donor Restrictions	<u>162,507</u>	<u>(76,500)</u>
Increase in net assets	842,490	407,198
Net assets, beginning of year	<u>1,554,111</u>	<u>1,146,913</u>
Net Assets, End of Year	<u><u>\$2,396,601</u></u>	<u><u>\$1,554,111</u></u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022				Total Expenses	2021				Total Expenses
	Program Services	Supporting Services				Program Services	Supporting Services			
		Management and General	Fundraising	Total		Management and General	Fundraising	Total		
Salaries, payroll taxes and benefits	\$ 935,907	\$ 133,340	\$ 138,532	\$271,872	\$1,207,779	\$ 763,472	\$ 168,530	\$ 173,838	\$342,368	\$1,105,840
Consultants	81,643	94,762	147,612	242,374	324,017	91,253	21,419	63,627	85,046	176,299
Art supplies	110,919	-	51	51	110,970	119,368	-	-	-	119,368
Stipends	65,600	-	-	-	65,600	54,376	-	-	-	54,376
Program food and refreshments	-	-	-	-	-	4,014	-	-	-	4,014
Postage and materials transport	19,406	22	5,754	5,776	25,182	3,203	28	1,323	1,351	4,554
Marketing and advertising	2,755	397	6,448	6,845	9,600	-	-	516	516	516
Printing expense	9,281	8	5,531	5,539	14,820	14,813	-	1,559	1,559	16,372
Occupancy	143,324	9,341	9,629	18,970	162,294	146,993	8,166	8,166	16,332	163,325
Office expenses	7,171	688	1,973	2,661	9,832	6,034	890	1,607	2,497	8,531
Insurance	11,437	1,650	1,860	3,510	14,947	12,150	2,533	2,824	5,357	17,507
Telephone	4,609	666	749	1,415	6,024	5,693	288	288	576	6,269
Software/hardware maintenance	34,003	2,262	9,617	11,879	45,882	31,371	1,978	8,023	10,001	41,372
Equipment rental	213	16	19	35	248	1,783	99	99	198	1,981
Travel	4,368	91	6,295	6,386	10,754	978	39	893	932	1,910
Event expense	1,641	30	32,712	32,742	34,383	773	40	31,932	31,972	32,745
Volunteer, training and screening	6,674	399	1,570	1,969	8,643	4,758	301	473	774	5,532
Gifts and recognition	8,941	757	1,481	2,238	11,179	4,736	405	1,503	1,908	6,644
Bank and credit card fees	5,708	661	15,511	16,172	21,880	7,342	1,530	6,246	7,776	15,118
Meals	13,953	431	4,472	4,903	18,856	1,552	176	1,435	1,611	3,163
Depreciation	16,566	140	158	298	16,864	27,880	733	734	1,467	29,347
Total Expenses	<u>\$1,484,119</u>	<u>\$ 245,661</u>	<u>\$ 389,974</u>	<u>\$635,635</u>	<u>\$2,119,754</u>	<u>\$1,302,542</u>	<u>\$ 207,155</u>	<u>\$ 305,086</u>	<u>\$512,241</u>	<u>\$1,814,783</u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Increase in net assets	\$842,490	\$407,198
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loan forgiveness - Paycheck Protection Program	-	(184,855)
Depreciation	16,864	29,347
Non-cash operating lease expense	141,071	-
Realized and unrealized (gain) loss on investments	168,644	(3,329)
(Increase) decrease in:		
Contributions receivable	(103,276)	66,120
Prepaid expenses and other assets	(302,312)	(11,151)
Increase (decrease) in:		
Accounts payable and accrued expenses	7,450	(38,298)
Security deposit payable	-	(4,000)
Other deferred income	-	(8,100)
Operating lease liability	<u>(141,071)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>629,860</u>	<u>252,932</u>
Cash Flows From Investing Activities		
Purchase of investments	(405,695)	(804,261)
Proceeds from sales of investments	9,895	-
Net Cash Used By Investing Activities	<u>(395,800)</u>	<u>(804,261)</u>
Net increase (decrease) in cash	234,060	(551,329)
Cash, beginning of year	<u>273,522</u>	<u>824,851</u>
Cash, End of Year	<u><u>\$507,582</u></u>	<u><u>\$273,522</u></u>
Supplemental disclosure of non-cash investing activities:		
Operating lease right-of-use asset obtained in exchange for operating lease liability	<u>\$ 200,017</u>	<u>\$ -</u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2022 AND 2021****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Free Arts for Abused Children of NYC, Inc. (the "Organization") was established to empower youth from under-served communities through art and mentoring programs to develop their creativity, confidence, and skills to succeed.

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 net assets without donor restrictions unless their use is 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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. Accounting principles generally accepted in the United States of America ("GAAP") 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, 2022 AND 2021****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 Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Organization, that is in substance, unconditional. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future are not recognized until the conditions on which they depend have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

e - Operating Lease Right-of-Use Asset and Operating Lease Liability

For lease with an initial term greater than twelve months, the Organization's operating lease liability is initially recorded at the present value of the unpaid lease payments as of January 1, 2022. The Organization's operating lease right-of-use asset is initially recorded at the carrying amount of the operating lease liability adjusted for initial direct costs, accruals, deferred rent liability and lease incentives, if any. Operating lease cost is recognized on a straight-line basis over the lease term.

For 2021, rent expense is recorded 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 a liability and an expense in the accompanying financial statements.

f - 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.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2022 AND 2021****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Advertising and Marketing**

Advertising and marketing costs are charged to operations when incurred. Advertising expense incurred during the years ended December 31, 2022 and 2021 was \$9,600 and \$516, respectively.

h - Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with GAAP, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

i - Revenue Recognition

The Organization has multiple revenue streams that are accounted for as exchange transactions, including event income, sublet income, and merchandise sales. The Organization recognizes revenue at the point or over the period during which it satisfies the related performance obligations.

Event income is recorded as revenue during the period of the event. Event income received for events taking place in future periods are recorded as deferred income.

Sublet income is recognized during the month of the rental.

Art and Merchandise sales are recognized in the period that the related goods are provided.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2022 AND 2021****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****j - Functional Allocation of Expenses**

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of the Organization's expenses are directly related to program activities. Certain other expenses are attributable to more than one program or supporting function and require allocation on a reasonable basis. The expenses that are allocated include salaries, payroll taxes and benefits, which are allocated on the basis of estimates of employee time and effort, and depreciation, interest, insurance, general office expenses, and occupancy costs, which are allocated based on square footage.

k - Estimates

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

l - 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.

m - Subsequent Events

The Organization has evaluated subsequent event through June 12, 2023, the date that the financial statements are considered available to be issued.

n - New Accounting Standards

During 2022, the Organization adopted Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2022 AND 2021****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****n - New Accounting Standards (continued)**

The Organization also adopted ASU 2016-02, *Leases (Topic 842)*, during 2022. The core principles of ASU 2016-02 change the way organizations account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. As such, results for 2022 are presented under Topic 842, while results for 2021 continue to be reported in accordance with historical accounting practices. The adoption of this standard did not have a significant impact on the Organization's net assets as of January 1, 2022.

As part of the adoption of ASU 2016-02, the Organization elected to apply the modified retrospective transition approach as of the date of initial application without restating comparative period financial statements, to use a risk-free rate, equal to the one-year Treasury Bill rate for the discount of the operating lease and to apply the practical expedients which allows the Organization to not reassess (i) whether any expired or existing contracts are leases or contain leases (ii) the lease classification for any expired or existing leases (iii) initial direct costs for any existing leases.

Note 2 - Information Regarding Liquidity and Availability

The Organization operates with the objective of a balanced budget based on the revenues expected to be available to fund anticipated expenses. A substantial portion of annual revenue is comprised of contribution revenue raised during the current year, and revenue from other sources earned during the year. The Organization considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and fundraising activities undertaken to support those services.

The Organization regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available fund. Management prepares regular cash flow projections to determine liquidity needs. Financial assets in excess of daily cash requirements are invested in short-term investments.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 2 - Information Regarding Liquidity and Availability (continued)

The Organization's financial assets as of December 31, 2022 and 2021 and those available within one year to meet cash needs for general expenditures are summarized as follows:

	<u>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash	\$ 507,582	\$ 273,522
Investments	1,277,574	1,050,418
Contributions receivable	242,328	139,052
Employee Retention Tax Credits receivable (included with prepaid expenses and other assets)	<u>313,253</u>	<u>-</u>
Total Financial Assets	2,340,737	1,462,992
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(331,007)	(168,500)
Plus: Net assets with donor restrictions expected to be met in less than one year	<u>331,007</u>	<u>168,500</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$2,340,737</u>	<u>\$1,462,992</u>

Note 3 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for future programs and periods.

Note 4 - Investments

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

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 20,254	\$ 20,254	\$ 5,253	\$ 5,253
Mutual funds - fixed income	1,032,046	887,819	996,394	1,007,722
U.S. Treasury Securities	345,147	347,417	-	-
Equities	<u>24,995</u>	<u>22,084</u>	<u>24,995</u>	<u>37,443</u>
	<u>\$1,422,442</u>	<u>\$1,277,574</u>	<u>\$1,026,642</u>	<u>\$1,050,418</u>

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 4 - Investments (continued)

Net investment income (loss) for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 36,310	\$14,411
Unrealized gain (loss)	(168,644)	3,329
Realized loss	(105)	-
Investment fees	<u>(150)</u>	<u>(150)</u>
	<u>\$ (132,589)</u>	<u>\$ 17,590</u>

All investments are classified as Level 1 in the fair value hierarchy as of December 31, 2022 and 2021.

Note 5 - Contributions Receivable

Contributions receivable are due as follows:

	<u>2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	<u>\$157,828</u>	<u>\$84,500</u>	<u>\$242,328</u>
	<u>2021</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due in less than one year	<u>\$114,052</u>	<u>\$25,000</u>	<u>\$139,052</u>

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 5 - Contributions Receivable (continued)

Uncollectible contributions receivable are expected to be insignificant. Contributions receivable due from two donors at December 31, 2022 and five donors at December 31, 2021, approximated 43% and 74%, respectively, of the Organization's total contributions receivable.

Approximately 21% of total contribution income was from one donor during the year ended December 31, 2022.

Note 6 - Operating Lease Liability

The Organization occupies space under an operating lease agreement expiring May 31, 2023.

Operating lease expense was \$141,612 during the years ended December 31, 2022 and 2021, respectively. There were no variable lease costs incurred. As of December 31, 2022, the remaining term of the Organization's operating lease is five months and the discount rate is 0.44%.

Maturities of the Organization's operating lease liability as of December 31, 2022 is as follows:

Through May 31, 2023	\$59,005
Less: Amount attributable to interest	<u>(59)</u>
	<u>\$58,946</u>

The Organization's lease was amended on January 9, 2023, extending the term to May 31, 2026. The amendment provides for an option to renew the lease for an additional five years through May 31, 2031. Approximate minimum annual rental payments under the amended lease are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 82,000
2024	145,000
2025	149,000
Through May 31, 2026	64,000

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 7 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2022</u>	<u>2021</u>
Furniture, fixture and equipment	5-7 years	\$ 5,684	\$ 5,684
Computers and software	3-5 years	<u>131,968</u>	<u>131,968</u>
		137,652	137,652
Less: Accumulated depreciation		<u>(101,536)</u>	<u>(84,672)</u>
		<u>\$ 36,116</u>	<u>\$ 52,980</u>

Note 8 - Gifts-in-Kind

The organization received the following gifts-in-kind during the years ended December 31:

	<u>2022</u>	<u>2021</u>
Event materials	\$ 45,263	\$ -
Art supplies	38,951	44,171
Strategic consulting services	22,965	-
Food and catering	11,674	-
Other consulting services	4,950	-
Equipment and office supplies	<u>3,690</u>	<u>-</u>
	<u>\$127,493</u>	<u>\$44,171</u>
Fundraising - gifts-in-kind	\$ 53,820	\$ -
Other - gifts-in-kind	<u>73,673</u>	<u>44,171</u>
	<u>\$127,493</u>	<u>\$44,171</u>

Event materials, art supplies, food and catering, and equipment and office supplies were valued by the donors based on rates charged by the donor for those products or the selling price for similar products.

Strategic consulting services and other consulting services were valued by the service provider based on rates charged for similar services.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2022 AND 2021****Note 9 - Loans Payable**

On April 6, 2020, the Organization received a loan totaling \$184,855 under the Paycheck Protection Program ("PPP") administered by the U.S. Small Business Administration. The full amount of the loan was forgiven in May of 2021 and, accordingly, recognized as contribution revenue for the year ended December 31, 2021.

On February 24, 2021, the Organization received a second PPP loan totaling \$184,855. The full amount of the loan was forgiven in November 2021 and, accordingly, recognized as contribution revenue for the year ended December 31, 2021.

Note 10 - Concentration of Credit Risk

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

Note 11 - Employee Retention Tax Credit

The Coronavirus Aid, Relief and Economic Security ("CARES") Act enacted in 2020 allowed eligible employers to claim employee retention tax credits for qualified wages paid after March 12, 2020 and before September 30, 2021. The Organization qualified for the credit during this period based on partial suspension due to government COVID-related orders and a decrease in gross receipts. Amounts claimed and recognized as revenue totaled \$313,253 during the year ended December 31, 2022, and is included in prepaid expenses and other assets at December 31, 2022.