

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
AND SUBSIDIARY

Consolidated Financial Statements and
Independent Auditors' Report

September 30, 2021
(With comparative totals for 2020)

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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, 2021, 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, 2021, 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 and 4 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 Free Art's 2020 consolidated financial statements, and our report dated April 1, 2021, 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, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Fester & Chapman, PLLC

January 20, 2022

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 Fiscal Year 2021. 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 28 years, Free Arts has proudly transformed the lives of more than 143,000 children in Maricopa County. From an initial volunteer base of 5 individuals serving 50 children, Free Arts now employs 18 staff members serving approximately 6,000 children each year. Free Arts partners with 39 social service agencies at more than 100 locations and 30 arts and culture organizations 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 2020-2021 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 ongoing uncertainty and to begin a long-term process to build a more diverse, equitable, and inclusive culture within our organization.

Organizational Results

Transforming Children's Trauma to Resilience

In Fiscal Year 2021, Free Arts programs served 11,355 children. 9,092 of these children were served through a special project called Bravery Boxes. With COVID-19 continuing to restrict our access to children, we saw an opportunity to not only deliver intentional art projects directly to the children we serve in Maricopa County, but also statewide. In partnership with the Arizona Department of Child Safety, we provided Bravery Boxes to children entering foster care throughout the state. Each child received a Bravery Box full of art supplies and intentional art activities designed to help them process their experience and build resilience.

Free Arts showed our organizational resilience in 2021. We are an agency that is reinstating programs and building up our staff and support structures not only to match pre-pandemic service levels, but to grow and take on new programming to support the children in our community. For example, in 2021 we held our Theater Camp program in-person (rather than virtual as we did in 2020). This program supported a small group of teenagers in telling their stories to an enthusiastic audience at the Herberger Theatre Center. We also grew our staff to support the growth and expansion of programs for foster and kinship families and for our program alumni. And we launched a beautifully redesigned website to engage more people in our work.

We evaluated the following outcomes for 2021 programming:

- 84% of children reported meaningful relationships/interactions with adults

- 83% of children felt they had the opportunity to do something they thought they couldn't do
- 85% of children shared they felt a sense of belonging
- 80% of children felt they had an opportunity to lead their peers
- 84% 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/>)

Financial Position

The last five years have been eventful for Free Arts. Our rapid growth indicates an investment from the community into Free Arts to provide fundamental services to children. We completed a \$4.5 million purchase and investment in a building in Central Phoenix that will serve as a permanent home for Free Arts. This building is now an asset that Free Arts can build on and use to expand our organization's reach. We believe our financial statements show an organization that is growing smartly, is managing risk appropriately, and is poised for expansion to meet demand.

After our building investment, Free Arts has approximately \$2.3 million remaining in cash reserves (liquidity) which represents 11 months of expenses. Our goal is to have 6-8 months of reserves/liquidity to provide stable cash flow throughout the year and as a buffer for unusual circumstances, such as a global pandemic. Over the next three years we plan to draw down the extra cash reserves to fund growth initiatives in our 2028 strategic vision which includes statewide programming, services for foster and kinship families, continued resilience-building opportunities for alumni, and to be a recognized leader for resilience through the arts.

Our Impact

2021 brought tremendous growth and change. It also continued to alter the way we live our lives and engage with our communities. Looking back on this year gives Free Arts cause for celebration as it showcased the ways we are resilient – through our community, our organization, and our program participants.

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

“This program helped me express things I can't say out loud.”
 - Eric, age 15

“To see my little sister again,” “To have my own salon,” “To become a brain surgeon.”
 These are some of the hopes and dreams that were expressed by the teens at this year's 2021 Theater Camp.

“Through growth, the bad becomes wisdom and the good is magnified in the new. You have to let yourself be bigger than the bad, make room within yourself beyond the shame and guilt for your joy, your talent, the knowledge of your worth.”
 Rich, Free Arts Alumni

Because of our caring community, dedicated volunteers, talented teaching artists, creative staff members, supportive board of directors, and committed donors, 2021 was a successful year for Free Arts. We are excited to celebrate our resilience with you. Thank you for your interest in and support of Free Arts for Abused Children of Arizona.

Sincerely,

Amber M. Wayne
 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, 2021

(with comparative financial information as of September 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,248,399	\$ 1,508,857
Contributions receivable, net	747,721	296,628
Other receivable		5,073
Prepaid expenses	28,015	26,002
Inventory		30,774
Property and equipment, net	<u>3,864,201</u>	<u>4,031,265</u>
Total assets	<u>\$ 6,888,336</u>	<u>\$ 5,898,599</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 15,897	\$ 13,366
Accrued payroll and related	46,010	66,711
Construction contracts and retainage payable		<u>21,163</u>
Total liabilities	<u>61,907</u>	<u>101,240</u>
Net assets:		
Without donor restrictions:		
Undesignated	5,933,999	5,469,041
Board-designated	<u>141,123</u>	<u>31,690</u>
Total net assets without donor restrictions	6,075,122	5,500,731
With donor restrictions	<u>751,307</u>	<u>296,628</u>
Total net assets	<u>6,826,429</u>	<u>5,797,359</u>
Total liabilities and net assets	<u>\$ 6,888,336</u>	<u>\$ 5,898,599</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, 2020)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
Public support and revenue:				
Contributions	\$ 1,717,272	\$ 882,881	\$ 2,600,153	\$ 2,128,199
Government grants	221,940		221,940	196,698
Special event revenue	66,926		66,926	40,675
In-kind contributions	92,162		92,162	50,809
Paycheck Protection Program				164,300
Other revenue	38,036		38,036	64,888
Net assets released from restriction	<u>428,202</u>	<u>(428,202)</u>		
Total public support and revenue	2,564,538	454,679	3,019,217	2,645,569
Expenses:				
Program services - arts and mentoring	1,514,172		1,514,172	1,327,765
Management and general	234,850		234,850	207,199
Fundraising	<u>241,125</u>		<u>241,125</u>	<u>211,153</u>
Total expenses	<u>1,990,147</u>		<u>1,990,147</u>	<u>1,746,117</u>
Change in net assets	574,391	454,679	1,029,070	899,452
Net assets, beginning of year	<u>5,500,731</u>	<u>296,628</u>	<u>5,797,359</u>	<u>4,897,907</u>
Net assets, end of year	<u>\$ 6,075,122</u>	<u>\$ 751,307</u>	<u>\$ 6,826,429</u>	<u>\$ 5,797,359</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, 2021

(with comparative financial information for the year ended September 30, 2020)

	Program	Supporting Services		Totals	
	Services	Arts and Mentoring	Management and General	Fundraising	2021
Staff salaries	\$ 595,785	\$ 191,488	\$ 144,367	\$ 931,640	\$ 876,446
Payroll taxes and fees	51,621	11,086	11,089	73,796	65,132
Employee benefits	78,767	13,008	10,475	102,250	68,115
Contract and intern employees	159,603	3,480	2,583	165,666	109,426
Other professional fees	11,490	250	186	11,926	13,390
Professional artists' fees	39,983	872	647	41,502	81,050
Art and office supplies	93,987	181	2,102	96,270	33,392
Printing and postage	19,329	90	9,490	28,909	17,303
Operating costs	193,073	7,007	25,606	225,686	262,315
Professional development	5,779	82	1,957	7,818	13,356
Director and officers liability insurance	9,751	419	314	10,484	10,482
Equipment rental and maintenance	1,178			1,178	2,500
Marketing and promotion	5,111	76	27,201	32,388	20,088
Travel	751	2	2	755	9,483
Telephone	7,163	308	231	7,702	7,046
In-kind	91,987	100	75	92,162	50,809
Interest					50
Depreciation and amortization	148,814	6,401	4,800	160,015	104,819
Total expenses	<u>\$ 1,514,172</u>	<u>\$ 234,850</u>	<u>\$ 241,125</u>	<u>\$ 1,990,147</u>	<u>\$ 1,745,202</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>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,029,070	\$ 899,452
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	160,015	104,819
Changes in:		
Contributions receivable, net	(451,093)	(156,476)
Other receivable	5,073	(5,073)
Prepaid expenses	(2,013)	(7,802)
Inventory	30,774	(30,774)
Accounts payable	2,531	12,613
Accrued payroll and related	<u>(20,701)</u>	<u>32,587</u>
Net cash and cash equivalents provided by operating activities	753,656	849,346
Cash flows from investing activities:		
Purchases of property and equipment	<u>(14,114)</u>	<u>(1,245,381)</u>
Net cash and cash equivalents used by investing activities	(14,114)	(1,245,381)
Cash flows from financing activities:		
Principal payments on capital lease	<u> </u>	<u>(5,949)</u>
Net cash and cash equivalents used by financing activities	<u> </u>	<u>(5,949)</u>
Change in cash and cash equivalents	739,542	(401,984)
Cash and cash equivalents, beginning of year	<u>1,508,857</u>	<u>1,910,841</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,248,399</u></u>	<u><u>\$ 1,508,857</u></u>
<u>Supplemental disclosures:</u>		
Cash paid during the year for interest	\$	\$ 50
Property and equipment acquired per construction contracts and retainage payable	\$	\$ 21,163

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, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

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, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

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. An allowance for doubtful accounts was established and the balance was \$3,750 and \$0 at September 30, 2021 and 2020, respectively.

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, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

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.

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, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,248,399	\$ 1,508,857
Contributions receivable, net	747,721	296,628
Other receivable		<u>5,073</u>
Total financial assets included in total assets	<u>2,996,120</u>	<u>1,810,558</u>
Less amounts unavailable for general expenditure within one year:		
Board-designated net assets	(141,123)	(31,690)
Net assets with donor purpose restrictions	(3,586)	
Contributions receivable, noncurrent portion, net		<u>(97,710)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,851,411</u>	<u>\$ 1,681,158</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>2021</u>	<u>2020</u>
Due within one year	\$ 751,471	\$ 198,918
Due within two to three years		<u>108,333</u>
	<u>751,471</u>	<u>307,251</u>
Allowance for doubtful accounts	(3,750)	
Discount to adjust to net present value		<u>(10,623)</u>
Total pledges receivable, net	<u>\$ 747,721</u>	<u>\$ 296,628</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, 2021, 80% of Free Arts' contributions receivable was due from three contributors and at September 30, 2020, 65% was due from one contributor.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 167,500	\$ 167,500
Building	3,987,823	3,970,772
Furniture, fixtures, and equipment	143,296	143,296
Construction in progress		24,100
	<u>4,298,619</u>	<u>4,305,668</u>
Less accumulated depreciation	<u>(434,418)</u>	<u>(274,403)</u>
Total property and equipment, net	<u>\$ 3,864,201</u>	<u>\$ 4,031,265</u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended September 30, 2021, consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Releases</u>	<u>Ending Balance</u>
Board Renovation Campaign (purpose and time restrictions)	\$ 88,200		\$ (57,117)	\$ 31,083
Camp		\$ 13,500	(12,658)	842
Other time restrictions	<u>208,428</u>	<u>869,381</u>	<u>(358,427)</u>	<u>719,382</u>
	<u>\$ 296,628</u>	<u>\$ 882,881</u>	<u>\$ (428,202)</u>	<u>\$ 751,307</u>

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 restricted)	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>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

NOTE 6 - OPERATING LEASE

Free Art's receives rental income of \$2,250 per month under an operating lease for the use of office space through 2023. Future minimum payments for the remaining lease term are as follows:

2022	\$	27,000
2023		<u>27,000</u>
Total	\$	<u><u>54,000</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.

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

	<u>2021</u>	<u>2020</u>
Art supplies	\$ 16,161	\$ 33,906
Printing services		5,000
Tickets/vouchers		4,813
Space rental	44,378	4,000
Other	<u>31,623</u>	<u>3,090</u>
Total reported in-kind contributions and expenses	<u><u>\$ 92,162</u></u>	<u><u>\$ 50,809</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>2021</u>	<u>2020</u>
Unskilled services provided to Free Arts programs	\$ 74,213	\$ 108,868
Other	<u>18,789</u>	<u>20,046</u>
Total unreported donated assets and services	<u><u>\$ 93,002</u></u>	<u><u>\$ 128,914</u></u>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

(with comparative financial information as of and for the year ended September 30, 2020)

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 accrued interest at 1% and was to mature in two years, however, on December 10, 2020, the SBA forgave 100% of the PPP loan balance.

Free Arts accounted for the PPP loan as a conditional contribution in accordance with FASB ASC Subtopic 958-605. Free Arts expended \$164,300 of the loan proceeds for qualified payroll costs during the year ended September 30, 2020, 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, 2021 and 2020, Free Arts received cash and in-kind donations from related parties totaling \$24,000 and \$50,698, respectively.

NOTE 10 - SUBSEQUENT EVENTS

Free Arts has evaluated subsequent events through January 20, 2022, 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, 2021 that would require adjustment to the financial statements.