

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
AND SUBSIDIARY

Consolidated Financial Statements and
Independent Auditors' Report

September 30, 2024
(With comparative totals for 2023)

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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, 2024, 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, 2024, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Free Arts' ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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), the consolidating statement of financial position (on page 19), and the consolidating schedule of revenue, expenses, and changes in net assets (on page 20) are 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 consolidated financial statements. The management's discussion and analysis 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. The consolidating statement of financial position and the consolidating schedule of revenue, expenses, and changes in net assets have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of financial position and the consolidating schedule of revenue, expenses, and changes in net assets are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Free Art's 2023 consolidated financial statements, and our report dated January 25, 2024, 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, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Fester & Chapman, PLLC

February 27, 2025



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 2024. 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 31 years, Free Arts has proudly transformed the lives of more than 172,000 children in Arizona. From an initial volunteer base of 5 individuals serving 50 children, Free Arts now employs 18 staff members, over 500 volunteers and serves approximately 7,000 children each year. Free Arts partners with 40+ social service agencies at more than 120 locations and 30 arts and culture organizations in 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 with the intention of meeting 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.

After two years of planned, board-approved deficit spending, Free Arts board members and staff took a deeper look at ensuring organizational sustainability and aligned its expense structure to match a three-year average of donations received. Focusing on this as a measure of success creates stability in our programs and safeguards the viability of the organization. Free Arts continues to foster a community of healing-centered and inclusive practices. These commitments place the well-being of participants, staff, and volunteers as a key value of the organization's operations.

Organizational Results

Transforming Children's Trauma to Resilience

In Fiscal Year 2024, Free Arts programs served 6,809 participants. While the majority of these children reside in Maricopa County, ongoing expansion enabled children in other parts of the state to participate in Free Arts programs for the first time. By the end of the year, Free Arts had trained its first small group of potential volunteers and professional artists who reside outside of Maricopa County.

Also, in 2024, Free Arts staff and board reviewed its strategic vision and emphasized expansion to underserved areas of Maricopa County. Program staff spent considerable time developing new components of the volunteer training design. The new design incorporated learning areas emphasizing the impact of social and historical adversities on the population Free Arts serves. It also introduced a conversation about the vital conditions necessary for children, families, and communities to flourish. Staff also expanded Free Art's role in thought leadership by providing 13 external teaching and training opportunities to other child well-being agencies. Through our podcast, we shared valuable resources with the public about the transforming power of the arts and mentoring relationships. These additional resources and offerings are aimed at 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 2024 programming:

- 89% of children reported meaningful relationships/interactions with adults
- 88% of children felt they had the opportunity to do something they thought they couldn't do
- 89% of children shared they felt a sense of belonging
- 85% of children felt they had an opportunity to lead their peers
- 83% 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 stable financial position. 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. Now after two years of strategically oriented investment into programs through board-approved deficit spending, Free Arts is budgeting within its annual fundraising totals.

To support our future, Free Arts continues its investment program to take full advantage of windfalls and times we hold higher-than-usual cash reserves. Free Arts has approximately \$1.3 million in investments, and half a million remaining in cash reserves (liquidity separate from investments), which represents 2.5 months of operating cash. Our goal is to have 3-6 months of reserves/liquidity to provide stable cash flow throughout the year. During 2024, Free Arts opened a line of credit, pledged against assets, as a means to provide liquidity between fundraising opportunities. We believe our financial situation reflects an organization that is responding wisely to changing economic and philanthropic conditions, is managing risk appropriately, and is poised to provide services for its current level of programming.

Our Impact

Our impact is often best expressed by the experiences of mentors who provided the following responses as part of their open-ended response on the Free Arts program evaluation:

"As trust was built children who were withdrawn began to voice their needs and communicate their feelings."
-Volunteer Mentor

"(Participants) learned paper crafts, painting, chalk. New skills like speaking out when you feel uncomfortable and establishing boundaries. Reflecting on their own talents/skills"
-Volunteer Mentor

"Children in this program have truly learned how to set boundaries for themselves. It was a lesson the volunteers taught one week and they have been practicing that skill since the lesson."
-Volunteer Mentor

Because of our caring community, dedicated volunteers, talented teaching artists, creative staff members, supportive board of directors, and committed donors, 2024 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



Matt Sandoval

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

Consolidated Statement of Financial Position

September 30, 2024

(with comparative financial information as of September 30, 2023)

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 542,324	\$ 681,077
Contributions receivable	39,896	195,295
Prepaid expenses	37,798	96,509
Inventory	12,272	7,150
Investments	1,311,875	1,558,199
Property and equipment, net	<u>3,441,470</u>	<u>3,568,988</u>
Total assets	<u><u>\$ 5,385,635</u></u>	<u><u>\$ 6,107,218</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 63,891	\$ 32,255
Accrued payroll and related	70,849	102,296
Deferred revenue	<u>8,302</u>	<u>8,302</u>
Total liabilities	134,740	142,853
Net assets:		
Without donor restrictions:		
Undesignated	4,470,817	5,238,348
Board-designated	<u>746,657</u>	<u>598,255</u>
Total net assets without donor restrictions	5,217,474	5,836,603
With donor restrictions	<u>33,421</u>	<u>127,762</u>
Total net assets	<u><u>5,250,895</u></u>	<u><u>5,964,365</u></u>
Total liabilities and net assets	<u><u>\$ 5,385,635</u></u>	<u><u>\$ 6,107,218</u></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, 2024

(with comparative financial information for the year ended September 30, 2023)

			Totals	
	Without Donor Restrictions	With Donor Restrictions	2024	2023
Public support, revenue, and gains:				
Contributions	\$ 1,571,661	\$ 33,422	\$ 1,605,083	\$ 1,900,042
Government grants	137,703		137,703	201,493
Special event revenue, net of direct expenses of \$146,872 and \$40,876, respectively	58,584		58,584	44,871
Rental income	35,131		35,131	31,800
In-kind contributions	144,584		144,584	92,536
Net investment gain	247,676		247,676	146,827
Interest and other income	13,867		13,867	14,895
Net assets released from restriction	<u>127,763</u>	<u>(127,763)</u>		
Total public support, revenue, and gains	2,336,969	(94,341)	2,242,628	2,432,464
Expenses:				
Program services - arts and mentoring	2,294,973		2,294,973	2,405,890
Management and general	305,852		305,852	309,737
Fundraising	<u>355,273</u>		<u>355,273</u>	<u>390,379</u>
Total expenses	<u>2,956,098</u>		<u>2,956,098</u>	<u>3,106,006</u>
Change in net assets	(619,129)	(94,341)	(713,470)	(673,542)
Net assets, beginning of year	<u>5,836,603</u>	<u>127,762</u>	<u>5,964,365</u>	<u>6,637,907</u>
Net assets, end of year	<u>\$ 5,217,474</u>	<u>\$ 33,421</u>	<u>\$ 5,250,895</u>	<u>\$ 5,964,365</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, 2024

(with comparative financial information for the year ended September 30, 2023)

	Program Services	Supporting Services		Totals	
	Arts and Mentoring	Management and General	Fundraising	2024	2023
Staff salaries	\$ 1,070,692	\$ 233,138	\$ 171,049	\$ 1,474,879	\$ 1,529,867
Payroll taxes and fees	87,670	18,036	17,881	123,587	127,764
Employee benefits	126,164	25,390	25,850	177,404	161,776
Contract and intern employees	237,716	6,820	20,785	265,321	301,774
Other professional fees	72,882	3,133	2,351	78,366	25,335
Professional artists' fees	97,574			97,574	85,445
Art and office supplies	31,276	193	155	31,624	97,167
Printing and postage	12,320	325	2,064	14,709	27,330
Operating costs	200,595	5,297	33,607	239,499	382,967
Professional development	12,387	543	1,972	14,902	11,108
Insurance	17,206	741	556	18,503	14,687
Equipment and maintenance		2,207		2,207	1,781
Marketing and promotion	23,340		71,664	95,004	69,722
Travel	18,253	312		18,565	10,880
Telephone	17,143	737	553	18,433	18,261
In-kind	138,683	3,343	2,558	144,584	92,536
Depreciation and amortization	131,072	5,637	4,228	140,937	147,606
Total expenses	<u>\$ 2,294,973</u>	<u>\$ 305,852</u>	<u>\$ 355,273</u>	<u>\$ 2,956,098</u>	<u>\$ 3,106,006</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

Year Ended September 30, 2024

(with comparative financial information for the year ended September 30, 2023)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ (713,470)	\$ (673,542)
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities:		
Depreciation	140,937	147,606
Unrealized gains on investments	(142,606)	(121,845)
Changes in:		
Contributions receivable	155,399	82,830
Prepaid expenses	58,711	(57,307)
Inventory	(5,122)	(7,150)
Accounts payable	31,636	26,135
Accrued payroll and related	(31,447)	11,966
Deferred revenue	<u>(8,302)</u>	<u>8,302</u>
Net cash and cash equivalents used by operating activities	(514,264)	(583,005)
Cash flows from investing activities:		
Proceeds from sales of investments	500,000	112,225
Purchases of investments	(111,070)	(257,318)
Purchases of property and equipment	<u>(13,419)</u>	<u> </u>
Net cash and cash equivalents provided (used) by investing activities	<u>375,511</u>	<u>(145,093)</u>
Net decrease in cash and cash equivalents	(138,753)	(728,098)
Cash and cash equivalents, beginning of year	<u>681,077</u>	<u>1,409,175</u>
Cash and cash equivalents, end of year	<u>\$ 542,324</u>	<u>\$ 681,077</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, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

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, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

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 \$316,304 and \$231,744 in money market funds at September 30, 2024 and 2023, 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, 2024. 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, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

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 2023 financial statements in order to conform to the 2024 presentation.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

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>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 542,324	\$ 681,077
Contributions receivable, net	39,896	195,295
Investments	<u>1,311,875</u>	<u>1,558,199</u>
Total financial assets included in total assets	1,894,095	2,434,571
Less amounts unavailable for general expenditure within one year:		
Board-designated net assets	(746,657)	(598,255)
Net assets with donor restrictions	<u>(33,421)</u>	<u>(127,762)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,114,017</u>	<u>\$ 1,708,554</u>

In addition to financial assets available to meet general expenditures over the year, Free Arts generally operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants, and other revenues. During the fiscal years ended September 30, 2024 and 2023, the Board of Directors approved operating deficits in order to utilize cash reserves for program purposes. Free Arts also has lines of credit available for unanticipated cash shortfalls. See note 7.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Free Arts's contributions receivable totaling \$39,896 and \$195,295, were considered to be fully collectible and due within one year as of September 30, 2024 and 2023, respectfully.

At September 30, 2024, 81% of Free Arts' contributions receivable was due from two contributors and at September 30, 2023, 48% was due from three contributors.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

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, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 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, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT - CONTINUED

Investments are summarized as follows at September 30, 2024 and 2023:

	<u>2024</u>		<u>2023</u>	
	<u>Level 1</u>	<u>Total</u>	<u>Level 1</u>	<u>Total</u>
Cash equivalents		\$ 150,778		\$ 26,853
Fixed income securities	\$ 426,890	426,890	\$ 463,855	463,855
Equity fund securities	28,453	28,453	65,558	65,558
Exchange-traded funds	<u>705,754</u>	<u>705,754</u>	<u>1,001,933</u>	<u>1,001,933</u>
Totals	<u>\$ 1,161,097</u>	<u>\$ 1,311,875</u>	<u>\$ 1,531,346</u>	<u>\$ 1,558,199</u>

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30:

	<u>2024</u>	<u>2023</u>
Land	\$ 167,500	\$ 167,500
Building	3,987,823	3,987,823
Furniture, fixtures, and equipment	<u>135,624</u>	<u>122,205</u>
	4,290,947	4,277,528
Less accumulated depreciation	<u>(849,477)</u>	<u>(708,540)</u>
Total property and equipment, net	<u>\$ 3,441,470</u>	<u>\$ 3,568,988</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended September 30, 2024, consisted of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Releases</u>	<u>Ending Balance</u>
Young Adult Empowerment Program	\$ 10,000		\$ (10,000)	
Other time restrictions	<u>117,762</u>	<u>\$ 33,422</u>	<u>(117,763)</u>	<u>\$ 33,421</u>
	<u>\$ 127,762</u>	<u>\$ 33,422</u>	<u>\$ (127,763)</u>	<u>\$ 33,421</u>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

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

	Beginning Balance	Increases	Releases	Ending Balance
Board Renovation Campaign (purpose and time restricted)	\$ 5,433		\$ (5,433)	
Young Adult Empowerment Camp	154	\$ 10,000 20,000	(20,154)	\$ 10,000
Foster and Kinship Family	125,000		(125,000)	
Other time restrictions	151,899	253,756	(287,893)	117,762
	<u>\$ 282,486</u>	<u>\$ 303,756</u>	<u>\$ (458,480)</u>	<u>\$ 127,762</u>

NOTE 7 - LINES OF CREDIT

Free Arts has a \$100,000 revolving line of credit that bears interest at 7.0% with a financial institution that matures in December 2025. In October 2024, Free Arts opened a \$600,000 revolving line of credit with interest at 8.0% maturing October 2026. There was no balance due on the lines of credit at September 30, 2024 and 2023.

NOTE 8 - 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, 2024 and 2023. 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, 2024 and 2023, respectively.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

NOTE 8 - ENDOWMENTS - CONTINUED

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.

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, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

NOTE 8 - ENDOWMENTS - CONTINUED

Activity of the endowment fund for the year ended September 30, 2024, is as follows:

	Net Assets Without Donor <u>Restrictions</u>
Endowment net assets, beginning of year	\$ 598,255
Contributions	1,000
Net realized and unrealized gains	152,388
Investment expenses	<u>(4,986)</u>
Endowment net assets, end of year	<u><u>\$ 746,657</u></u>

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>

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(with comparative financial information as of and for the year ended September 30, 2023)

NOTE 9 - IN-KIND CONTRIBUTIONS AND EXPENSES

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

	<u>2024</u>	<u>2023</u>
Art supplies	\$ 28,069	\$ 24,160
Services	8,409	20,144
Space rental	36,795	21,356
Tickets	29,879	10,467
Other	<u>41,432</u>	<u>16,409</u>
Total	<u>\$ 144,584</u>	<u>\$ 92,536</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>2024</u>	<u>2023</u>
Unskilled services provided to Free Arts programs	\$ 234,592	\$ 160,231
Other	<u>15,297</u>	<u>4,761</u>
Total unreported donated assets and services	<u>\$ 249,889</u>	<u>\$ 164,992</u>

NOTE 10 - 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, 2024 and 2023, Free Arts received cash and in-kind donations from related parties totaling \$32,219 and \$16,803, respectively.

NOTE 11 - SUBSEQUENT EVENTS

Free Arts has evaluated subsequent events through February 27, 2025, 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, 2024 that would require adjustment to the financial statements.

SUPPLEMENTARY INFORMATION

Free Arts for Abused Children of Arizona and Subsidiary
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
Year-ended September 30, 2024

	<u>Free Arts</u>	<u>Building Hope</u>	<u>Eliminations</u>	<u>2024</u>
ASSETS				
Cash and cash equivalents	\$ 203,265	\$ 339,059		\$ 542,324
Due from related party		97,907	\$ (97,907)	
Contributions receivable	39,896			39,896
Prepaid expenses	37,798			37,798
Inventory	12,272			12,272
Investments	1,311,875			1,311,875
Property and equipment, net		<u>3,441,470</u>		<u>3,441,470</u>
Total assets	<u>\$ 1,605,106</u>	<u>\$ 3,878,436</u>	<u>\$ (97,907)</u>	<u>\$ 5,385,635</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 56,039	\$ 7,852		\$ 63,891
Accrued payroll and related	70,849			70,849
Deferred revenue				
Due to related party	<u>97,907</u>		<u>\$ (97,907)</u>	
Total liabilities	<u>224,795</u>	<u>7,852</u>	<u>(97,907)</u>	<u>134,740</u>
Net assets:				
Without donor restrictions:				
Undesignated	600,233	3,870,584		4,470,817
Board-designated	<u>746,657</u>			<u>746,657</u>
Total net assets without donor restrictions	<u>1,346,890</u>	<u>3,870,584</u>		<u>5,217,474</u>
With donor restrictions	<u>33,421</u>			<u>33,421</u>
Total net assets	<u>1,380,311</u>	<u>3,870,584</u>		<u>5,250,895</u>
Total liabilities and net assets	<u>\$ 1,605,106</u>	<u>\$ 3,878,436</u>	<u>\$ (97,907)</u>	<u>\$ 5,385,635</u>

See the independent auditors' report accompanying this schedule.

Free Arts for Abused Children of Arizona and Subsidiary
CONSOLIDATING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
September 30, 2024

(with comparative information for the year ended September 30, 2023)

	<u>Free Arts</u>	<u>Building Hope</u>	<u>Eliminations</u>	<u>2024</u>
Revenue, support, and gains:				
Contributions	\$ 1,605,083			\$ 1,605,083
Government grants	137,703			137,703
Special event revenue, net	58,584			58,584
Rental income		\$ 149,903	\$ (114,772)	35,131
In-kind contributions	151,570		(6,986)	144,584
Net investment gain	247,676			247,676
Interest income and other revenue	<u>4,128</u>	<u>16,725</u>	<u>(6,986)</u>	<u>13,867</u>
Total revenue, support and gains	2,204,744	166,628	(128,744)	2,242,628
Expenses:				
Staff salaries	1,474,879			1,474,879
Payroll taxes and fees	123,587			123,587
Employee benefits	177,404			177,404
Contract and intern employees	265,321			265,321
Other professional fees	78,366			78,366
Professional artists' fees	97,574			97,574
Art and office supplies	31,624			31,624
Printing and postage	14,709			14,709
Operating costs	155,353	84,147		239,500
Professional development	14,901			14,901
Insurance	13,793	4,710		18,503
Equipment and maintenance	2,207			2,207
Marketing and promotion	95,004			95,004
Travel	18,565			18,565
Telephone	9,004	9,429		18,433
Rent	114,772		(114,772)	
In-kind	151,570		(6,986)	144,584
Interest	6,986		(6,986)	
Depreciation and amortization		<u>140,937</u>		<u>140,937</u>
Total expenses	<u>2,845,619</u>	<u>239,223</u>	<u>(128,744)</u>	<u>2,956,098</u>
Change in net assets	(640,875)	(72,595)		(713,470)
Net assets, beginning of year	<u>2,021,186</u>	<u>3,943,179</u>		<u>5,964,365</u>
Net assets, end of year	<u>\$ 1,380,311</u>	<u>\$ 3,870,584</u>	<u>\$</u>	<u>\$ 5,250,895</u>

See the independent auditors' report accompanying this schedule.