

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
AND SUBSIDIARY

Consolidated Financial Statements and
Independent Auditors' Report

September 30, 2020
(With comparative totals for 2019)

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Independent Auditors' Report

To the Board of Directors of
Free Arts for Abused Children of Arizona and Subsidiary
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Free Arts for Abused Children of Arizona and Subsidiary (Free Arts, an Arizona nonprofit corporation), which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Free Arts for Abused Children of Arizona and Subsidiary as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The management's discussion and analysis on pages 3 through 5 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

We have previously audited the Free Art's 2019 consolidated financial statements, and our report dated March 9, 2020, expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Fester & Chapman, PLLC

April 1, 2021

The purpose of this letter, the Management’s Discussion and Analysis, is to give context to our financial statements and share additional information that will provide the full picture of how Free Arts for Abused Children of Arizona (Free Arts) performed in 2020. Further details can be found in our annual impact report posted on our website www.freeartsaz.org.



Who is Free Arts?

Our Mission: Transforming children’s trauma to resilience through the arts.

Our Vision: Every child who has experienced the trauma of abuse, neglect, and/or homelessness has access to resilience-building arts programs and caring adult volunteer mentors.

Our Values:

Resilience – Bravery – Connection – Creativity – Strength – Innovation

Over the past 26 years, Free Arts has proudly transformed the lives of more than 130,000 children in Maricopa County. From an initial volunteer base of 5 individuals serving 50 children, Free Arts now employs 17 staff members and has more than 800 volunteers who serve 6,000-7,000 children each year. Free Arts partners with 40 social service agencies at more than 100 locations throughout Maricopa County, Arizona to provide a unique combination of arts, a trauma-informed curriculum, and mentoring to children who are in out-of-home care.

What determines success?

Since our founding in 1993, we have maintained steady, controlled growth in direct response to increased demand for services. We track the number of children we serve and the outcomes reported by the children receiving our services: increased safety, self-expression, skill building, self-efficacy, and resilience. To fund our programs, Free Arts raises revenue from private/family foundations; corporate, state, and municipal grants; individual donors; agency-driven special events; and third-party beneficiary events.

The national and global events of 2020 also inspired Free Arts to take a deeper look at how we care for our staff and board. Focusing on this as a measure of success led us to update policies and procedures to help our team do their best work during a very uncertain time and to begin a long-term process to build a more diverse, equitable, and inclusive culture within our organization.

Organizational Results

At the beginning of the fiscal year, Free Arts was on track to meet our set goals and outcomes and to expand the number of children served. The second half of fiscal year 2020 presented Free Arts with significant challenges to delivering programming. With no traditional way of reaching children, no safe location for our staff to work together, and no timeline for resolution, the Free Arts team used creativity to imagine new ways to work together and built alternative programs to help children during this uncertain time. Our efforts were successful and enabled us to continue our essential services to children in new ways, some of which we will continue to use in the future even when traditional in-person programs are safe to resume.

Transforming Children’s Trauma to Resilience

In Fiscal Year 2020, Free Arts programs served 6,300 children and assessed the following outcomes for pre-COVID programming:

- 87% of children reported meaningful relationships/interactions with adults
- 80% of children felt they had the opportunity to do something they thought they couldn’t do
- 82% of children shared they felt a sense of belonging
- 86% of children felt they had an opportunity to lead their peers
- 87% of children felt they had opportunities to use inspiring materials and supplies to learn a new skill

According to resilience and youth development research, these opportunities directly correlate to the ability of children to increase their feeling of safety, practice self-expression, build skills, develop self-efficacy, and ultimately build resilience. (<https://developingchild.harvard.edu/science/key-concepts/resilience/>)

Building Hope Capital Purchase and Renovation Campaign

In Fiscal Year 2019, we embarked on the final phase of our Building Hope Capital Purchase and Renovation Campaign – the major renovation of our office building. With teamwork and careful planning, the building was transformed from a dark grey, industrial-looking building to a bright, open, and inviting space. In November 2019, the Free Arts staff moved into The Bob & Renee Parsons Place for Art and Transformation. As we look to the future, Parsons Place will provide a strong base of support for our programs and operations. As building owners, we can quickly adapt to changes. Our home is an asset we can leverage to support our future growth.

Financial Position

The biggest change in our financial statements from year to year reflects the completion of the building renovation. Current assets decreased as fixed assets increased to reflect this work. When you focus on our ordinary income and expenses, Free Arts ended the year in a positive financial position. One major success was securing a significant three-year corporate sponsorship that will provide stability through FY 2022. Our income also reflects emergency support funding that Free Arts secured to ensure our organization could function uninterrupted and we could keep our staff fully employed during the public health closures. We ended the year with 11 months of cash reserves. As we look to the future, our strategic initiatives will continue guiding our resource allocation.

Organizational Stability

We are a long-standing community nonprofit that has demonstrated our value and enjoys consistent support from the community. In 2018, Free Arts set a 10-year vision with five major goals. We have four strategic initiatives underway to move our organization toward this vision. In 2020, progress on these strategic initiatives included:

Clarifying and Communicating Brand Position

- Fully implemented the marketing plan

Optimizing Resources

- Determined building use philosophy
- Created Diversity, Equity, and Inclusion task force

Expanding and Diversifying Funding Strategies

- Completed multi-year development plan
- Launched legacy giving program

Cultivating Research Strategies and Partners

- Formalized our research plan

In 2021 we will build on these initiatives to increase our marketing output, set a diversity/equity/inclusion strategy and plan, explore earned revenue opportunities, and determine next steps for program expansion.

Our Impact

2020 has been an incredible test of human resilience. The prolonged stress of this year, coupled with the disconnection from loved ones caused many of us to feel exhausted, irritable, scared, confused, anxious, or overwhelmed. We may have looked for new coping tools to relieve this stress. At Free Arts, we introduce children to the arts as a way to cope with the toxic stress and trauma that they experience as a result of their life situations and we surround them with caring adult mentors to ensure that they have the support they need to engage in the activities we provide. Research shows us that the arts can decrease and regulate stress chemicals in the human brain, while safe and supportive connections with others can increase healthy hormones that provide a lasting impact.

Our impact is often best expressed by the children and young adults in our programs:

“I want you to know that I'm grateful to be able to use art in a new way that can help me distract myself in a healthy way when I'm upset.”

- Jade, Foster Care Group Home

“This year has hands down been the craziest roller coaster I've ever experienced. With COVID and things shutting down, political and race riots going on everywhere, it's been scary. But I am happy that I have been able to still be with family and not struggle as much as I have in the past. A lot of that is thanks to Free Arts for being there for me throughout all the ups and downs. And I am happy to be a part of it.”

- Autumn, Alumni Program

Thank you for your interest in and support of Free Arts for Abused Children of Arizona.

Sincerely,



Cathy Graham
President, Board of Directors



Alicia Sutton Campbell
Executive Director

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statements of Financial Position

September 30, 2020

(with comparative financial information as of September 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 1,508,857	\$ 1,910,841
Contributions receivable, net	296,628	140,152
Other receivable	5,073	
Prepaid expenses	26,002	18,200
Inventory	30,774	
Property and equipment, net	<u>4,031,265</u>	<u>3,688,607</u>
Total assets	<u>\$ 5,898,599</u>	<u>\$ 5,757,800</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 13,366	\$ 753
Accrued payroll and related	66,711	34,124
Construction contracts and retainage payable	21,163	819,067
Capital lease		<u>5,949</u>
Total liabilities	101,240	859,893
Net assets:		
Without donor restrictions:		
Undesignated	5,469,041	4,690,548
Board-designated	<u>31,690</u>	<u>32,124</u>
Total net assets without donor restrictions	5,500,731	4,722,672
With donor restrictions	<u>296,628</u>	<u>175,235</u>
Total net assets	<u>5,797,359</u>	<u>4,897,907</u>
Total liabilities and net assets	<u>\$ 5,898,599</u>	<u>\$ 5,757,800</u>

The accompanying notes are an integral part of these financial statements.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statements of Activities

Year Ended September 30,
(with comparative financial information for the year ended September 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2020</u>	<u>2019</u>
Public support and revenue:				
Contributions	\$ 1,769,350	\$ 358,849	\$ 2,128,199	\$ 2,301,286
Government grants	196,698		196,698	189,717
Special event revenue	40,675		40,675	144,750
In-kind contributions	50,809		50,809	95,618
Paycheck Protection Program	164,300		164,300	
Other revenue	64,888		64,888	12,002
Net assets released from restriction	<u>237,456</u>	<u>(237,456)</u>		
Total public support and revenue	2,524,176	121,393	2,645,569	2,743,373
Expenses:				
Program services - arts and mentoring	1,327,765		1,327,765	1,272,837
Management and general	207,199		207,199	155,477
Fundraising	<u>211,153</u>		<u>211,153</u>	<u>169,806</u>
Total expenses	<u>1,746,117</u>		<u>1,746,117</u>	<u>1,598,120</u>
Change in net assets before loss				1,145,253
Loss on disposal of assets				<u>(64,959)</u>
Change in net assets	778,059	121,393	899,452	1,080,294
Net assets, beginning of year	<u>4,722,672</u>	<u>175,235</u>	<u>4,897,907</u>	<u>3,817,613</u>
Net assets, end of year	<u>\$ 5,500,731</u>	<u>\$ 296,628</u>	<u>\$ 5,797,359</u>	<u>\$ 4,897,907</u>

The accompanying notes are an integral part of these financial statements.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year Ended September 30, 2020

(with comparative financial information for the year ended September 30, 2019)

	Program	Supporting Services		Totals	
	Services	Arts and Mentoring	Management and General	Fundraising	2020
Staff salaries	\$ 577,817	\$ 162,521	\$ 136,108	\$ 876,446	\$ 766,348
Payroll taxes and fees	46,611	9,277	9,244	65,132	65,581
Employee benefits	50,860	10,438	6,817	68,115	72,527
Contract and intern employees	96,057	10,731	2,638	109,426	69,437
Other professional fees	12,452	536	402	13,390	17,405
Professional artists' fees	81,050			81,050	65,350
Art and office supplies	32,742	291	359	33,392	24,906
Printing and postage	9,002	159	8,142	17,303	21,247
Operating costs	229,793	7,487	25,035	262,315	222,518
Professional development	10,281	425	2,650	13,356	4,438
Property repair and management fees					19,274
Director and officers liability insurance	9,749	419	314	10,482	8,016
Equipment rental and maintenance	2,450	29	21	2,500	16,714
Marketing and promotion	5,109	65	15,829	21,003	53,663
Travel	9,282	115	86	9,483	4,703
Telephone	6,556	271	219	7,046	4,812
In-kind	50,473	192	144	50,809	95,618
Interest		50		50	927
Depreciation and amortization	97,481	4,193	3,145	104,819	64,636
Total expenses	<u>\$ 1,327,765</u>	<u>\$ 207,199</u>	<u>\$ 211,153</u>	<u>\$ 1,746,117</u>	<u>\$ 1,598,120</u>

The accompanying notes are an integral part of these financial statements.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended September 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 899,452	\$ 1,080,294
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	104,819	64,636
Loss on disposal of assets		64,959
Change in discount to present value for contributions receivable	6,208	2,475
Contributions restricted for building construction costs		(1,255,700)
Changes in:		
Contributions receivable, net	(162,684)	51,090
Other receivable	(5,073)	
Prepaid expenses	(7,802)	(8,669)
Inventory	(30,774)	
Accounts payable	12,613	(7,789)
Accrued payroll and related	<u>32,587</u>	<u>18,063</u>
Net cash and cash equivalents provided by operating activities	849,346	9,359
Cash flows from investing activities:		
Purchases of property and equipment	<u>(1,245,381)</u>	<u>(1,145,939)</u>
Net cash and cash equivalents used by investing activities	(1,245,381)	(1,145,939)
Cash flows from financing activities:		
Proceeds from contributions restricted for building construction costs		1,255,700
Principal payments on capital lease	<u>(5,949)</u>	<u>(23,070)</u>
Net cash and cash equivalents (used) provided by financing activities	<u>(5,949)</u>	<u>1,232,630</u>
Change in cash and cash equivalents	(401,984)	96,050
Cash and cash equivalents, beginning of year	<u>1,910,841</u>	<u>1,814,791</u>
Cash and cash equivalents, end of year	<u>\$ 1,508,857</u>	<u>\$ 1,910,841</u>
<u>Supplemental disclosures:</u>		
Cash paid during the year for interest	\$ 50	\$ 927
Property and equipment acquired per construction contracts and retainage payable	\$ 21,163	\$ 819,067

The accompanying notes are an integral part of these financial statements.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Free Arts for Abused Children of Arizona as incorporated under the laws of the state of Arizona on October 9, 1993. Free Arts for Abused Children of Arizona is a nonprofit organization that transforms children's trauma to resilience through the arts. Over the past twenty-five years, the Organization has proudly served more than 125,000 children in Maricopa County. The Organization has 15 staff members and 900 volunteer mentors who serve nearly 8,000 children each year. The Organization partners with 40 individual social service agencies at 100+ sites to provide a unique combination of arts, a trauma informed curriculum, and mentoring, to children who are in out-of-home care. The Organization uses the arts to build resilience in children who have experienced the trauma of abuse, neglect, or homelessness. Volunteer mentors and professional teaching artists create a safe environment where children can express themselves, learn new skills, build self-efficacy, and begin to heal.

Free Arts Building Hope, LLC, (Building Hope) was incorporated in the state of Arizona in 2017 and is 100% owned by Free Arts for Abused Children of Arizona. Free Arts Building Hope, LLC is a single member LLC established to hold title to the building and all building related activities.

Basis of Presentation: Free Arts follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring Free Arts to report information regarding its financial position and activities according into two classes of net assets: without donor restrictions and with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates: In preparing financial statements in conformity with generally accepted accounting principles (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Consolidated Financial Statements: In accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC)'s topic of *Consolidation*, the consolidated financial statements include the accounts of Free Arts for Abused Children of Arizona and Free Arts Building Hope, LLC (collectively referred to as Free Arts). All significant interorganization transactions and accounts have been eliminated.

Cash and Cash Equivalents: For purposes of the statement of cash flows, Free Arts considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Contributions Receivable, Net: Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are considered by management to be fully collectible and accordingly, an allowance for doubtful accounts was not provided at September 30, 2020 and 2019.

Property and Equipment: Purchased property and equipment of \$5,000 or greater are recorded at cost, or if donated, at estimated fair value at the date of gift. Depreciation is computed using the straight-line method based on estimated useful lives of the assets as follows:

Building	30 years
Furniture, fixtures, and equipment	3 - 7 years

Contributions: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In-kind contributions/expenses: Use of donated goods and services are recorded at their estimated fair value at the date of donation. Donated services are recognized in the financial statements at their estimated fair value if the following criteria are met:

1. The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
2. The services enhance or create an long-lived asset.

Functional Expenses: The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of facility usage and the estimated percentage of payroll costs benefiting the program or supporting services.

Income Taxes: Free Arts is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. Free Arts Building Hope, LLC is considered a disregarded entity as a wholly-owned limited liability corporation.

Change in Accounting Principle: On June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction by clarifying how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction.

Reclassifications: Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 presentation. At September 30, 2019, Free Arts reclassified \$140,152 from net assets without donor restrictions to net assets with donor restrictions to account for time restrictions on net pledges receivable.

Financial impact of COVID-19: Free Arts operations have been, and continue to be affected by the recent and ongoing outbreak of the Coronavirus disease (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and the related financial impact. However, the related financial impact and duration cannot be reasonably estimated at this time.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 2 - LIQUIDITY AND AVAILABILITY

Free Arts monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. Free Arts has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

Financial assets included in total assets:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,508,857	\$ 1,910,841
Contributions receivable, net	296,628	140,152
Other receivable	<u>5,073</u>	<u> </u>
Total financial assets included in total assets	1,810,558	2,050,993
Less amounts unavailable for general expenditure within one year:		
Board-designated net assets	(31,690)	(32,124)
Net assets with donor purpose restrictions		(35,083)
Contributions receivable, noncurrent portion, net	<u>(97,710)</u>	<u>(38,018)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,681,158</u>	<u>\$ 1,945,768</u>

In addition to financial assets available to meet general expenditures over the year, Free Arts operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues.

NOTE 3 - CONTRIBUTIONS RECEIVABLE, NET

Free Arts's contributions receivable consisted of the following at September 30:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 198,918	\$ 102,134
Due within two to three years	<u>108,333</u>	<u>42,433</u>
	307,251	144,567
Discount to adjust to net present value	<u>(10,623)</u>	<u>(4,415)</u>
Total pledges receivable, net	<u>\$ 296,628</u>	<u>\$ 140,152</u>

Contributions receivable due in more than one year are discounted at 3.5% in the year that the unconditional promise to give is made to Free Arts. At September 30, 2020, 65% of Free Arts' contributions receivable was due from one contributor and at September 30, 2019, 43% was due from three contributors.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 167,500	\$ 167,500
Building	3,970,772	1,507,500
Furniture, fixtures, and equipment	143,296	127,053
Construction in progress	<u>24,100</u>	<u>2,061,035</u>
	4,305,668	3,863,088
Less accumulated depreciation	<u>(274,403)</u>	<u>(174,481)</u>
Total property and equipment, net	<u>\$ 4,031,265</u>	<u>\$ 3,688,607</u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended September 30, 2020, consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Releases</u>	<u>Ending Balance</u>
Parsons Foundation Building Renovation	\$ 35,083		\$ (35,083)	
Board Renovation Campaign (purpose and time restrictions)	88,200	\$ 33,450	(33,450)	\$ 88,200
Silverman Family Foundation		5,000	(5,000)	
Other time restrictions	<u>51,952</u>	<u>320,399</u>	<u>(163,923)</u>	<u>208,428</u>
	<u>\$ 175,235</u>	<u>\$ 358,849</u>	<u>\$ (237,456)</u>	<u>\$ 296,628</u>

Net assets with donor restrictions for the year ended September 30, 2019, consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Releases</u>	<u>Ending Balance</u>
Parsons Foundation Building Renovation	\$ 369,859	\$ 1,000,000	\$ (1,334,776)	\$ 35,083
Professional Artist Series	150,000		(150,000)	
Board Renovation Campaign (purpose and time restricted)		105,300	(17,100)	88,200
VOCA Mentor Program	17,570		(17,570)	
Other time restrictions	<u>22,706</u>	<u>138,752</u>	<u>(109,506)</u>	<u>51,952</u>
	<u>\$ 560,135</u>	<u>\$ 1,244,052</u>	<u>\$ (1,628,952)</u>	<u>\$ 175,235</u>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 6 - CAPITAL LEASE

In 2016, Free Arts entered into a capital lease agreement expiring in December 2020 for the purchase of equipment. The cost of equipment acquired was \$66,721, and accumulated amortization totaled \$66,721 at September 30, 2020.

Future minimum payments under the capital lease arrangement are as follows:

	<u>2020</u>	<u>2019</u>
Future principal payments		\$ 5,999
Less amount representing interest		(50)
Total minimum lease payments	<u><u> </u></u>	<u><u>\$ 5,949</u></u>

NOTE 7 - IN-KIND CONTRIBUTIONS AND EXPENSES

Free Arts records various types of in-kind support, including the skilled labor of numerous volunteers and supplies for use by its programs. Contributed in-kind support is recognized in accordance with accounting principles generally accepted in the United States of America. This requires recognition of certain services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In-kind support for Free Arts arts and mentoring programs are summarized as follows for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Art supplies	\$ 33,906	\$ 25,917
Printing services	5,000	
Tickets/vouchers	4,813	15,641
Space rental	4,000	51,815
Other	3,090	2,245
Total reported in-kind contributions and expenses	<u><u>\$ 50,809</u></u>	<u><u>\$ 95,618</u></u>

In addition, the following summarizes the estimated value of other services that have been donated to support Free Arts' programs that do not meet the criteria for recognition in the consolidated financial statements for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Unskilled services provided to Free Arts programs	\$ 108,868	\$ 271,732
Other	20,046	17,306
Total unreported donated assets and services	<u><u>\$ 128,914</u></u>	<u><u>\$ 289,038</u></u>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

(with comparative financial information as of and for the year ended September 30, 2019)

NOTE 8 - PAYCHECK PROTECTION PROGRAM

On April 15, 2020, Free Arts was approved for a \$164,300 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The loan accrues interest at 1% and matures in two years, but payments are not required to begin for the earlier of 10 months after the end of Free Arts's loan forgiveness covered period (either 8 or 24 weeks after the loan was funded) or when Free Arts applies for loan forgiveness. Free Arts is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain conditions. The loan is uncollateralized and is fully guaranteed by the Federal government.

Free Arts accounted for the PPP loan as a conditional contribution in accordance with FASB ASC Subtopic 958-605. As of September 30, 2020, Free Arts had expended \$164,300 of the loan proceeds for qualified payroll costs, and therefore recognized the loan proceeds as revenue in the Consolidated Statement of Activities.

NOTE 9 - RELATED PARTY TRANSACTIONS

Members who are able to directly influence decisions made by the Board of Directors are considered to be related parties. During the years ended September 30, 2020 and 2019, Free Arts received cash and in-kind donations from related parties totaling \$50,698 and \$76,485, respectively.

NOTE 10 - CONCENTRATION

During the year ended September 30, 2019, contributions totaling \$1,100,000 were received from one donor and comprised 40% of total public support and revenue.

NOTE 11 - SUBSEQUENT EVENTS

Free Arts has evaluated subsequent events through April 1, 2021, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended September 30, 2020 that would require adjustment to the financial statements. However, Free Arts did note the following event that occurred subsequent to the year end that should be disclosed:

On December 10, 2020, the SBA forgave 100% of the PPP loan balance (See Note 8).