

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
AND SUBSIDIARY

Consolidated Financial Statements and
Independent Auditors' Report

September 30, 2023
(With comparative totals for 2022)

CONTENTS

Independent Auditors' Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 4
Consolidated Financial Statements:	
Consolidated Statement of Financial Position.....	5
Consolidated Statement of Activities.....	6
Consolidated Statement of Functional Expenses.....	7
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9 - 18



Independent Auditors' Report

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

Opinion

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, 2023, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Free Arts as of September 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Free Arts 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 the Free Arts' 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 auditor's 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 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' 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' 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 we identified during the audit.

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. The information is not a required part of the consolidated 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. 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 2022 consolidated financial statements, and our report dated April 27, 2023, 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, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Fester & Chapman, PLLC

January 25, 2024

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") operated in Fiscal Year 2023. 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 30 years, Free Arts has proudly transformed the lives of more than 164,000 children in Maricopa County, Arizona. From an initial volunteer base of 5 individuals serving 50 children, Free Arts now employs 29 staff members serving approximately 7,000 children each year. Free Arts partners with 40+ social service agencies at more than 100 locations and 30 arts and culture organizations throughout Maricopa County 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 with the intention to meet 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.

Continuing economic changes also inspired Free Arts to take a deeper look at organizational sustainability through recruitment and retention of staff and board, and support for all individuals working and volunteering in our programs. Focusing on this as a measure of success creates stability in our programs. It also creates a more inclusive and equitable culture within Free Arts that welcomes diversity and respects individuality. As an organization that relies primarily on volunteers from the community to serve as positive, caring adult mentors in our programs, having an equitable and inclusive culture has allowed our organization to be more representative of the children we serve in our programs and more reflective of their experiences in the work that we do.

Organizational Results

Transforming Children's Trauma to Resilience

In Fiscal Year 2023, Free Arts programs served 7,561 children. While the majority of these children reside in Maricopa County, future expansion will enable children in other parts of the state to participate in Free Arts programs. This year, we began our statewide expansion and connected with child-serving organizations in Yavapai County (Prescott and surrounding areas) and in Tucson. Early in fiscal year 2024, Free Arts programs will be offered to children and families in these expansion areas.

Also in 2023, Free Arts adapted our alumni program to serve a wider range of young adults. The alumni program served young adults transitioning out of foster care, or in situations where they reunited with family or exited shelter services. It was only available to children who had participated in Free Arts programming prior to age 19. Now called the Young Adult Empowerment Program (YEAP), this program serves young adults who have transitioned out of these systems (foster care, shelter services, etc.) regardless of their participation in Free Arts specific programming when they were younger. There is a need for services for this population and we are glad to expand our programs to meet the need.

Fiscal year 2023 brought in new energy to Free Arts – in our staff and in our volunteers. We restarted our volunteer trainings and placed new mentors with children throughout the year. We hired several new

positions that focused on increasing our presence in the community to promote volunteerism and donor support. Through our podcast, we shared valuable resources with the public about the effects of trauma. These additional resources and offerings move us toward our 2028 vision which includes program expansion as well as thought leadership – sharing our knowledge about how the arts and mentoring can build resilience.

We evaluated the following outcomes for 2023 programming:

- 90% of children reported meaningful relationships/interactions with adults
- 79% of children felt they had the opportunity to do something they thought they couldn't do
- 72% of children shared they felt a sense of belonging
- 81% of children felt they had an opportunity to lead their peers
- 85% 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

Free Arts continues to manage a strong financial position. Reduction in assets and a decrease in net revenue were planned and budgeted. Throughout the pandemic, Free Arts' important mission was supported at a high level by individuals, foundations, and businesses in our community. This, coupled with conservative budgeting in uncertain times led to several years of higher-than-budgeted net revenues. This year's asset reduction smartly used cash reserves to invest in growth, accelerate expansion, and serve more children. In 2024, we again budgeted to draw down cash reserves, but fewer than fiscal year 2023. We look to fiscal year 2025 as a revenue neutral year, aligning to our philosophy of holding 3-6 months of reserves/liquidity to provide stable cash flow throughout the year.

Fiscal year 2023 was the first full year utilizing our Registered Investment Advisor to build our endowment. While net assets decreased overall, assets in our investment accounts increased. We believe this an effective way to manage windfall gifts and high revenue in a way that supports future growth and stability. We believe our financial situation reflects an organization that is growing smartly, managing risk appropriately, and expanding to meet demand.

Our Impact

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

"In this program my opinion mattered every day in every class."

- Teen participating in a Professional Artist Series

"One child initially believed he was only able to feel anger. Through acting out many emotions and regulating our breath, he connected to feelings of joy and calm.

- Teaching Artist

"I like Free Arts workshops because I get to be me."

- Child participating in the Professional Artist Series

Because of our caring community, dedicated volunteers, talented teaching artists, creative staff members, supportive board of directors, and committed donors, 2023 was a successful year for Free Arts. Thank you for your interest in and support of Free Arts for Abused Children of Arizona.

Sincerely,



Matt Hargis
President, Board of Directors



Alicia Sutton Campbell
Executive Director

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statement of Financial Position

September 30, 2023

(with comparative financial information as of September 30, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 681,077	\$ 1,409,175
Contributions receivable, net	195,295	278,125
Prepaid expenses	96,509	39,202
Inventory	7,150	
Investments	1,558,199	1,291,261
Property and equipment, net	<u>3,568,988</u>	<u>3,716,594</u>
Total assets	<u>\$ 6,107,218</u>	<u>\$ 6,734,357</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 32,255	\$ 6,120
Accrued payroll and related	102,296	90,330
Deferred revenue	<u>8,302</u>	
Total liabilities	142,853	96,450
Net assets:		
Without donor restrictions:		
Undesignated	5,238,348	5,950,282
Board-designated	<u>598,255</u>	<u>405,139</u>
Total net assets without donor restrictions	5,836,603	6,355,421
With donor restrictions	<u>127,762</u>	<u>282,486</u>
Total net assets	<u>5,964,365</u>	<u>6,637,907</u>
Total liabilities and net assets	<u>\$ 6,107,218</u>	<u>\$ 6,734,357</u>

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

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended September 30, 2023

(with comparative financial information for the year ended September 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
Public support, revenue, and loss:				
Contributions	\$ 1,513,213	\$ 305,356	\$ 1,818,569	\$ 1,794,997
Government grants	201,493		201,493	236,273
Special event revenue, net of direct expenses of \$58,193 and \$18,591, respectively	126,344		126,344	36,109
Rental income	31,800		31,800	31,217
In-kind contributions	92,536		92,536	36,169
Net investment gain (loss)	146,827		146,827	(79,910)
Interest income	14,895		14,895	6,901
Net assets released from restriction	460,080	(460,080)		
Total public support, revenue, and loss	2,587,188	(154,724)	2,432,464	2,061,756
Expenses:				
Program services - arts and mentoring	2,405,890		2,405,890	1,685,380
Management and general	309,737		309,737	275,901
Fundraising	390,379		390,379	288,997
Total expenses	3,106,006		3,106,006	2,250,278
Change in net assets	(518,818)	(154,724)	(673,542)	(188,522)
Net assets, beginning of year	6,355,421	282,486	6,637,907	6,826,429
Net assets, end of year	\$ 5,836,603	\$ 127,762	\$ 5,964,365	\$ 6,637,907

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, 2023

(with comparative financial information for the year ended September 30, 2022)

	Program Services	Supporting Services		Totals	
	Arts and Mentoring	Management and General	Fundraising	2023	2022
Staff salaries	\$ 1,110,610	\$ 241,830	\$ 177,426	\$ 1,529,866	\$ 1,124,484
Payroll taxes and fees	90,633	18,646	18,485	127,764	91,735
Employee benefits	115,050	23,153	23,573	161,776	128,569
Contract and intern employees	270,376	7,757	23,641	301,774	240,288
Other professional fees	23,562	1,013	760	25,335	14,306
Professional artists' fees	85,359	49	37	85,445	32,603
Art and office supplies	96,096	594	477	97,167	65,694
Printing and postage	17,701	124	9,505	27,330	18,959
Operating costs	320,758	8,470	53,739	382,967	268,274
Professional development	9,233	405	1,470	11,108	7,241
Director and officers liability insurance	13,658	588	441	14,687	13,647
Equipment rental and maintenance	1,781			1,781	2,001
Marketing and promotion	17,129	74	52,519	69,722	33,799
Travel	10,698	71	112	10,881	5,903
Telephone	16,983	730	548	18,261	19,000
In-kind	68,989	329	23,218	92,536	36,169
Depreciation and amortization	137,274	5,904	4,428	147,606	147,606
Total expenses	<u>\$ 2,405,890</u>	<u>\$ 309,737</u>	<u>\$ 390,379</u>	<u>\$ 3,106,006</u>	<u>\$ 2,250,278</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>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (673,542)	\$ (188,522)
Adjustments to reconcile change in net assets to net cash and cash equivalents (used) provided by operating activities:		
Depreciation	147,606	147,606
Unrealized (gain) loss on investments	(121,845)	87,061
Changes in:		
Contributions receivable, net	82,830	469,596
Prepaid expenses	(57,307)	(11,187)
Inventory	(7,150)	
Accounts payable	26,135	(9,777)
Accrued payroll and related	11,966	44,320
Deferred revenue	<u>8,302</u>	
Net cash and cash equivalents (used) provided by operating activities	(583,005)	539,097
Cash flows from investing activities:		
Proceeds from sales of investments	112,225	
Purchases of investments	<u>(257,318)</u>	<u>(1,378,321)</u>
Net cash and cash equivalents used by investing activities	<u>(145,093)</u>	<u>(1,378,321)</u>
Change in cash and cash equivalents	(728,098)	(839,224)
Cash and cash equivalents, beginning of year	<u>1,409,175</u>	<u>2,248,399</u>
Cash and cash equivalents, end of year	<u>\$ 681,077</u>	<u>\$ 1,409,175</u>

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, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Free Arts for Abused Children of Arizona (Free Arts, the Organization) as incorporated under the laws of the state of Arizona on October 9, 1993. Free Arts is a nonprofit organization that transforms children's trauma to resilience through the arts. Over the past thirty years, the Organization has proudly served more than 164,000 children in Maricopa County. The Organization has 26 staff members and more than 200 volunteer mentors who serve over 7,000 children each year. The Organization partners with over 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. Building Hope 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 to 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, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

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. Cash equivalents included \$231,744 and \$892,416 in money market funds at September 30, 2023 and 2022, respectively.

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.

Investments: Free Arts follows the provisions of FASB ASC's topic of *Not-for-Profit Entities* regarding its investments. Management has estimated the fair value of its investments using available market information and other valuation methodologies as described in Note 4. The estimates are based on pertinent information available to management as of September 30, 2023. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the amounts in the financial statements.

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

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

In-kind contributions/expenses: Donated supplies, refreshments and equipment are valued based on amounts estimated by donors that would otherwise be paid at retail prices. Donated tickets are valued based on the prices of tickets available to the general public for each venue or event. Donated services are valued based on hourly rates that would be paid for professionals in an open market and 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.

Reclassifications: Certain reclassifications were made to the 2022 financial statements in order to conform to the 2023 presentation.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 681,077	\$ 1,409,175
Contributions receivable, net	195,295	278,125
Investments	<u>1,558,199</u>	<u>1,291,261</u>
Total financial assets included in total assets	2,434,571	2,978,561
Less amounts unavailable for general expenditure within one year:		
Board-designated net assets	(598,255)	(405,139)
Net assets with donor restrictions	<u>(127,762)</u>	<u>(282,486)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,708,554</u>	<u>\$ 2,290,936</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>2023</u>	<u>2022</u>
Due within one year	\$ 195,295	\$ 222,333
Due within two years		<u>60,000</u>
	195,295	282,333
Allowance for doubtful accounts		(1,458)
Discount to adjust to net present value		<u>(2,750)</u>
Total contributions receivable, net	<u>\$ 195,295</u>	<u>\$ 278,125</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, 2023, 48% of Free Arts' contributions receivable was due from two contributors and at September 30, 2022, 76% was due from three contributors.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value measurements are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions and Free Arts' own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are Free Arts' own assumptions about what market participants would assume based on the best information available in the circumstance.

Level 1 inputs – A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. Free Arts did not have any investments valued based on Level 2 inputs at September 30, 2023 and 2022.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. Free Arts did not have any investments valued based on Level 3 inputs at September 30, 2023 and 2022.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2023.

Fixed income securities / equity fund securities / exchange-traded funds: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT - CONTINUED

The fair value of assets measured as Level 1 inputs on a recurring basis at September 30, 2023 and 2022 were as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Level 1</u>	<u>Total</u>	<u>Level 1</u>	<u>Total</u>
Cash equivalents		\$ 26,853		\$ 17,248
Fixed income securities	\$ 463,855	463,855	\$ 464,061	464,061
Equity fund securities	65,558	65,558	63,681	63,681
Exchange-traded funds	<u>1,001,933</u>	<u>1,001,933</u>	<u>746,271</u>	<u>746,271</u>
Total investments	<u>\$ 1,531,346</u>	<u>\$ 1,558,199</u>	<u>\$ 1,274,013</u>	<u>\$ 1,291,261</u>

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 167,500	\$ 167,500
Building	3,987,823	3,987,823
Furniture, fixtures, and equipment	<u>122,205</u>	<u>122,205</u>
	4,277,528	4,277,528
Less accumulated depreciation	<u>(708,540)</u>	<u>(560,934)</u>
Total property and equipment, net	<u>\$ 3,568,988</u>	<u>\$ 3,716,594</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended September 30, 2023, consisted of the following:

	<u>Beginning</u>		<u>Releases</u>	<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>		<u>Balance</u>
Board Renovation Campaign (purpose and time restrictions)	\$ 5,433		\$ (5,433)	
Camp	154	\$ 20,000	(20,154)	
Foster and Kinship Family Program	125,000		(125,000)	
Research Project		20,000	(20,000)	
Young Adult Empowerment Program		10,000		\$ 10,000
Professional Artist Series		1,600	(1,600)	
Other time restrictions	<u>151,899</u>	<u>253,756</u>	<u>(287,893)</u>	<u>117,762</u>
	<u>\$ 282,486</u>	<u>\$ 305,356</u>	<u>\$ (460,080)</u>	<u>\$ 127,762</u>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

Net assets with donor restrictions for the year ended September 30, 2022, consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Releases</u>	<u>Ending Balance</u>
Board Renovation Campaign (purpose and time restricted)	\$ 31,083	\$ 27,400	\$ (53,050)	\$ 5,433
Camp	842	15,000	(15,688)	154
Foster and Kinship Family Program		125,000		125,000
Other time restrictions	<u>719,382</u>	<u>166,199</u>	<u>(733,682)</u>	<u>151,899</u>
	<u>\$ 751,307</u>	<u>\$ 333,599</u>	<u>\$ (802,420)</u>	<u>\$ 282,486</u>

NOTE 7 - ENDOWMENTS

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Free Arts' endowment fund included board-designated net assets (without donor restrictions) at September 30, 2023 and 2022. The purpose of the endowment fund is to support Free Arts' mission to transform children's trauma to resilience through the arts. The Finance Committee (the Committee) oversees the investment managers whose primary objective is to provide protection of principal, as well as ensure reasonable growth of principal of the Free Arts' assets relative to indices as determined by the Committee. This objective is pursued as a long-term goal designed to maximize Free Arts assets, without exposure to undue risk.

Free Arts' primary objective is to achieve long-term appreciation of assets and consistency of total portfolio returns while recognizing that short-term market fluctuations may cause variations in the performance.

Free Arts' endowment funds were included in investments and cash equivalents on the statement of financial position at September 30, 2023 and 2022, respectively.

Interpretation of Relevant Laws: The Board of Directors of has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 7 - ENDOWMENTS - CONTINUED

As a result of this interpretation, for donor-restricted net assets included in endowments, Free Arts will retain in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Free Arts considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of Free Arts and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of the investments, (6) other resources of the Organization, and (7) the investment policies of the Organization.

Return Objectives and Risk Parameters: The overall rate of return objective for the portfolio is a reasonable "real" rate consistent with the risk levels established by the Committee. The return objective of Free Arts shall be to exceed the return of a custom index made up of 60% S&P 500 and 40% Lehman Brothers Aggregate Bond Index. The minimum objective rate of return is that which equals or exceeds the CPI (*rate of inflation*) by 4% over a 3-5 year market cycle. It is expected that the level of risk as measured by the annualized standard deviation of quarterly returns shall be less than that of the custom index made up of 60% S&P 500 and 40% Lehman Brothers Aggregate Bond Index.

Strategies Employed for Achieving Objectives: The Committee meets quarterly with investment managers to review portfolio activity, market summaries, investment strategies and market forecasts.

Spending Policy and How the Investment Objectives Relate to Spending Policy: Income earned from the endowment fund is considered designated until appropriated for expenditure by the Board of Directors. This spending policy is intended to establish reasonable and prudent spending, on an annual basis, to support Free Arts' mission and purpose and may be amended from time to time as the Board of Directors deems appropriate.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 7 - ENDOWMENTS - CONTINUED

Activity of the endowment fund for the year ended September 30, 2023, is as follows:

	Net Assets Without Donor <u>Restrictions</u>
Endowment net assets, beginning of year	\$ 405,139
Contributions	120,000
Net realized and unrealized gains	76,876
Investment expenses	<u>(3,760)</u>
Endowment net assets, end of year	<u><u>\$ 598,255</u></u>

Activity of the endowment fund for the year ended September 30, 2022, is as follows:

	Net Assets Without Donor <u>Restrictions</u>
Endowment net assets, beginning of year	\$ 141,123
Contributions	300,041
Net realized and unrealized losses	<u>(36,025)</u>
Endowment net assets, end of year	<u><u>\$ 405,139</u></u>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2023

(with comparative financial information as of and for the year ended September 30, 2022)

NOTE 8 - IN-KIND CONTRIBUTIONS AND EXPENSES

In-kind support for Free Arts' included the following for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Art supplies	\$ 24,160	\$ 21,961
Equipment		2,810
Services	20,144	5,403
Space rental	21,356	
Tickets	10,467	5,905
Other	<u>16,409</u>	<u>90</u>
Total reported in-kind contributions and expenses	<u>\$ 92,536</u>	<u>\$ 36,169</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>2023</u>	<u>2022</u>
Unskilled services provided to Free Arts programs	\$ 160,231	\$ 53,713
Other	<u>4,761</u>	<u>16,463</u>
Total unreported donated assets and services	<u>\$ 164,992</u>	<u>\$ 70,176</u>

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, 2023 and 2022, Free Arts received cash and in-kind donations from related parties totaling \$16,803 and \$3,713, respectively.

NOTE 10 - SUBSEQUENT EVENTS

Free Arts has evaluated subsequent events through January 25, 2024, 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, 2023 that would require adjustment to the financial statements.