
**FR1ENDS of the
CH1LDREN**
Los Angeles

FINANCIAL STATEMENTS

Period from October 19, 2017 (Inception) to August 31, 2018

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - LOS ANGELES

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Independent Auditors' Report

The Board of Directors
Friends of the Children - Los Angeles

Report on the Financial Statements

We have audited the accompanying financial statements of *Friends of the Children - Los Angeles*, which comprise the statement of financial position as of August 31, 2018, and the related statements of activities, functional expenses, and cash flows for the period from October 19, 2017 (inception) to August 31, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Friends of the Children - Los Angeles* as of August 31, 2018, and the changes in its net assets and its cash flows for the period from October 19, 2017 (inception) to August 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmitz, P.C.

Lake Oswego, Oregon
January 6, 2021

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Financial Position

August 31, 2018

ASSETS

Cash and cash equivalents	\$ 385,264
Contributions receivable (<i>Notes 4 and 7</i>)	200,000
Contract receivable - <i>Friends of the Children - National (Note 7)</i>	63,026
Prepaid expenses	4,620
Office equipment and software, net of accumulated depreciation and amortization of \$852	<u>25,894</u>
Total assets	<u><u>\$ 678,804</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	<u>\$ 2,391</u>
Total liabilities	2,391
Commitment (<i>Note 8</i>)	
Net assets:	
Without donor restrictions	476,413
With donor restrictions (<i>Note 5</i>)	<u>200,000</u>
Total net assets	<u>676,413</u>
Total liabilities and net assets	<u><u>\$ 678,804</u></u>

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

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Activities

Period From October 19, 2017 (inception) to August 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Contributions:			
Individuals	\$ 502,000	\$ 50,000	\$ 552,000
Foundations	500,000	150,000	650,000
	1,002,000	200,000	1,202,000
Contract revenue - <i>Friends of the Children - National (Note 7)</i>	126,780	-	126,780
Other revenue	493	-	493
Total public support and revenue	1,129,273	200,000	1,329,273
Expenses:			
Program services	436,298	-	436,298
Administrative	13,390	-	13,390
Development	203,172	-	203,172
Total expenses	652,860	-	652,860
Increase in net assets	476,413	200,000	676,413
Net assets, beginning of period	-	-	-
Net assets, end of period	\$ 476,413	\$ 200,000	\$ 676,413

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

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Functional Expenses

Period From October 19, 2017 (inception) to August 31, 2018

	Program Services	Administrative	Development	Indirect Costs	Total
Salaries and related expenses:					
Salaries and wages	\$ 118,632	\$ 2,333	\$ -	\$ -	\$ 120,965
Payroll taxes and benefits	19,293	999	-	-	20,292
Total salaries and related expenses	137,925	3,332	-	-	141,257
Child activities	504	-	-	-	504
Friend activities	342	-	-	-	342
Hiring and staff development	1,090	320	-	-	1,410
Community awareness	215	-	1,415	-	1,630
Travel and meetings	17,180	1,375	235	-	18,790
Information technology	-	-	-	10,162	10,162
Research and evaluation	22,500	-	-	-	22,500
Telephone and internet	350	38	38	1,114	1,540
Postage, printing, and copying	215	289	-	187	691
Depreciation and amortization	-	380	-	472	852
Chapter affiliation fees (<i>Note 7</i>)	-	-	-	85,000	85,000
Supplies and equipment	332	534	-	11,177	12,043
Business insurance	-	1,484	-	3,166	4,650
Professional services	120,772	170	1,000	-	121,942
Occupancy	300	250	-	24,024	24,574
Credit card, banking, and payroll fees	2,463	2,026	84	-	4,573
Development consulting fee (<i>Note 7</i>)	-	-	200,400	-	200,400
	304,188	10,198	203,172	135,302	652,860
Allocation of indirect costs	132,110	3,192	-	(135,302)	-
Total expenses	\$ 436,298	\$ 13,390	\$ 203,172	\$ -	\$ 652,860

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

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Cash Flows

Period From October 19, 2017 (inception) to August 31, 2018

Cash flows from operating activities:

Increase in net assets \$ 676,413

Adjustments to reconcile increase in net assets to net
cash provided by operating activities:

Depreciation and amortization 852

Changes in:

Contributions receivable (200,000)

Contract receivable - *Friends of the Children - National* (63,026)

Prepaid expenses (4,620)

Accounts payable 2,391

Net cash provided by operating activities 412,010

Cash flows from investing activities:

Purchase of office equipment and software (26,746)

Net cash used by investing activities (26,746)

Net increase in cash and cash equivalents 385,264

Cash and cash equivalents, beginning of period -

Cash and cash equivalents, end of period \$ 385,264

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

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Friends of the Children - Los Angeles (*Friends - Los Angeles*) commits to standing alongside our community's youth as they work to overcome barriers to their success. Each child receives 1:1 support and guidance from a salaried, professional mentor (called a Friend), from kindergarten through high school graduation - 12½ years, no matter what. Friends work collaboratively with high-priority youth and their caregivers to set and achieve individualized goals, as well as advocate for them in the school, child welfare, healthcare, and other systems that impact them.

Youth in the Friends program face considerable challenges, including placement in the foster care system, under-resourced neighborhood schools, homelessness, hunger, and disparities in access to, and quality of, health care. Despite these barriers, program youth enter adulthood with a strong foundation for continuing achievement: nationally 83 percent graduate high school or earn a GED, 93 percent avoid the juvenile justice system, and 98 percent avoid teen parenting.

Summary of Significant Accounting Policies - The significant accounting policies followed by *Friends - Los Angeles* are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of *Friends - Los Angeles*, and changes therein, are classified and reported as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of *Friends - Los Angeles* and/or the passage of time. These donor restrictions are either temporary in nature or perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit *Friends - Los Angeles* to use all or part of the income earned on related investments for general or specific purposes. *Friends - Los Angeles'* net assets with donor restrictions consist solely of net assets with restrictions that are temporary in nature.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the financial statements for, among other things, the calculation of depreciation and amortization expense, determination of any required allowance for potentially uncollectible receivables, and functional allocation of certain expenses.

Cash and Cash Equivalents - *Friends - Los Angeles* considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Contributions Receivable - Contributions receivable are recognized when unconditionally promised by a donor. Once recorded, these receivables are evaluated by management for potential collection problems and an allowance for uncollectible receivables may be recorded. Management considers a variety of factors in determining the allowance for uncollectible receivables, including length of time accounts are past due, the donor's ability to pay, and the economy as a whole. Management does not believe an allowance for uncollectible receivables is necessary at August 31, 2018.

Contract Revenue Recognition and Receivable - *Friends - Los Angeles* contracts with *Friends of the Children - National* who provides the contract revenues are earned on a cost-reimbursement basis as *Friends - Los Angeles* incurs allowable costs. Contract receivables are recorded as the related revenue is recognized, which occurs as allowable costs are incurred.

Office equipment and Software - All acquisitions of office equipment and software in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and significant improvements that materially prolong the useful lives of assets are capitalized. Office equipment and software are recorded at cost or estimated fair value at date of donation. Depreciation and amortization of office equipment and software is calculated using the straight-line method over the estimated useful life of five to seven years.

Contribution Recognition - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenue in the net asset class without donor restrictions.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Contribution of Long-Lived Assets - *Friends - Los Angeles* reports gifts of office equipment and other long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Income Tax Status - Income taxes are not provided for in the financial statements since *Friends - Los Angeles* is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. *Friends - Los Angeles* is not classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe *Friends - Los Angeles* has any uncertain tax positions. *Friends - Los Angeles* files informational returns. There are currently no tax examinations in progress. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

Functional Allocation of Expenses - The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Expenses are allocated based on estimates of time and effort attributable to each function.

Subsequent Events - Management has evaluated subsequent events through January 6, 2021, the date the financial statements were available to be issued.

As of that date, economic conditions have declined as a result of the COVID-19 health crisis. The extent of the impact of COVID-19 on the *Friends - Los Angeles's* operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on program participants, donors, and employees, all of which are uncertain and cannot be predicted. As such, the extent to which COVID-19 may impact the *Friends - Los Angeles's* financial position and results of operations cannot be reasonably estimated at this time.

During April 2020, *Friends - Los Angeles* secured a \$156,342 loan from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136 "The CARES Act"). If *Friends - Los Angeles* meets certain criteria under The CARES Act, all or a portion of the loan may be forgiven. Any portion of the loan not forgiven will bear interest at one percent per annum over a two year period. *Friends - Los Angeles* may elect to defer initial loan payments up to six months.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

2. Program and Supporting Services

Program Services - Program activities include costs of day-to-day activities with at-risk children, sustaining the children's relationships with adult role models and helping them become productive members of the community.

Supporting Services

Administrative - Administrative activities include business management, recordkeeping, budgeting, public relations, financing, and related administrative activities. These services provide the necessary developmental, organizational, and managerial support for the effective operation of the programs.

Development - Development activities include conducting fundraising and public awareness campaigns, preparing and distributing fundraising materials, and other activities aimed at the solicitation of contributions from individuals, businesses, and foundations.

3. Liquidity and Availability of Financial Resources

Friends - Los Angeles' financial assets available for general expenditure within one year of the statement of financial position date consist of the following:

Financial assets at August 31, 2018:

Cash and cash equivalents	\$ 385,264
Contributions receivable to be collected in less than one year	150,000
Contract receivable	<u>63,026</u>
	<u>\$ 598,290</u>

As part of *Friends - Los Angeles'* liquidity management, management has a practice to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

4. Contributions Receivable

Contributions receivable consisted of the following at August 31, 2018:

Unconditional promises expected to be collected in:	
Less than one year	\$ 150,000
One year to five years	<u>50,000</u>
	<u>\$ 200,000</u>

Management has elected not to calculate a discount on pledges due beyond one year as such amount would not be material to the financial statements.

5. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2019, consist of net assets restricted by donors for future periods.

6. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject *Friends - Los Angeles* to concentrations of risk consist primarily of cash and cash equivalents and contributions receivable. *Friends - Los Angeles* maintains balances of cash and cash equivalents that may at times exceed Federal Deposit Insurance Corporation limits. Contributions receivable are due primarily from local businesses, charitable foundations, and individuals and are considered by management to be low in risk. See *Note 7* for concentrations in revenue and receivables from related parties.

7. Related-Party Transactions

Friends of the Children - National (Friends - National) provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support. For the period ended August 31, 2018, *Friends - Los Angeles* incurred chapter affiliation fees of \$85,000 and development consulting fees of \$200,400.

Total contract revenue of \$126,780 and total contract receivable of \$63,026 was from *Friends - National*.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

8. Commitments

Friends - Los Angeles leases office space under an operating lease agreement with escalating rental payments currently calling for monthly payments of \$4,580. The lease expires October 2021. Minimum payments remaining under the non-cancelable operating leases are as follows at August 31, 2018:

Years Ending August 31,	
2019	\$ 50,380
2020	56,375
2021	57,725
2022	<u>10,520</u>
	<u>\$ 175,000</u>

Rent expense for the period ended August 31, 2018, was \$23,112.