

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
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YEARS ENDED DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Free Arts for Abused Children of Arizona
dba: Free Arts of Arizona
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Free Arts for Abused Children of Arizona dba: Free Arts of Arizona, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 audit opinion.

Board of Directors
Free Arts for Abused Children of Arizona
dba: Free Arts of Arizona

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 of Arizona as of December 31, 2016 and 2015, and 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.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management discussion and analysis on pages 3 to 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
June 27, 2017

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

Who is Free Arts?

Over the past twenty-four years, Free Arts for Abused Children of Arizona (Free Arts) proudly served more than 100,000 Arizona children. Free Arts operates with 15 staff members and delivers programming that is a unique combination of arts, a trauma informed curriculum, and mentoring, to children who are living in foster care group homes, homeless and emergency shelters, and residential treatment centers.

Envisioning the Future

In December 2016, Free Arts moved our offices to a larger building with a prominent position on Camelback Road. It is our intent to purchase this building and develop a hope and healing center that will launch our organization towards our vision of being the premier resource for the healing effects of the arts in children. The child wellbeing community, and any community member who wants to make a positive impact, can come to the center to learn about efforts to use the arts in prevention, healing, and building hope. Artwork and stories throughout the center will foster deeper understanding of abused and homeless children. The center could explore and establish best practices of extraordinary care and programming for children who have experienced trauma. We can use the center to plan future prevention-based programming so that Arizona can have fewer and fewer children in foster care.

In the fall of 2016, Free Arts was one of eight nonprofit organizations selected to participate in the ATLAS Nonprofit Lifecycle capacity building initiative of the Virginia G. Piper Charitable Trust. After an in-depth self-assessment conducted by staff and board members with input from community partners and funders, Free Arts determined a clear path for expansion in three distinct areas:

1. Continue to serve the needs of the existing population (foster care group homes, shelters, treatment centers)
2. Expand services to kinship and foster families: children being raised by a family member, such as a grandparent (kinship families) or with guardians (foster families) have experienced trauma, yet they do not have access to Free Arts programs because they are not located in group homes
3. Expand services outside Maricopa County

Innovations at Free Arts

Free Arts programs continue to move toward the model and framework of Trauma Informed Care. Current research demonstrates that homelessness, abuse, neglect, and other Adverse Childhood Experiences (ACEs) lead to toxic stress in children during a time when their brains are at a crucial development point. In order to overcome toxic stress, children need to build resilience by participating in positive experiences in supportive environments.

In 2016, Free Arts enhanced our training to ensure our mentors are trained to listen actively, build rapport, encourage children during program participation, and create a safe, non-judgmental environment. This therapeutic approach provides an outlet for emotional expression, resulting in increased self-confidence, greater development of social/life skills and an increased ability to develop trusting relationships with adults. Ultimately, we use the arts to inspire children to make positive changes and instill a belief that they can overcome their pasts and plan for better futures.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

Free Arts Accomplishments

Over the course of participating in Free Arts programs:

- 87% of children felt an increased sense of safety which resulted in their engaging in the creative process and sharing artwork, thoughts, and feelings with the group
- 88% of children built skills including leadership, teamwork, and positive coping skills
- 90% of children demonstrated an increase in their ability to express themselves
- 97% of children demonstrated an increase in self-efficacy (the ability to believe you can accomplish a task)

"I've been in Free Arts for 2 years already. I've been in most of the camps. I'm glad for Free Arts for helping me be myself."

- Sara, Age 14, Foster Care Group Home

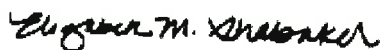
In 2016, Free Arts:

- *Recruited, trained, placed, and maintained more 900 volunteer mentors and professional artists in our core programs*
- *Provided consistent services at 43 partner social service agencies*
- *Served 8,230 abused and homeless children*
- *Provided 222 programs*
- *Accessed 15,607 hours of volunteer mentor service, which is valued at \$337,553*
- *Increased our number of partner agencies (homeless/domestic violence shelters, foster care group homes, treatment facilities) where we provide services from 35 to 43*

"I loved seeing the bond between the children in my group. They truly became a family during their performance. The kids were so proud of themselves."

- Krystal, Free Arts Camp Counselor

We are proud of how Free Arts serves Arizona's most vulnerable children. We hold true to our core values - Art Heals, Mentoring Works and Every Child Matters. We are committed to continuous improvement in providing outstanding services and investing in Arizona's future. And we are poised to make a significant impact on the lives of abused and homeless children in Arizona in 2017 and beyond.



Elizabeth M. Shabaker
President, Board of Directors



Alicia Sutton Campbell
Executive Director

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 923,446	\$ 966,313
Accounts Receivable	-	7,873
Grant Receivables	108,305	140,095
Prepaid Expense	24,094	18,560
Furniture and Equipment, Net	149,166	60,454
Deposit	5,464	6,900
	\$ 1,210,475	\$ 1,200,195
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 34,201	\$ 4,256
Accrued Vacation	13,505	7,262
Capital Lease Obligation	66,721	-
Deferred Rent	-	8,352
Total Liabilities	114,427	19,870
NET ASSETS		
Unrestricted:		
Undesignated	953,072	985,598
Board-Designated Operating Reserve	32,549	32,549
Total Unrestricted Net Assets	985,621	1,018,147
Temporarily Restricted	110,427	162,178
Total Net Assets	1,096,048	1,180,325
Total Liabilities and Net Assets	\$ 1,210,475	\$ 1,200,195

See accompanying Notes to Financial Statements.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Contributions:			
Foundations	\$ 102,968	\$ 20,000	\$ 122,968
Corporations	132,984	46,750	179,734
Individuals	466,149	1,000	467,149
United Way	35,338	98,859	134,197
Government Grants	80,300	24,661	104,961
In-Kind Contributions	142,927	-	142,927
Loss on Disposal of Property and Equipment	(35,673)	-	(35,673)
Other Revenues	3,012	-	3,012
Total	<u>928,005</u>	<u>191,270</u>	<u>1,119,275</u>
Special Events:			
Corporate Sponsorships	119,500	-	119,500
Ticket Sales and Auctions	91,345	-	91,345
Cost of Direct Benefits	(18,380)	-	(18,380)
Total	<u>192,465</u>	<u>-</u>	<u>192,465</u>
Net Assets Released from Restriction	<u>243,021</u>	<u>(243,021)</u>	<u>-</u>
Total Public Support and Revenue	1,363,491	(51,751)	1,311,740
EXPENSES			
Program Services	1,051,465	-	1,051,465
General and Administrative	178,346	-	178,346
Fundraising	166,206	-	166,206
Total Expenses	<u>1,396,017</u>	<u>-</u>	<u>1,396,017</u>
CHANGES IN NET ASSETS	(32,526)	(51,751)	(84,277)
Net Assets - Beginning of Year	<u>1,018,147</u>	<u>162,178</u>	<u>1,180,325</u>
NET ASSETS - END OF YEAR	<u>\$ 985,621</u>	<u>\$ 110,427</u>	<u>\$ 1,096,048</u>

See accompanying Notes to Financial Statements.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Contributions:			
Foundations	\$ 387,625	\$ -	\$ 387,625
Corporations	47,580	88,845	136,425
Individuals	321,905	-	321,905
United Way	33,224	107,500	140,724
Government Grants	109,503	7,873	117,376
In-Kind Contributions	165,535	-	165,535
Other Revenues	4,675	-	4,675
Total	1,070,047	204,218	1,274,265
Special Events:			
Corporate Sponsorships	93,000	-	93,000
Ticket Sales and Auctions	106,229	-	106,229
Cost of Direct Benefits	(10,280)	-	(10,280)
Total	188,949	-	188,949
Net Assets Released from Restriction	199,575	(199,575)	-
Total Public Support and Revenue	1,458,571	4,643	1,463,214
EXPENSES			
Program Services	1,021,795	-	1,021,795
General and Administrative	87,817	-	87,817
Fundraising	139,182	-	139,182
Total Expenses	1,248,794	-	1,248,794
CHANGES IN NET ASSETS	209,777	4,643	214,420
Net Assets - Beginning of Year	808,370	157,535	965,905
NET ASSETS - END OF YEAR	\$ 1,018,147	\$ 162,178	\$ 1,180,325

See accompanying Notes to Financial Statements.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016**

EXPENSES	Total Program Services	Supporting Services		Total Supporting Services	Total Functional Expenses
		General and Administrative	Fundraising		
Staff Salaries	\$ 441,199	\$ 110,704	\$ 82,259	\$ 192,963	\$ 634,162
Payroll Taxes and Fees	40,194	8,353	7,343	15,696	55,890
Employee Benefits	33,967	7,064	5,905	12,969	46,936
Contract and Intern Employees	37,767	7,906	20,417	28,323	66,090
Other Professional Fees	-	12,909	-	12,909	12,909
Professional Artists' Fees	59,890	-	320	320	60,210
Art and Office Supplies	33,118	307	220	527	33,645
Printing	12,171	464	891	1,355	13,526
Operating Costs	142,301	4,794	30,755	35,549	177,850
Postage	2,524	141	162	303	2,827
Professional Development	4,405	680	449	1,129	5,534
Rent	95,101	5,283	5,283	10,566	105,667
Directors and Officers Liability Insurance	5,054	281	281	562	5,616
Telephone	4,728	263	263	526	5,254
Equipment Rental and Maintenance	8,162	152	92	244	8,406
Marketing and Promotion	13,447	1,480	1,918	3,398	16,845
Travel	7,074	72	73	145	7,219
In-Kind Materials, Services, and Art Camp Facilities	98,768	16,848	27,311	44,159	142,927
Depreciation	11,595	645	644	1,289	12,884
Expenses Netted Against Revenue	-	-	(18,380)	(18,380)	(18,380)
Total Expenses	\$ 1,051,465	\$ 178,346	\$ 166,206	\$ 344,552	\$ 1,396,017

See accompanying Notes to Financial Statements.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015**

EXPENSES	Total Program Services	Supporting Services		Total Supporting Services	Total Functional Expenses
		General and Administrative	Fundraising		
Staff Salaries	\$ 420,923	\$ 48,821	\$ 59,922	\$ 108,743	\$ 529,666
Payroll Taxes and Fees	39,028	4,391	5,366	9,757	48,785
Employee Benefits	36,501	3,673	4,245	7,918	44,419
Contract and Intern Employees	60,433	7,958	7,328	15,286	75,719
Other Professional Fees	661	12,678	90	12,768	13,429
Professional Artists' Fees	56,928	-	-	-	56,928
Art and Office Supplies	30,354	407	535	942	31,296
Printing	14,176	626	1,046	1,672	15,848
Operating Costs	91,275	2,084	28,473	30,557	121,832
Postage	3,083	155	507	662	3,745
Professional Development	3,131	121	219	340	3,471
Rent	74,083	4,115	4,115	8,230	82,313
Directors and Officers Liability Insurance	4,858	270	270	540	5,398
Telephone	4,648	258	258	516	5,164
Equipment Rental and Maintenance	13,494	57	26	83	13,577
Marketing and Promotion	28,869	1,367	2,870	4,237	33,106
Travel	1,158	48	48	96	1,254
In-Kind Materials, Services, and Art Camp Facilities	126,413	133	33,489	33,622	160,035
Depreciation	11,779	655	655	1,310	13,089
Expenses Netted Against Revenue	-	-	(10,280)	(10,280)	(10,280)
Total Expenses	\$ 1,021,795	\$ 87,817	\$ 139,182	\$ 226,999	\$ 1,248,794

See accompanying Notes to Financial Statements.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (84,277)	\$ 214,420
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	12,884	13,089
Change in Allowance for Uncollectible Promises to Give	-	900
Loss on Disposal of Property and Equipment	35,673	-
Increase (Decrease) in Assets and Liabilities:		
Accounts Receivable	7,873	(7,873)
Grant Receivables	31,790	(66,765)
Prepaid Expense	(4,098)	21,281
Accounts Payable	19,834	2,481
Accrued Vacation	6,243	(3,407)
Deferred Rent	(8,352)	(9,636)
Net Cash Provided by Operating Activities	<u>17,570</u>	<u>164,490</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of Furniture and Equipment	<u>(60,437)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,867)	164,490
Cash and Cash Equivalents - Beginning of Year	<u>966,313</u>	<u>801,823</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 923,446</u>	<u>\$ 966,313</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Furniture and Equipment Purchased through a Capital Lease	<u>\$ 66,721</u>	<u>\$ -</u>
Furniture and Equipment Purchased in Accounts Payable	<u>\$ 10,111</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Free Arts for Abused Children of Arizona, dba: Free Arts of Arizona (the Organization) was incorporated under the laws of the state of Arizona on October 9, 1993. Free Arts of Arizona is a nonprofit organization that heals abused and homeless children through artistic expression. Creative volunteers, professional artists, and qualified staff use therapeutic arts to help children build self-esteem, improve social skills, develop trust with caring adults and learn to express emotions in a positive way. Art heals! In the year ended December 31, 2016, 8,230 children living in group homes, residential care facilities, and shelters were served through the following programs: Weekly Mentor Program, Multicultural Arts Camps, Free Arts Days, the Professional Artist Series, and various community activities. Significant support is provided by contributions from foundations and individuals. There were no revenue concentrations during the year ended December 31, 2016 and approximately 36% of the contributions were obtained from two contributors for the year ended December 31, 2015.

Net Assets

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

Unrestricted Net Assets - Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the board of directors for operating reserve.

Temporarily Restricted Net Assets - Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets whose use is limited by donor-imposed restrictions that neither expire but the passage of time nor can be fulfilled or otherwise removed but action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements. The Organization does not have any permanently restricted net assets at December 31, 2016 and 2015.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

Contributions are recognized when cash, securities, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for, nor restricted by, donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Organization are excluded from this definition. The Organization maintains cash balances at financial institutions, which may at times exceed federally insured amounts.

Promises to Give and Grants Receivable

Unconditional promises to give and grants receivable expected to be collected within one year are recorded at net realizable value. Unconditional promises to give and grants 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 discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectible promises to give and grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. The grants receivables are considered by management to be fully collectible and accordingly, an allowance for doubtful accounts was not provided at December 31, 2016 and 2015.

Donated Services and In-Kind Contribution

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation and consist primarily of donated art supplies and facility space, as well as donations for items auctioned off at fundraising events. The Organization records donated professional services at the respective fair values of the services received.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and Equipment

Furniture and equipment additions in excess of \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 5 years to 15 years. When assets are sold or otherwise disposed of, the costs and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of furniture and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2016 and 2015.

Income Taxes

Income taxes are not provided for in the financial statements, since the Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is subject to both federal and state income taxes on income generated from unrelated business income, if any, conducted through the Organization.

The Organization follows the accounting standard for uncertain tax positions. As of December 31, 2016 and 2015, the Organization recognized no liability for uncertain tax positions.

Advertising

The Organization uses advertising to promote their programs. The cost of advertising is expensed as incurred. Advertising costs totaled \$16,845 and \$33,106 for the years ended December 31, 2016 and 2015, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate of employee hours devoted to each function.

The Organization has allocated joint costs in the years ended December 31, 2016 and 2015 for program activities that are conducted with a fundraising appeal. For the years ended December 31, 2016 and 2015, joint costs of approximately \$40,648 and \$37,966, respectively, have been allocated among program and supporting services as follows: programs, \$20,624 and \$17,048, respectively, and fundraising, \$20,024 and \$20,918, respectively.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 and those differences could be material.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying 2015 financial statements to maintain consistency between periods presented. The reclassification had no impact on previously reported net assets for 2015.

Subsequent Events

The Organization has evaluated subsequent events through June 27, 2017, which is the date the financial statements were available to be issued.

NOTE 2 GRANTS RECEIVABLE

Grants receivable of \$108,305 and \$140,095 at December 31, 2016 and 2015, respectively, are due within one year.

NOTE 3 FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at December 31:

	2016	2015
Leasehold Improvements	\$ 70,548	\$ 145,923
Furniture and Fixtures	27,254	27,254
Computer Equipment	99,731	85,154
Art Collection	7,345	7,345
Total	<u>204,878</u>	<u>265,676</u>
Accumulated Depreciation	(55,712)	(205,222)
Total	<u>\$ 149,166</u>	<u>\$ 60,454</u>

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 IN-KIND SERVICES AND MATERIALS

The value of in-kind services contributed by volunteers but not recorded in the financial statements is as follows for the year ended December 31, 2016:

	Number of Volunteers	Number of Hours Donated	Value
Program	1,778	14,961	\$ 321,959
Administrative/Office	53	380	9,161
Fundraising	58	267	6,433
Total	<u>1,889</u>	<u>15,608</u>	<u>\$ 337,553</u>

The value of in-kind services contributed by volunteers but not recorded in the financial statements is as follows for the year ended December 31, 2015:

	Number of Volunteers	Number of Hours Donated	Value
Program	1,446	14,384	\$ 308,303
Administrative/Office	36	1,422	33,491
Fundraising	169	497	11,715
Total	<u>1,651</u>	<u>16,303</u>	<u>\$ 353,509</u>

The monetary value of volunteer hours reflected above is calculated at \$24.14 per hour and \$23.56 per hour for the years ended December 31, 2016 and 2015, respectively, as published in the 2016 Bureau of Labor Statistics data as published by Independent Sector in May 2017 and the annual Economic Report of the President (2012 Edition) as reported by Independent Sector, respectively.

FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
DBA: FREE ARTS OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 4 IN-KIND SERVICES AND MATERIALS (CONTINUED)

In addition, the Organization recognizes contribution revenue for supplies and other resources received at their fair value. Those donated goods and services have been reported as follows during the years ended at December 31, 2016 and 2015:

	Programs	Management and General	Fundraising	Total
<u>December 31, 2016</u>				
Art Supplies	\$ 34,694	\$ -	\$ -	\$ 34,694
Food	3,584	-	-	3,584
Tickets/Vouchers	15,668	-	-	15,668
Auction Items	-	-	25,277	25,277
Marketing	5,153	286	-	5,439
Office supplies	270	15	15	300
Travel	500	-	-	500
Printing	1,125	-	1,375	2,500
Rent	22,962	-	-	22,962
Instruments	3,220	-	-	3,220
Furniture	11,592	644	644	12,880
Legal	-	15,903	-	15,903
Total	<u>\$ 98,768</u>	<u>\$ 16,848</u>	<u>\$ 27,311</u>	<u>\$ 142,927</u>

	Programs	Management and General	Fundraising	Total
<u>December 31, 2015</u>				
Art Supplies	\$ 19,380	\$ -	\$ -	\$ 19,380
Food	6,091	-	-	6,091
Tickets/Vouchers	38,085	-	-	38,085
Auction Items	-	-	33,489	33,489
Marketing	1,200	133	-	1,333
Office supplies	300	-	-	300
Printing	6,209	-	-	6,209
Rent	53,857	-	-	53,857
Furniture	1,291	-	-	1,291
Subtotal	<u>\$ 126,413</u>	<u>\$ 133</u>	<u>\$ 33,489</u>	160,035
Prepaid Airline Miles				5,500
Total				<u>\$ 165,535</u>

NOTE 5 BOARD DESIGNATED NET ASSETS

The Organization's board of directors has chosen to designate certain net assets as an operating reserve at December 31, 2016 and 2015. Accordingly, board-designated net assets are \$32,549 at both December 31, 2016 and 2015.

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
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NOTE 6 RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Implied Time and Use Restrictions of Foundations and United Way Contributions	<u>\$ 110,427</u>	<u>\$ 162,178</u>

Net assets were released from restrictions as follows during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Promises to Give Currently Due or Paid Foundations and Other Contributions/Grants Use and Time Restrictions Satisfied	<u>\$ 70,338</u>	<u>\$ 95,825</u>
Total	<u>\$ 243,021</u>	<u>\$ 199,575</u>

NOTE 7 LEASES

The Organization is obligated under a one-year operating lease for its offices which provides the right to purchase the Property at any time prior to expiration in September 2017.

Future minimum lease payments remaining are:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	<u>\$ 49,176</u>

Total rent expense for all operating leases for the years ended December 31, 2016 and 2015 totaled \$105,667 and \$82,313, respectively.

The Organization is obligated under a capital lease for furniture which expires October 2019. As of December 31, 2016 and 2015, the cost of the leased furniture was \$66,721 and \$-0-, respectively, and accumulated depreciation was \$-0- for both years ended December 31, 2016 and 2015.

Future minimum lease payments remaining are:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 21,140
2018	22,222
2019	<u>23,359</u>
Total Minimum Lease Payments	66,721
Less: Amounts Representing Interest	<u>(5,268)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 61,453</u>

**FREE ARTS FOR ABUSED CHILDREN OF ARIZONA
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NOTE 8 RELATED PARTIES

Members who are able to directly influence decisions made by the board of directors are considered related parties. At December 31, 2016 and 2015, the Organization had revenues from related parties totaling \$50,780 and \$57,983, respectively.