
**FR1ENDS of the
CH1LDREN**

Los Angeles

FINANCIAL STATEMENTS

Year Ended August 31, 2021

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, 2021, 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, 2021, 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.

Report on Summarized Comparative Information

We have previously audited *Friends of the Children – Los Angeles*' 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 6, 2021. In our opinion, the summarized comparative information presented herein, as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hellman, Stewart & Schmitz, P.C.

Lake Oswego, Oregon
January 12, 2022

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Financial Position

| August 31, 2021 <i>(With Comparative Amounts for 2020)</i> | 2021 | 2020 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 416,981 | \$ 180,788 |
| Contributions receivable due within one year | 100,000 | 458,750 |
| Grants receivable due within one year | 148,814 | 169,584 |
| Prepaid expenses and deposits | 18,003 | 9,633 |
| Office furniture and equipment, net of accumulated depreciation of \$21,013 in 2021 and \$13,028 in 2020 | 37,211 | 31,878 |
| Total assets | \$ 721,009 | \$ 850,633 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 29,663 | \$ 1,596 |
| Accrued payroll liabilities | 85,297 | 84,793 |
| Due to <i>Friends of the Children - National</i> (Note 8) | 915 | 10,141 |
| Total liabilities | 115,875 | 96,530 |
| Commitment (Note 9) | | |
| Net assets: | | |
| Without donor restrictions | 354,740 | 304,103 |
| With donor restrictions (Note 4) | 250,394 | 450,000 |
| Total net assets | 605,134 | 754,103 |
| Total liabilities and net assets | \$ 721,009 | \$ 850,633 |

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

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Activities

Year Ended August 31, 2021 *(With Comparative Totals for 2020)*

| | Without Donor Restrictions | With Donor Restrictions | Total | |
|---|-------------------------------|----------------------------|-------------------|-------------------|
| | | | 2021 | 2020 |
| Public support and revenue: | | | | |
| Contributions: | | | | |
| Individuals | \$ 98,638 | \$ - | \$ 98,638 | \$ 116,560 |
| Foundations | 723,256 | 250,394 | 973,650 | 413,557 |
| Corporations | 45,889 | - | 45,889 | 40,795 |
| | 867,783 | 250,394 | 1,118,177 | 570,912 |
| Federal and local government grants | 872,074 | - | 872,074 | 842,992 |
| In-kind contributions | 141,105 | - | 141,105 | 98,975 |
| Paycheck Protection Program proceeds <i>(Note 5)</i> | 206,616 | - | 206,616 | 156,342 |
| Special events | 47,072 | - | 47,072 | - |
| Less direct expenses | (19,596) | - | (19,596) | - |
| Net special events | 27,476 | - | 27,476 | - |
| Other revenue | 1,431 | - | 1,431 | 3,874 |
| Net assets released from restrictions <i>(Note 4)</i> | 450,000 | (450,000) | - | - |
| Total public support and revenue | 2,566,485 | (199,606) | 2,366,879 | 1,673,095 |
| Expenses: | | | | |
| Program services | 2,053,132 | - | 2,053,132 | 1,479,571 |
| Administrative | 198,498 | - | 198,498 | 233,113 |
| Development | 264,218 | - | 264,218 | 219,183 |
| Total expenses | 2,515,848 | - | 2,515,848 | 1,931,867 |
| Increase (decrease) in net assets | 50,637 | (199,606) | (148,969) | (258,772) |
| Net assets, beginning of year | 304,103 | 450,000 | 754,103 | 1,012,875 |
| Net assets, end of year | \$ 354,740 | \$ 250,394 | \$ 605,134 | \$ 754,103 |

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, 2021 *(With Comparative Totals for 2020)*

| | Program | | | Indirect Costs | Total | |
|--|---------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| | Services | Administrative | Development | | 2021 | 2020 |
| Salaries and related expenses: | | | | | | |
| Salaries and wages | \$ 1,193,100 | \$ 94,491 | \$ 39,318 | \$ - | \$ 1,326,909 | \$ 1,127,011 |
| Payroll taxes and benefits | 225,512 | 14,373 | 5,322 | - | 245,207 | 186,683 |
| Total salaries and related expenses | 1,418,612 | 108,864 | 44,640 | - | 1,572,116 | 1,313,694 |
| Child activities | 277,621 | - | - | - | 277,621 | 10,950 |
| Friend activities | 11,486 | - | - | - | 11,486 | 13,210 |
| Family engagement and support | 115,810 | - | - | - | 115,810 | 74,828 |
| Hiring and staff development | 3,240 | 11,382 | - | - | 14,622 | 36,848 |
| Community awareness | 725 | - | 11,815 | 2,177 | 14,717 | 4,035 |
| Travel and meetings | 4,363 | 724 | 36 | - | 5,123 | 17,030 |
| Information technology <i>(Note 8)</i> | 22,522 | 2,764 | 3,033 | 15,921 | 44,240 | 28,116 |
| Research and evaluation | 1,250 | - | - | - | 1,250 | 16,623 |
| Telephone and internet | - | - | - | 915 | 915 | 1,964 |
| Postage, printing, and copying | 518 | 26 | 2,213 | 136 | 2,893 | 2,845 |
| Depreciation | - | - | - | 8,248 | 8,248 | 7,040 |
| Chapter affiliation fees <i>(Note 8)</i> | - | - | - | 11,000 | 11,000 | 11,000 |
| Supplies and equipment | 11,086 | 2,363 | 260 | 7,524 | 21,233 | 25,671 |
| Business insurance | - | 1,247 | - | 17,736 | 18,983 | 15,181 |
| Interest expense | - | 16 | - | - | 16 | 343 |
| Professional services <i>(Note 8)</i> | 22,467 | 62,890 | 48,268 | 1,620 | 135,245 | 121,750 |
| Occupancy | 52,102 | - | - | 33,241 | 85,343 | 73,425 |
| Credit card, banking, and payroll fees | 22,431 | 1,400 | 2,907 | - | 26,738 | 28,418 |
| Development consulting fee <i>(Note 8)</i> | - | - | 148,249 | - | 148,249 | 128,896 |
| | 1,964,233 | 191,676 | 261,421 | 98,518 | 2,515,848 | 1,931,867 |
| Allocation of indirect costs | 88,899 | 6,822 | 2,797 | (98,518) | - | - |
| Total expenses | \$ 2,053,132 | \$ 198,498 | \$ 264,218 | \$ - | \$ 2,515,848 | \$ 1,931,867 |

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

FRIENDS OF THE CHILDREN - LOS ANGELES

Statement of Cash Flows

Year Ended August 31, 2021 *(With Comparative Totals for 2020)*

| | | |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (148,969) | \$ (258,772) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Depreciation | 8,248 | 7,040 |
| Loss on equipment disposal | 954 | - |
| Changes in: | | |
| Contributions receivable | 358,750 | 383,580 |
| Grants receivable | 20,770 | (104,252) |
| Prepaid expenses and deposits | (8,370) | (4,046) |
| Accounts payable | 25,091 | (9,821) |
| Accrued payroll liabilities | 504 | 49,386 |
| Due to <i>Friends of the Children - National</i> | (9,226) | 3,339 |
| Net cash provided by operating activities | 247,752 | 66,454 |
| Cash flows from investing activities: | | |
| Purchase of office furniture and equipment | (11,559) | (13,259) |
| Net cash used by investing activities | (11,559) | (13,259) |
| Net increase in cash and cash equivalents | 236,193 | 53,195 |
| Cash and cash equivalents, beginning of year | 180,788 | 127,593 |
| Cash and cash equivalents, end of year | \$ 416,981 | \$ 180,788 |
| Non-Cash Investing Activities: | | |
| Purchase of office furniture and equipment included in accounts payable | \$ 2,976 | \$ - |

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. *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 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.

Receivables - Receivables are recorded as related revenues are recognized. 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, 2021.

Office Furniture and Equipment - All acquisitions of office furniture and equipment 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 furniture and equipment are recorded at cost or estimated fair value at date of donation. Depreciation of office furniture and equipment is calculated using the straight-line method over the estimated useful life of five to seven years.

Contribution Recognition - *Friends - Los Angeles* recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measureable performance or other barrier and a right of return - are not recognized as revenue until the conditions on which they depend have been 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. Grants are considered available for unrestricted use unless specifically restricted by the donor.

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 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.

Grant Revenue Recognition - *Friends - Los Angeles*' grant revenue includes amounts derived from a federal pass-through grant from *Friends of the Children - National (Friends - National)* and a local government grant which are conditioned upon the satisfaction of barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as support and revenue when *Friends - Los Angeles* has satisfied the related barrier. Amounts received prior to the satisfaction of the barrier are recorded as a liability until the barrier has been satisfied. At August 31, 2021, *Friends - Los Angeles* had remaining available award balances of approximately \$921,136 that will be recognized as support and revenue when the related barriers are satisfied.

Conditional federal and local government grants whose conditions are satisfied in the same reporting period in which the funding is received are reported as an increase in net assets without donor restrictions.

In-Kind Contributions - *Friends - Los Angeles* receives contributed services from unpaid volunteers who assist in a range of fundraising and program activities. Significant services received that create or enhance a non-financial asset or require specialized skills that *Friends - Los Angeles* would have purchased had they not been donated are recognized as contributions at the estimated fair value of the services. The value of such services for the year ended August 31, 2021 was \$29,345 and consisted primarily of legal services classified as program service expense. In-kind contributions of equipment and other materials are recorded at estimated fair value at the date of donation.

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.

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

Functional Allocation of Expenses - The costs of providing the various programs and other activities of *Friends - Los Angeles* have been summarized on a functional basis in the statement of functional expenses. The statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses are generally allocated based on estimates of time and effort attributable to each function.

Summarized Financial Information for 2020 - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the *Friends - Los Angeles*' financial statements for the year ended August 31, 2020, from which the summarized information was derived.

Subsequent Events - Management has evaluated subsequent events through January 12, 2022, the date the financial statements were available to be issued.

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.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

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 at August 31, 2021:

| | |
|--|--------------------------|
| Cash and cash equivalents | \$ 416,981 |
| Contributions receivable to be collected in less than one year | 100,000 |
| Grants receivable | <u>148,814</u> |
| | <u><u>\$ 665,795</u></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.

4. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2021, consist of net assets restricted by donors for future periods. During the year ended August 31, 2021, *Friends - Los Angeles* released \$450,000 of net assets from donor restrictions due to the passage of time.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

5. Paycheck Protection Program

On July 13, 2021, *Friends - Los Angeles* received proceeds in the amount of \$206,616 from Pacific West Bank under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides for full or partial loan forgiveness if proceeds are used for qualifying expenses and certain other conditions are satisfied. *Friends - Los Angeles* has elected to account for the loan as a conditional contribution to be recognized as qualifying forgiveness expenses are incurred. During 2021, *Friends - Los Angeles* received forgiveness for the proceeds. As such, the entire PPP loan has been recognized in support and revenue.

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 \$12,815 for the year ended August 31, 2021.

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, contributions receivable, and contributions. *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 the local government and are considered by management to be low in risk.

At August 31, 2021, contributions receivable were due from one donor and grants receivable were due from a local governmental entity. During 2021, *Friends - Los Angeles* received \$80,000 in grant revenue from *Friends - National* with the remaining amounts received from local and state grants. Total contributions for the year ended August 31, 2021, 63 percent was from two donors.

8. Related-Party Transactions

Friends - National provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support based on mutually agreed upon annual agreements.

For the year ended August 31, 2021, *Friends - Los Angeles* paid chapter affiliation fees of \$11,000 and database fees of \$11,592 to *Friends - National*. *Friends - Los Angeles* also paid \$148,245 in development consulting fees, \$1,250 in research and development, and accounting fees of \$25,350 to *Friends - National*, which are based on an annual service agreement with *Friends - National*. At August 31, 2021, *Friends - Los Angeles* had \$915 due to *Friends - National*.

FRIENDS OF THE CHILDREN - LOS ANGELES

Notes to Financial Statements - Continued

9. Commitments

Friends - Los Angeles leases office spaces in Los Angeles and Antelope Valley under operating lease agreements with escalating rental payments currently calling for monthly payments of \$4,860 and \$3,551, respectively. The leases expire on December 2023 and July 2023, respectively. Minimum payments remaining under the non-cancelable operating leases are as follows at August 31, 2021:

| Years Ending August 31, | |
|------------------------------------|--------------------------|
| 2022 | \$ 97,014 |
| 2023 | 94,083 |
| 2024 | <u>14,580</u> |
| | <u><u>\$ 205,677</u></u> |

Rent expense for the year ended August 31, 2021, was \$78,027.