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**FR1ENDS** of the  
**CH1LDREN**  
**Los Angeles**

**FINANCIAL STATEMENTS**  
**Year Ended August 31, 2019**

**with**

**Independent Auditors' Report**

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# 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, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 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, 2019, 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.

*Hoffman, Stewart & Schmirer, P.C.*

Lake Oswego, Oregon  
January 22, 2020

**FRIENDS OF THE CHILDREN - LOS ANGELES**

**Statement of Financial Position**

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**August 31, 2019**

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**ASSETS**

Cash and cash equivalents	\$ 127,593
Contributions receivable - net ( <i>Notes 4 and 8</i> )	842,330
Contract receivable - <i>Friends of the Children - National (Note 8)</i>	65,332
Prepaid expenses	5,587
Office equipment and software, net of accumulated depreciation of \$5,988	<u>25,659</u>
<b>Total assets</b>	<b><u><u>\$ 1,066,501</u></u></b>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ 11,417
Accrued payroll liabilities	35,407
Due to <i>Friends of the Children - National (Note 8)</i>	<u>6,802</u>
<b>Total liabilities</b>	<b>53,626</b>

Commitment (*Note 9*)

**Net assets:**

Without donor restrictions	170,545
With donor restrictions ( <i>Note 5</i> )	<u>842,330</u>
<b>Total net assets</b>	<b><u>1,012,875</u></b>
<b>Total liabilities and net assets</b>	<b><u><u>\$ 1,066,501</u></u></b>

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

**FRIENDS OF THE CHILDREN - LOS ANGELES**

**Statement of Activities**

**Year Ended August 31, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Public support and revenue:</b>			
Contributions:			
Individuals	\$ 35,016	\$ -	\$ 35,016
Foundations	159,000	75,000	234,000
Corporations	2,813	-	2,813
	<u>196,829</u>	<u>75,000</u>	<u>271,829</u>
Contributions and contracts - <i>Friends of the Children - National (Note 8)</i>	471,000	717,330	1,188,330
In-kind contributions	20,618	-	20,618
Other revenue	1,075	-	1,075
Net assets released from restrictions	<u>150,000</u>	<u>(150,000)</u>	<u>-</u>
<b>Total public support and revenue</b>	<b>839,522</b>	<b>642,330</b>	<b>1,481,852</b>
<b>Expenses:</b>			
Program services	799,686	-	799,686
Administrative	137,874	-	137,874
Development	207,831	-	207,831
<b>Total expenses</b>	<b>1,145,391</b>	<b>-</b>	<b>1,145,391</b>
<b>Increase (decrease) in net assets</b>	<b>(305,869)</b>	<b>642,330</b>	<b>336,461</b>
Net assets, beginning of year	<u>476,414</u>	<u>200,000</u>	<u>676,414</u>
<b>Net assets, end of year</b>	<b><u>\$ 170,545</u></b>	<b><u>\$ 842,330</u></b>	<b><u>\$ 1,012,875</u></b>

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

**FRIENDS OF THE CHILDREN - LOS ANGELES**

**Statement of Functional Expenses**

**Year Ended August 31, 2019**

	Program Services	Administrative	Development	Indirect Costs	Total
<b>Salaries and related expenses:</b>					
Salaries and wages	\$ 495,367	\$ 69,754	\$ 38,958	\$ -	\$ 604,079
Payroll taxes and benefits	83,961	9,986	5,510	-	99,457
<b>Total salaries and related expenses</b>	<b>579,328</b>	<b>79,740</b>	<b>44,468</b>	<b>-</b>	<b>703,536</b>
Child activities	6,529	-	-	-	6,529
Friend activities	20,818	-	-	-	20,818
Hiring and staff development	3,636	4,164	113	1,672	9,585
Community awareness	1,219	1,348	2,914	2,281	7,762
Travel and meetings	15,399	3,763	1,554	4,092	24,808
Information technology <i>(Note 8)</i>	6,900	103	2,703	9,301	19,007
Research and evaluation	35,000	-	-	-	35,000
Telephone and internet	-	-	-	2,233	2,233
Postage, printing, and copying	451	142	2,211	631	3,435
Depreciation and amortization	-	380	-	4,756	5,136
Chapter affiliation fees <i>(Note 8)</i>	-	-	-	10,000	10,000
Supplies and equipment	8,895	172	3,241	15,065	27,373
Business insurance	-	-	-	8,696	8,696
Professional services <i>(Note 8)</i>	14	31,712	-	21,125	52,851
Occupancy	-	-	2,773	52,835	55,608
Credit card, banking, and payroll fees	12,236	1,311	1,198	-	14,745
Development consulting fee <i>(Note 8)</i>	-	-	138,269	-	138,269
	<b>690,425</b>	<b>122,835</b>	<b>199,444</b>	<b>132,687</b>	<b>1,145,391</b>
Allocation of indirect costs	109,261	15,039	8,387	(132,687)	-
<b>Total expenses</b>	<b>\$ 799,686</b>	<b>\$ 137,874</b>	<b>\$ 207,831</b>	<b>\$ -</b>	<b>\$ 1,145,391</b>

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

**FRIENDS OF THE CHILDREN - LOS ANGELES**

**Statement of Cash Flows**

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**Year Ended August 31, 2019**

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**Cash flows from operating activities:**

Increase in net assets \$ 336,461

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

Depreciation and amortization 5,136

Changes in:

Contributions receivable (642,330)

Contract receivable - *Friends of the Children - National* (2,306)

Prepaid expenses (967)

Accounts payable 9,027

Accrued payroll liabilities 35,407

Due to *Friends of the Children - National* 6,802

**Net cash used by operating activities (252,770)**

**Cash flows from investing activities:**

Purchase of equipment and software (4,901)

**Net cash used by investing activities (4,901)**

**Net decrease in cash and cash equivalents (257,671)**

Cash and cash equivalents, beginning of year 385,264

**Cash and cash equivalents, end of year \$ 127,593**

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

# FRIENDS OF THE CHILDREN - LOS ANGELES

## Notes to Financial Statements

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### 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

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#### 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, 2019.

**Contract Receivable** - Contract receivables are recorded as revenue is earned, 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

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

**Contribution of Long-Lived Assets** - *Friends - Los Angeles* reports gifts of furniture and equipment 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.

**In-Kind Contributions** - *Friends - Los Angeles* receives contributed services from unpaid volunteers who assist in a range of fundraising and program activities. The values of such services, which *Friends - Los Angeles* considers impractical to estimate, have not been recognized in the statement of activities. Significant services received that create or enhance a non-financial asset or require specialized skills *Friends - Los Angeles* would have purchased if not donated are recognized in the statement of activities. The value of such services for the year ended August 31, 2019 was \$9,877 and consisted of information technology services which were classified as an indirect expense on the accompanying statement of functional expenses. In-kind contributions of equipment and other materials are recorded when there is an objective basis upon which to value these contributions and the contributions are an essential part of *Friends - Los Angeles*' activities.

**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 22, 2020, the date the financial statements were available to be issued.

**FRIENDS OF THE CHILDREN - LOS ANGELES**

**Notes to Financial Statements - Continued**

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**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, 2019:

Cash and cash equivalents	\$ 127,593
Contributions receivable to be collected in less than one year	455,000
Contract receivable	<u>65,332</u>
	<u>\$ 647,925</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**

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**4. Contributions Receivable**

Contributions receivable consisted of the following at August 31, 2019:

Unconditional promises expected to be collected in:	
Less than one year	\$ 455,000
One year to five years	<u>425,000</u>
	880,000
Discount to present value (4.75 percent rate used)	<u>(37,670)</u>
	<u><u>\$ 842,330</u></u>

**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. During the year ended August 31, 2019, *Friends - Los Angeles* released \$150,000 of net assets from donor restrictions due to the passage of time.

**6. Retirement Plan**

*Friends - Los Angeles* participates in a multi-employer retirement plan (the Plan), as described by IRC Section 401(k) and administered by *Friends - Los Angeles*' payroll service company. Employees with at least three months of service are eligible to participate in the Plan. Employee contributions to the Plan are in the form of salary deferral, and are fully vested immediately. The plan allows for the employer to make discretionary matching contributions up to 2.5 percent of the eligible employees' compensation. Total contributions to the plan by *Friends - Los Angeles* were \$1,261 for the year ended August 31, 2019.

**7. 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 8* for concentrations in revenue and receivables from related parties.

**FRIENDS OF THE CHILDREN - LOS ANGELES**

**Notes to Financial Statements - Continued**

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**8. 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 year ended August 31, 2019, *Friends - Los Angeles* incurred chapter affiliation fees of \$10,000, development consulting fees of \$138,269, accounting fees of \$25,200, and a database fee of \$6,900 to *Friends - National*.

Total contribution and contract revenue received from *Friends - National* was \$1,188,330, representing 81 percent of total contribution and contract revenue. Total contract receivable of \$65,332 and contributions receivable of \$755,000 or 90 percent of net contributions receivable was from *Friends - National*. At August 31, 2019, *Friends - Los Angeles* had \$6,802 due to *Friends - National*.

**9. 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, 2019:

<b>Years Ending</b>	
<b>August 31,</b>	
2020	\$ 56,375
2021	57,725
2022	<u>10,520</u>
	<u><u>\$ 124,620</u></u>

Rent expense for the year ended August 31, 2019, was \$50,180.