

FREE ARTS FOR ABUSED CHILDREN
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2020

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR
ENDED DECEMBER 31, 2019)

Free Arts for Abused Children
INDEX TO FINANCIAL STATEMENTS

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Board of Directors
Free Arts for Abused Children
Los Angeles, California

We have audited the accompanying financial statements of Free Arts for Abused Children (a California nonprofit corporation) which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Free Arts for Abused Children (a nonprofit corporation) as of December 31, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Johnson & Associates

September 13, 2021
Torrance, California

Certified Public Accountants

FREE ARTS FOR ABUSED CHILDREN
(A California Non-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 245,771	\$ 185,486
Contributions receivable	50,000	2,224
Prepaid expenses	<u>2,287</u>	<u>4,775</u>
Total current assets	298,058	192,485
Property and equipment, net accumulated depreciation	7,377	-
Other assets:		
Deposits	<u>5,100</u>	<u>5,100</u>
Total other assets	<u>5,100</u>	<u>5,100</u>
Total assets	<u><u>\$ 310,535</u></u>	<u><u>\$ 197,585</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 7,376	\$ 27,661
Accrued expenses	<u>7,013</u>	<u>7,013</u>
Total current liabilities	14,389	34,674
Net assets:		
Without Donor Restrictions		
Undesignated	241,396	129,911
With Donor Restrictions		
Purpose restrictions	<u>54,750</u>	<u>33,000</u>
Total net assets	<u>296,146</u>	<u>162,911</u>
Total liabilities and net assets	<u><u>\$ 310,535</u></u>	<u><u>\$ 197,585</u></u>

See accompanying notes.

FREE ARTS FOR ABUSED CHILDREN
(A California Non-Profit Corporation)
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Totals	2019 Totals
<u>SUPPORT AND REVENUE</u>				
Support:				
Grants and contributions	\$ 96,220	\$ 54,750	\$ 150,970	\$ 138,698
Private foundation	39,000	-	39,000	122,616
Corporate donations	98,858	-	98,858	78,416
Combined charitable campaigns	53,278	-	53,278	12,730
Fundraising events	755	-	755	30,721
Individual gifts	110,091	-	110,091	134,326
In-kind contributions	290,075	-	290,075	301,025
Revenue:				
Interest income	346	-	346	-
Miscellaneous	38,690	-	38,690	-
Net assets released from restriction	33,000	(33,000)	-	-
Total support and revenue	760,313	21,750	782,063	818,532
<u>EXPENSES</u>				
Program services	506,980	-	506,980	679,313
General and administrative	87,742	-	87,742	55,557
Fundraising	54,106	-	54,106	53,700
Total expenses	648,828	-	648,828	788,570
Change in net assets	111,485	21,750	133,235	29,962
Net assets, beginning of year	129,911	33,000	162,911	132,949
Net assets, end of year	\$ 241,396	\$ 54,750	\$ 296,146	\$ 162,911

See accompanying notes.

FREE ARTS FOR ABUSED CHILDREN
(A California Non-Profit Corporation)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 133,235	\$ 29,962
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	671	190
(Increase) decrease in:		
Other receivable	(47,776)	39,135
Prepaid expenses	2,488	3,977
Deposits	-	5,315
Increase (decrease) in:		
Accounts payable and accrued expenses	(20,285)	3,676
Contract advances	-	(17,383)
Net cash provided by operating activities	<u>68,333</u>	<u>64,872</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	<u>(8,048)</u>	<u>(190)</u>
Net cash used in investing activities	<u>(8,048)</u>	<u>(190)</u>
NET INCREASE IN CASH	60,285	64,682
Cash and cash equivalents, beginning of the year	<u>185,486</u>	<u>120,804</u>
Cash and cash equivalents, end of the year	<u>\$ 245,771</u>	<u>\$ 185,486</u>

See accompanying notes.

FREE ARTS FOR ABUSED CHILDREN
(A California Non-Profit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2020 Total</u>	<u>2019 Total</u>
Salaries and other related expenses					
Salaries	\$ 143,960	\$ 12,028	\$ 31,950	\$ 187,939	\$ 187,931
Payroll taxes	12,584	1,051	2,793	16,429	17,039
Employee benefits	9,391	785	2,084	12,261	16,155
Total salaries and other related expenses	<u>165,935</u>	<u>13,864</u>	<u>36,827</u>	<u>216,629</u>	<u>221,125</u>
Other expenses					
Advertising and marketing	-	-	6,568	6,568	-
Audit and accounting	-	14,284	177	14,461	20,329
Auto expenses and employee mileage	1,204	1,901	-	3,105	3,172
Bank service charges	-	247	-	247	143
Computer expense	-	1,949	-	1,949	929
Contributed services	290,075	-	-	290,075	301,025
Court house program	8,159	-	-	8,159	46,760
Dues and subscriptions	-	5,447	-	5,447	3,416
Event expenses	-	-	4,390	4,390	-
Food and beverage	108	-	85	193	-
Free arts program	-	-	-	-	13,883
Fund development	-	-	-	-	4,763
Insurance expense	-	10,162	-	10,162	11,016
Janitorial	-	-	-	-	215
Legal fees	-	5,739	-	5,739	-
Office expenses	-	7,016	-	7,016	8,099
Office maintenance	-	-	-	-	230
Office supplies	-	677	-	677	704
Outside services	37,274	-	6,058	43,332	-
Postage and shipping	-	1,036	-	1,036	110
Printing and recruitment	-	-	-	-	1,355
Professional fees	-	-	-	-	28,700
Program expenses-other costs	-	-	-	-	39,328
Rent	-	21,584	-	21,584	25,467
Staff training	-	-	-	-	4,398
Supplies	4,072	-	-	4,072	-
Taxes and licenses	-	90	-	90	105
Telephone	80	3,074	-	3,154	3,185
Third party event	-	-	-	-	23,021
Volunteer development	72	-	-	72	19,067
Volunteer training and recognition	-	-	-	-	7,025
Miscellaneous expenses	-	-	-	-	1,000
Total other expenses	<u>341,044</u>	<u>73,206</u>	<u>17,278</u>	<u>431,528</u>	<u>567,445</u>
Total expenses before depreciation	506,979	87,070	54,105	648,157	788,570
Depreciation	-	671	-	671	-
Total expenses	<u>\$ 506,980</u>	<u>\$ 87,742</u>	<u>\$ 54,106</u>	<u>\$ 648,828</u>	<u>\$ 788,570</u>

See accompanying notes.

FREE ARTS FOR ABUSED CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2018

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Free Arts for Abused Children (the Organization) is a nonprofit organization providing creative arts programming to inspire hope in the lives of children who have experienced abuse, neglect, poverty and homelessness through innovative creative arts programs and positive interactions with caring adult volunteers throughout Los Angeles County. For nearly 35 years, Free Arts for Abused Children has been delivering on the philosophy that “ART HEALS!” This is what drives the organization, a network of passionate and concerned individuals coming together to share the healing power of art. Free Arts for Abused Children is proud to play a part in the healing process by providing children with caring adult volunteers who model positive methods of communication while children have the opportunity to channel their emotions through expressive art forms like dance, drama, painting and writing. Free Arts for Abused Children envisions a society of individuals from different communities, cultures, and life experiences connecting through the healing power of art to interrupt the cycle of violence, create understanding, build self-esteem, and nurture better lives.

2. Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the American Institute of Certified Public Accountants’ Audit and Accounting Guide, “Not-For-Profit Organizations,” which requires the Organization to classify its net assets into two categories according to donor-imposed restrictions or provisions of law: Net assets without donor imposed restrictions, and net assets with donor imposed restrictions.

3. Significant Accounting Policies

a. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less from the date purchased to be cash equivalents.

b. Concentration of Credit Risk

The Organization maintains its bank accounts with a commercial bank. The balances in these bank accounts may from time to time exceed the federally insured limit should the bank become insolvent. They have not experienced, nor do they anticipate, any losses with respect to this account.

c. Net Assets

Revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

FREE ARTS FOR ABUSED CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020 AND 2019

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

3. Significant Accounting Policies (Continued)

c. Net Assets (continued)

Without Donor Restrictions – Net assets without donor restrictions represent the portion of expendable net assets that are neither purpose restricted or have donor-imposed restrictions. These net assets are used to carry on the operations of the Organization in accordance with its bylaws.

With Donor Restrictions – The part of the net assets of the Organization resulting from (a) Time Restrictions- contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that expire by passage of time (b) Purpose Restrictions- reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, or their fulfillment and removal by actions of the Organization pursuant to those stipulations. There was \$54,750 in Purpose Restrictions at December 31, 2020 and \$33,000 Purpose Restricted assets in 2019.

d. Contributions Receivable

Contributions receivable generally consist primarily of amounts due from private foundations at December 31, 2020 and 2019. These donations are for a specific purpose and program sponsored by the Organization. The carrying amount of grants and other receivables is reduced by a valuation allowance, if any, that reflects management's best estimate of the amounts that will not be collected. Management periodically reviews all receivable balances and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management considers an allowance for doubtful accounts to be unnecessary at December 31, 2020 and 2019, based on the Organization's past bad debt history and the collectability of the current year's receivables.

e. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 7 years.

Depreciation expenses totaled \$671 and \$- for the years ended December 31, 2020, and 2019.

Expenditures for repairs and maintenance are charged directly to the appropriate operating account at the time the expense is incurred. Expenditures determined to represent additions and betterments are capitalized and depreciated.

FREE ARTS FOR ABUSED CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020 AND 2019

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

f. Affiliates/Expansion

Free Arts for Abused Children grants other independent 501(c)(3) nonprofit organizations a license to use their name and logo. Each independent affiliate creates programs in their own communities consistent with the mission statement of Free Arts for Abused Children. Currently, there are affiliates in Arizona, Minnesota and New York.

g. Revenue Recognition

The Organization records revenue when it is realized, or realizable and earned. The Organization considers revenue to be realized, or realizable and earned, when the following revenue recognition requirements are met: persuasive evidence of an arrangement exists, which is typically a contract; the performance of services; the price is fixed or determinable within the contract; and collectability is reasonably assured.

Revenue from contributions are typically recognized when received and are considered to be unrestricted unless specifically restricted by the donor. Pledged contributions are recognized at fair value as of the date of the pledge.

h. Donated Services

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2020, the Organization received 14,577 hours of volunteer time devoted to direct program delivery, and management estimated the value as \$290,075. During 2019, the Organization received an estimated 15,127 hours of volunteer time devoted to direct program delivery, and management estimated the value as \$301,025.

i. Income Taxes

The Organization follows the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), Accounting for Uncertainty in Income Taxes, which prescribes a minimum recognition threshold and measurement methodology for tax positions taken, or expected to be taken, in a tax return prior to recognition in the financial statements. The standard also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Organization is exempt from tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for the position taken on its tax return and that the exempt status would be sustained on examination.

The Organization classifies interest and penalties on underpayments of income taxes, if any, as interest expense and penalties, respectively, on the statements of activities.

FREE ARTS FOR ABUSED CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020 AND 2019

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

i. Income Taxes (Continued)

The Organization files tax return in the United States federal and California state jurisdictions. The Organization is no longer subject to tax examinations for California before 2010 or for United States federal purposes before 2011.

j. Functional Expense Allocations

The Organization allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using various appropriate methods.

k. Comparative Information

The financial statements include certain summarized comparative information from the prior year. This information is presented in total and not by net asset class and does not include sufficient detail to be in conformity with generally accepted accounting principles. Such information should be read together with the Organization’s financial statement for the prior year, from which the summarized information was extracted.

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Reclassifications

Certain amounts in the 2019 financial statement have been reclassified for comparative purposes to conform to the 2020 presentation.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment, net of the accumulated depreciation consists of the following:

	<u>2020</u>	<u>2019</u>
Computer equipment	\$ 22,146	\$ 14,098
Furniture and fixtures	6,996	6,996
Office equipment	3,488	3,488
Software	10,797	10,797
	<u>43,427</u>	<u>35,379</u>
Less: accumulated depreciation	(36,050)	(35,379)
	<u>\$ 7,377</u>	<u>\$ -</u>

FREE ARTS FOR ABUSED CHILDREN
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2020 AND 2019

NOTE C – LIQUIDITY AND AVAILABILITY

At December 31, 2020, the Project had \$245,771 cash and equivalents and \$50,000 in contributions receivable available to meet needs for general expenditures. \$54,750 of the financial assets are subject to donor or other contractual restrictions. Accordingly, all such funds are available to meet the cash needs of the Project in the next 12 months.

Cash and equivalents	\$	245,771
Contributions receivable		<u>50,000</u>
Total liquid assets	\$	<u>305,790</u>

NOTE D – NET ASSETS WITH DONOR RESTRICTIONS

The purpose restrictions on funds at December 31, 2020 and 2019 are donor imposed, requiring that the funds are to be used to cover expenses under specific programs.

Net assets with donor restrictions consist of:

	2020	2019
Courthouse program	\$ 54,750	\$ 33,000
	\$ 54,750	\$ 33,000

NOTE E – LEASE COMMITMENT

On September 13, 2018 the Organization entered into a new three year lease with AMB Partners II, LP., the successor to AMB Partners II LAX, LLC. The new lease took effect on December 1, 2018 and runs through November 30, 2021.

Rent expenses totaled \$21,584 and \$25,467 for the years ended December 31, 2020 and 2019, respectively.

The following is a schedule by year of future minimum rents under the lease at December 31, 2020:

Years ending December 31, 2021	\$19,766
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NOTE F – COVID-19 PANDEMIC

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value and volatility resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization’s clients,

FREE ARTS FOR ABUSED CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020 AND 2019

NOTE F – COVID-19 PANDEMIC (CONTINUED)

employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization’s financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

NOTE G – PAYCHECK PROTECTION PROGRAM LOAN

The Paycheck Protection Program (PPP) was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) to provide loans to qualifying businesses in amounts up to 2.5 times the organization’s average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities.

On April 28, 2020, the Organization was granted a \$38,690 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Organization was eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization applied for and received loan forgiveness on October 13, 2020. The Organization initially recorded the loan as a loan payable and upon forgiveness, in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived, reclassified the loan to miscellaneous income.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Organization is subject to various claims and legal proceeding that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance after the Organization’s insurance deductible is met or accruals and, if not covered, are without merit or are of such kind or involve such amounts that would not have a significant effect on the Organization’s financial statements.

NOTE I – SUBSEQUENT EVENTS

The Organization was granted a second PPP loan in January 2021 in the amount of \$38,690 with the same terms as the first PPP loan. (See Note G) The Organization applied for and received forgiveness of the loan in June 2021.

The Organization evaluated subsequent events after the statement of financial position date of December 31, 2020 through September 13, 2021, which was the date the financial statements were issued, and concluded that no additional disclosures are required.