

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 20, 2017

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash (Note 8)	\$ 158,300	\$ 122,216
Investments (Notes 1b, 1c, and 3)	41,750	283,507
Unconditional promises to give (Notes 1d and 4)	176,882	258,358
Prepaid expenses and other assets	20,959	39,207
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 5)	31,600	40,953
Security deposits	<u>21,496</u>	<u>21,496</u>
Total Assets	<u><u>\$ 450,987</u></u>	<u><u>\$ 765,737</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 17,579	\$ 24,019
Deferred rent (Note 1h)	<u>213,151</u>	<u>269,140</u>
Total Liabilities	<u>230,730</u>	<u>293,159</u>
Commitment (Note 6)		
Net Assets		
Unrestricted	134,641	424,078
Temporarily restricted (Note 2)	<u>85,616</u>	<u>48,500</u>
Total Net Assets	<u>220,257</u>	<u>472,578</u>
Total Liabilities and Net Assets	<u><u>\$ 450,987</u></u>	<u><u>\$ 765,737</u></u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Change in Unrestricted Net Assets		
Revenues and Support		
Contributions	\$1,012,917	\$ 956,840
Donated services, materials, advertising and marketing (Note 7)	60,567	85,545
Fundraising events	788,821	1,375,066
Less: Direct benefit expenses	(142,792)	(153,705)
Merchandise sales	45,680	3,461
Net investment gains (losses) (Note 3)	8,556	(2,133)
Miscellaneous income	460	2,963
	<u>1,774,209</u>	<u>2,268,037</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	48,500	125,355
	<u>48,500</u>	<u>125,355</u>
Total Revenues and Support	<u>1,822,709</u>	<u>2,393,392</u>
Expenses		
Program Services		
Arts mentoring	353,124	474,710
Teen arts	259,520	285,985
Parents and children together	359,498	458,027
Free arts days	581,958	605,256
Total Program Services	<u>1,554,100</u>	<u>1,823,978</u>
Supporting Services		
Management and general	151,884	147,324
Fundraising	406,162	396,969
Total Supporting Services	<u>558,046</u>	<u>544,293</u>
Total Expenses	<u>2,112,146</u>	<u>2,368,271</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(289,437)</u>	<u>25,121</u>
Changes in Temporarily Restricted Net Assets		
Contributions	85,616	33,937
Net assets released from restrictions	<u>(48,500)</u>	<u>(125,355)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>37,116</u>	<u>(91,418)</u>
Decrease in net assets	(252,321)	(66,297)
Net assets, beginning of year	<u>472,578</u>	<u>538,875</u>
Net Assets, End of Year	<u>\$ 220,257</u>	<u>\$ 472,578</u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (252,321)	\$ (66,297)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	13,579	15,726
Bad debt	348	200
Realized loss on investments	12,344	5,436
Unrealized (gain) loss on investments	(17,541)	9,969
(Increase) decrease in:		
Unconditional promises to give	81,128	24,105
Prepaid expenses and other assets	18,248	(12,083)
Decrease in:		
Accounts payable and accrued expenses	(6,440)	(4,096)
Deferred rent	(55,989)	(3,817)
Net Cash Used By Operating Activities	<u>(206,644)</u>	<u>(30,857)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(4,226)	(21,909)
Purchase of investments	(252,294)	(675,437)
Proceeds from sale of investments	499,248	695,456
Net Cash Provided (Used) By Investing Activities	<u>242,728</u>	<u>(1,890)</u>
Net increase (decrease) in cash	36,084	(32,747)
Cash, beginning of year	<u>122,216</u>	<u>154,963</u>
Cash, End of Year	<u>\$ 158,300</u>	<u>\$ 122,216</u>

See notes to financial statements.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2016 AND 2015****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, 2016 AND 2015****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, 2016 and 2015 was \$7,011 and \$14,925, respectively. During 2016, \$4,000 of the advertising expense was donated. There was no donated advertising during 2015.

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, 2016 AND 2015

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 decrease to the liability and the occupancy 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 20, 2017, 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>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$13,687	\$13,687	\$ 12,708	\$ 12,708
Equities	29,083	28,063	52,086	46,966
Mutual funds	-	-	117,826	108,257
Corporate bonds	-	-	99,448	96,176
Certificates of deposit	-	-	<u>20,000</u>	<u>19,400</u>
	<u>\$42,770</u>	<u>\$41,750</u>	<u>\$302,068</u>	<u>\$283,507</u>

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 3 - Investments (continued)

Net investment gains (losses) for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 3,359	\$13,272
Realized loss on investments	(12,344)	(5,436)
Unrealized gain (loss) on investments	<u>17,541</u>	<u>(9,969)</u>
	<u>\$ 8,556</u>	<u>\$(2,133)</u>

The following summarizes investments by fair value levels as of December 31, 2016 and 2015:

	<u>2016</u>			<u>2015</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	\$13,687	\$13,687	\$ -	\$ 12,708	\$ 12,708	\$ -
Equities	28,063	28,063	-	46,966	46,966	-
Mutual funds	-	-	-	108,257	108,257	-
Corporate bonds	-	-	-	96,176	-	96,176
Certificates of deposit	-	-	-	<u>19,400</u>	-	<u>19,400</u>
	<u>\$41,750</u>	<u>\$41,750</u>	<u>\$ -</u>	<u>\$283,507</u>	<u>\$167,931</u>	<u>\$115,576</u>

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>
Due in less than one year	\$114,016	\$35,000	\$149,016
Due in one to five years	-	<u>30,000</u>	<u>30,000</u>
	<u>114,016</u>	65,000	179,016
Less: Discount	-	<u>(2,134)</u>	<u>(2,134)</u>
	<u>\$114,016</u>	<u>\$62,866</u>	<u>\$176,882</u>

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4 - Unconditional Promises to Give (continued)

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>
Due in less than one year	<u>\$225,608</u>	<u>\$32,750</u>	<u>\$258,358</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, 2016, 25% of unconditional promises to give were due from one foundation. As of December 31, 2015, 22% of unconditional promises to give were due from one estate.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Furniture, fixture and equipment	5-7 years	\$124,051	\$119,825
Software	3 years	3,378	3,378
Leasehold improvements	10 years	<u>73,652</u>	<u>73,652</u>
		201,081	196,855
Less: Accumulated depreciation		<u>(169,481)</u>	<u>(155,902)</u>
		<u>\$ 31,600</u>	<u>\$ 40,953</u>

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$13,579 and \$15,726, respectively.

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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:

Year ending December 31, 2017	\$309,351
Thereafter, through May 31, 2018	130,481

Rent expense for the years ended December 31, 2016 and 2015 was \$172,011 and \$224,183, respectively.

Note 7 - Donated Services, Materials, Advertising and Marketing

Donated services, materials, advertising and marketing consist of:

	<u>2016</u>	<u>2015</u>
Donated services	\$25,452	\$12,722
Donated materials	31,115	72,823
Donated advertising and marketing	<u>4,000</u>	<u>-</u>
	<u>\$60,567</u>	<u>\$85,545</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



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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, 2016 and 2015, and our report thereon dated July 20, 2017, 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, 2016 with comparative totals for 2015 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 20, 2017

FREE ARTS FOR ABUSED CHILDREN OF NYC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Program Services				Supporting Services		2016	2015	
	Arts Mentoring	Teen Arts	Parents and Children Together	Free Arts Days	Total Program Services	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries, payroll taxes and benefits	\$ 223,946	\$173,589	\$ 258,016	\$364,233	\$1,019,784	\$ 72,842	\$ 121,403	\$1,214,029	\$1,327,726
Consultants	368	21,923	368	736	23,395	16,841	39,010	79,246	43,889
Curriculum writers	8,000	-	2,766	6,600	17,366	-	-	17,366	16,897
Counselor artist fees and workshops	-	1,619	-	12,985	14,604	-	-	14,604	19,657
Art supplies	3,265	4,728	3,052	26,067	37,112	-	-	37,112	66,861
Professional facilitators	36,113	-	13,605	8,930	58,648	-	-	58,648	110,487
Program food and refreshments	1,428	5,093	1,428	28,687	36,636	-	-	36,636	41,190
Volunteer, training and screening	133	1,500	133	134	1,900	-	-	1,900	550
Postage and materials transport	3,899	706	3,878	25,625	34,108	413	1,796	36,317	35,369
Workshops and conferences	250	90	185	490	1,015	177	-	1,192	4,936
Marketing and advertising	602	602	602	1,205	3,011	-	4,000	7,011	14,925
Printing expense	494	297	494	692	1,977	-	520	2,497	5,232
Occupancy	43,443	26,066	43,443	60,820	173,772	11,848	11,848	197,468	247,481
Office expenses	5,166	3,099	5,166	7,231	20,662	1,205	1,170	23,037	21,439
Insurance	6,122	3,673	6,122	8,571	24,488	4,232	-	28,720	26,625
Telephone	2,309	2,309	2,309	4,618	11,545	776	776	13,097	12,500
Software/hardware maintenance	1,798	1,798	1,798	3,595	8,989	10,810	879	20,678	27,035
Equipment rental	3,126	1,876	3,126	4,376	12,504	757	841	14,102	13,284
Travel	459	1,941	804	574	3,778	-	585	4,363	8,499
Supplies	1,429	857	1,429	2,001	5,716	250	23	5,989	9,286
Accounting	-	-	-	-	-	17,710	-	17,710	16,517
Indirect benefit expense	-	-	-	-	-	-	218,138	218,138	226,364
Gifts and recognition	3,033	1,820	3,033	4,244	12,130	866	1,444	14,440	8,889
Dues and subscriptions	1,530	918	1,530	2,142	6,120	434	333	6,887	7,282
Bank and credit card fees	-	-	-	-	-	9,380	-	9,380	11,887
Miscellaneous expenses	1,413	1,413	1,413	1,412	5,651	2,180	2,088	9,919	7,503
Bad debt	-	-	-	-	-	348	-	348	200
Tickets and merchandise	648	648	648	646	2,590	-	-	2,590	15,620
Meals	1,163	1,163	1,163	1,161	4,650	-	493	5,143	4,415
Depreciation	2,987	1,792	2,987	4,183	11,949	815	815	13,579	15,726
Total Expenses, 2016	<u>\$ 353,124</u>	<u>\$259,520</u>	<u>\$ 359,498</u>	<u>\$581,958</u>	<u>\$1,554,100</u>	<u>\$ 151,884</u>	<u>\$ 406,162</u>	<u>\$2,112,146</u>	
Total Expenses, 2015	<u>\$ 474,710</u>	<u>\$285,985</u>	<u>\$ 458,027</u>	<u>\$605,256</u>	<u>\$1,823,978</u>	<u>\$ 147,324</u>	<u>\$ 396,969</u>		<u>\$2,368,271</u>

See independent auditors' report on supplementary information.