
**FR1ENDS of the
CH1LDREN**

Austin

FINANCIAL STATEMENTS

Year Ended August 31, 2020

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - AUSTIN

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Independent Auditors' Report

The Board of Directors
Friends of the Children - Austin

Report on the Financial Statements

We have audited the accompanying financial statements of *Friends of the Children - Austin* (*Friends - Austin*), which comprise the statement of financial position as of August 31, 2020, 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 - Austin* as of August 31, 2020, 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.

Emphasis of a Matter

As discussed in *Note 1* to the financial statements, *Friends of the Children - Austin* adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited *Friends of the Children - Austin's* 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2020. In our opinion, the summarized comparative information presented herein, as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hoffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
January 12, 2021

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Financial Position

August 31, 2020 <i>(With Comparative Amounts for 2019)</i>	2020	2019
ASSETS		
Cash and cash equivalents	\$ 1,708,057	\$ 743,376
Receivables <i>(Note 4)</i>	699,773	896,351
Prepaid expenses	23,872	16,220
Property and equipment - net <i>(Note 5)</i>	<u>93,378</u>	<u>110,148</u>
Total assets	<u><u>\$ 2,525,080</u></u>	<u><u>\$ 1,766,095</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 8,193	\$ 8,581
Accrued expenses	<u>79,378</u>	<u>54,482</u>
Total liabilities	87,571	63,063
Commitment <i>(Note 11)</i>		
Net assets:		
Without donor restrictions	1,784,975	864,255
With donor restrictions <i>(Note 6)</i>	<u>652,534</u>	<u>838,777</u>
Total net assets	<u><u>2,437,509</u></u>	<u><u>1,703,032</u></u>
Total liabilities and net assets	<u><u>\$ 2,525,080</u></u>	<u><u>\$ 1,766,095</u></u>

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

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Activities

Year Ended August 31, 2020 (With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2020	2019
Public support and revenue:				
Contributions:				
Individuals	\$ 406,299	\$ 515,228	\$ 921,527	\$ 367,265
Foundations	465,996	72,000	537,996	416,253
Corporations	105,387	-	105,387	72,273
	977,682	587,228	1,564,910	855,791
Grant revenue (Note 10)	432,845	-	432,845	320,000
Paycheck Protection Program proceeds (Note 7)	206,000	-	206,000	-
Special events	433,568	-	433,568	409,859
Less direct costs	(46,601)	-	(46,601)	(47,529)
Special events - net	386,967	-	386,967	362,330
Loss on uncollectible contributions receivable	-	-	-	(20,000)
In-kind donations	22,497	-	22,497	106,520
Loss on disposal of property and equipment	-	-	-	(743)
Miscellaneous income	1,150	-	1,150	-
Released from restriction (Note 6)	773,471	(773,471)	-	-
Total public support and revenue	2,800,612	(186,243)	2,614,369	1,623,898
Expenses:				
Program services	1,438,447	-	1,438,447	1,006,312
Administrative	143,807	-	143,807	99,327
Development	297,638	-	297,638	259,402
Total expenses	1,879,892	-	1,879,892	1,365,041
Increase (decrease) in net assets	920,720	(186,243)	734,477	258,857
Net assets, beginning of year	864,255	838,777	1,703,032	1,444,175
Net assets, end of year	\$ 1,784,975	\$ 652,534	\$ 2,437,509	\$ 1,703,032

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

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Functional Expenses

Year Ended August 31, 2020 *(With Comparative Totals for 2019)*

	Program			Indirect Costs	Total	
	Services	Administrative	Development		2020	2019
Salaries and related expenses:						
Salaries and wages	\$ 848,787	\$ 59,702	\$ 209,208	\$ -	\$ 1,117,697	\$ 772,422
Payroll taxes and benefits	196,199	9,361	32,128	-	237,688	154,459
Total salaries and related expenses	1,044,986	69,063	241,336	-	1,355,385	926,881
Children's activities	21,407	-	-	-	21,407	20,011
Friends' expenses	42,292	-	-	-	42,292	45,554
Travel and meetings	1,221	950	603	-	2,774	11,499
Professional expenses	4,363	53,300	412	150	58,225	87,666
Marketing and communication	499	37	15,234	4,503	20,273	15,416
Staff development	8,731	3,926	-	-	12,657	15,414
Chapter affiliation fees	-	-	-	11,000	11,000	10,000
Supplies	1,775	1,652	22	1,996	5,445	49,529
Payroll and banking fees	24,630	2,024	18,229	1,500	46,383	31,141
Information technology	7,500	2,996	785	12,055	23,336	22,399
Telephone and internet	-	-	-	6,704	6,704	1,662
Insurance	420	3,508	-	8,541	12,469	6,146
Occupancy	52,511	311	-	47,908	100,730	60,245
Depreciation and amortization	9,062	-	-	17,316	26,378	9,720
Postage and printing	175	481	1,539	3,365	5,560	8,927
Family engagement and support	97,439	-	-	-	97,439	1,486
Research and evaluation	30,000	-	-	-	30,000	31,250
Development and consulting fee	-	-	-	-	-	9,000
Other expenses	1,408	-	-	27	1,435	1,095
	1,348,419	138,248	278,160	115,065	1,879,892	1,365,041
Allocation of indirect costs	87,381	6,146	21,538	(115,065)	-	-
Total expenses	\$ 1,435,800	\$ 144,394	\$ 299,698	\$ -	\$ 1,879,892	\$ 1,365,041

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

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Cash Flows

Year Ended August 31, 2020 <i>(With Comparative Totals for 2019)</i>	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 734,477	\$ 258,857
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	26,378	9,720
Donated property and equipment	-	(63,480)
Loss on disposal of property and equipment	-	743
Changes in:		
Receivables	196,578	315,673
Prepaid expenses	(7,652)	(15,138)
Accounts payable	(388)	(3,885)
Accrued expenses	24,896	54,482
Payable - <i>Friends of the Children - National</i>	-	(7,350)
Net cash provided by operating activities	974,289	549,622
Cash flows from investing activities:		
Purchase of property and equipment	(9,608)	(38,455)
Net cash used by investing activities	(9,608)	(38,455)
Net increase in cash and cash equivalents	964,681	511,167
Cash and cash equivalents, beginning of year	743,376	232,209
Cash and cash equivalents, end of year	<u>\$ 1,708,057</u>	<u>\$ 743,376</u>

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

FRIENDS OF THE CHILDREN - AUSTIN

Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Friends of the Children - Austin (*Friends - Austin*) 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 - Austin* 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 - Austin*, 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 - Austin* and/or the passage of time. These donor restrictions are temporary in nature or perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. *Friends - Austin's* net assets consist solely of 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 donor 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 restriction.

FRIENDS OF THE CHILDREN - AUSTIN

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 - Austin* considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Receivables - Accounts receivable 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, 2020.

Property and Equipment - Acquisitions of property 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. Property and equipment are recorded at cost or estimated fair value at date of donation. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives ranging from three to seven years.

Contribution Recognition - *Friends - Austin* 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 measurable performance or other barrier and a right of return - are not recognized 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.

Friends - Austin reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reported in the statement of activities as net assets released from restrictions.

FRIENDS OF THE CHILDREN - AUSTIN

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 - Austin* reports gifts of property 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 - *Friends - Austin's* grant revenue includes amounts derived from *Friends of the Children - National (Friends - National)* and other pass through grants which are considered conditional contributions and which are conditioned upon barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as revenue when *Friends - Austin* has satisfied the related barrier. At August 31, 2020, *Friends - Austin* had remaining available award balances of approximately \$50,000. This award balance will be recognized as revenue when the related barriers are satisfied.

Conditional 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 - Austin* 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 *Friends - Austin* would have purchased if not donated are recognized as contributions at their estimated fair value. In-kind contributions of equipment and other materials are recorded at estimated fair value where the contributions are an essential part of *Friends - Austin's* activities.

Income Tax Status - Income taxes are not provided for in the financial statements since *Friends - Austin* is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. *Friends - Austin* 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 - Austin* have any uncertain tax positions. *Friends - Austin* 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 - AUSTIN

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 - Austin* 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 allocated based on estimates of time and effort attributable to each function.

Reclassifications - Certain accounts in the 2019 summarized financial information have been reclassified, for comparative purposes, to conform with the 2020 presentation.

New Accounting Pronouncement - *Friends - Austin* has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions, and for determining whether a contribution is conditional. *Friends - Austin* adopted this ASU using the modified retrospective approach. There was no impact on *Friends - Austin's* previously issued financial statements as a result of the adoption of this ASU.

Subsequent Events - Management has evaluated subsequent events through January 12, 2021, the date the financial statements were available to be issued. As of that date, financial markets and economic conditions in general continue to be volatile as a result of the COVID-19 health crisis. The extent of the impact of COVID-19 on *Friends - Austin'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 - Austin's* financial position and results of operations cannot be reasonably estimated at this time.

Summarized Financial Information for 2019 - 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 *Friends - Austin's* financial statements for the year ended August 31, 2019, from which the summarized information was derived.

FRIENDS OF THE CHILDREN - AUSTIN

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 - Austin's 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, 2020:	
Cash and cash equivalents	\$1,708,057
Receivables	<u>699,773</u>
	2,407,830
Less amounts not available to be used within one year:	
Net assets with temporary donor restrictions to be met in over one year	<u>(349,825)</u>
	<u><u>\$2,058,005</u></u>

As part of *Friends - Austin's* 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 - AUSTIN

Notes to Financial Statements - Continued

4. Receivables

Receivables consist of the following at August 31:

	2020	2019
Contributions receivable due within one year	\$ 227,861	\$ 759,705
Grants receivable (<i>Note 10</i>)	112,962	88,247
Other receivables	<u>9,125</u>	<u>12,739</u>
Receivables due in less than one year	349,948	860,691
Contributions receivable due in one to five years	377,032	35,660
Discount to present value (3 percent rate used)	<u>(27,207)</u>	<u>-</u>
	<u><u>\$ 699,773</u></u>	<u><u>\$ 896,351</u></u>

5. Property and Equipment

Property and equipment consist of the following at August 31:

	2020	2019
Office equipment	\$ 102,089	\$ 92,480
Leasehold improvements	<u>29,641</u>	<u>29,641</u>
	131,730	122,121
Less accumulated depreciation and amortization	<u>(38,352)</u>	<u>(11,973)</u>
	<u><u>\$ 93,378</u></u>	<u><u>\$ 110,148</u></u>

FRIENDS OF THE CHILDREN - AUSTIN

Notes to Financial Statements - Continued

6. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2020, are available for the following purposes:

	2020	2019
Youth activities	\$ 27,914	\$ 43,412
Family support	46,935	-
Future periods	<u>577,685</u>	<u>795,365</u>
	<u>\$ 652,534</u>	<u>\$ 838,777</u>

During the year ended August 31, 2020, *Friends - Austin* released \$773,471 of net assets from donor restrictions due to the passage of time and actions specified by donors.

7. Paycheck Protection Program

On April 8, 2020, *Friends - Austin* received proceeds in the amount of \$206,000 from Horizon 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 - Austin has elected to account for the loan as a conditional contribution to be recognized as qualifying forgiveness expenses are incurred. Between April 8, 2020 and June 7, 2020, *Friends - Austin* incurred qualifying expenses in excess of its PPP loan amount. As such, the entire PPP loan has been recognized as a contribution during the year ended August 31, 2020. The loan was forgiven on November 4, 2020.

8. Retirement Plan

Friends - Austin has a retirement plan pursuant to IRC Section 401(k), in which employees with at least three months of service are eligible to participate. Employee contributions to the plan are in the form of salary deferral, and are fully vested immediately. The plan allows for discretionary employer matching contributions up to two and a half percent of the eligible employees compensation. Employer matching contributions under this plan totaled \$1,366 for the year ended August 31, 2020.

FRIENDS OF THE CHILDREN - AUSTIN

Notes to Financial Statements - Continued

9. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject *Friends - Austin* to concentrations of risk consist primarily of cash and cash equivalents and contributions receivable. *Friends - Austin* maintains balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation limits throughout the year. Contributions receivable are due primarily from local businesses, charitable foundations, and individuals and are considered by management to be low in risk. At August 31, 2020, 37 percent of contributions receivable was due from two donors and 17 percent of contribution revenue was provided by one donor.

10. Related-Party Transactions

During the year ended August 31, 2020, *Friends - Austin* received contributions from employees and members of the Board of Directors of \$414,093. At August 31, 2020, contributions receivable from employees and members of the Board of Directors totaled \$303,958.

Friends - National provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support. For the year ended August 31, 2020, *Friends - Austin* incurred expenses to *Friends - National* for chapter affiliation fees of \$11,000, professional and consulting fees of \$27,350, information technology support of \$7,500, and \$30,000 in research and evaluation expenses. Also, *Friends - National* provided *Friends - Austin* with grant income of \$312,845 of which \$87,962 was included in receivables at August 31, 2020.

11. Commitments

Friends - Austin leases office space under an operating lease agreement with escalating payments currently calling for monthly payments of \$5,093 together with triple-net charges. The lease expires April 2022. Minimum payments remaining under the non-cancelable operating lease are as follows at August 31, 2020:

Years Ending August 31,	Amounts
2021	\$ 61,730
2022	41,968
	<u>\$ 103,698</u>

Rent expense for the year ended August 31, 2020, was \$61,566.