
**FR1ENDS of the
CH1LDREN**

Austin

FINANCIAL STATEMENTS

Year Ended August 31, 2019

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - AUSTIN

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

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, 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 - Austin* 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.

Emphasis of a Matter

As discussed in *Note 1* to the financial statements, *Friends - Austin* has adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Hellman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
January 15, 2020

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Financial Position

August 31, 2019

ASSETS

Cash and cash equivalents	\$ 743,376
Receivables <i>(Note 4)</i>	896,351
Prepaid expenses	16,220
Property and equipment - net <i>(Note 5)</i>	<u>110,148</u>
Total assets	<u><u>\$ 1,766,095</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 8,581
Accrued expenses	<u>54,482</u>
Total liabilities	63,063

Commitment *(Note 10)*

Net assets:

Without donor restrictions	864,255
With donor restrictions <i>(Note 6)</i>	<u>838,777</u>

Total net assets **1,703,032**

Total liabilities and net assets **\$ 1,766,095**

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

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Activities

Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Contributions:			
Individuals	\$ 239,713	\$ 127,552	\$ 367,265
Foundations	76,309	339,944	416,253
Corporations	72,273	-	72,273
	<u>388,295</u>	<u>467,496</u>	<u>855,791</u>
Grant revenue - <i>Friends of the Children - National (Note 9)</i>	320,000	-	320,000
Special events	409,859	-	409,859
Less direct costs	<u>(47,529)</u>	<u>-</u>	<u>(47,529)</u>
Special events - net	362,330	-	362,330
Loss on uncollectible contributions receivable	(20,000)	-	(20,000)
In-kind donations	106,520	-	106,520
Loss on disposal of property and equipment	(743)	-	(743)
Released from restriction (<i>Note 6</i>)	<u>767,746</u>	<u>(767,746)</u>	<u>-</u>
Total public support and revenue	1,924,148	(300,250)	1,623,898
Expenses:			
Program services	1,006,312	-	1,006,312
Administrative	99,327	-	99,327
Development	259,402	-	259,402
Total expenses	1,365,041	-	1,365,041
Increase (decrease) in net assets	559,107	(300,250)	258,857
Net assets, beginning of year	<u>305,148</u>	<u>1,139,027</u>	<u>1,444,175</u>
Net assets, end of year	<u>\$ 864,255</u>	<u>\$ 838,777</u>	<u>\$ 1,703,032</u>

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

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Functional Expenses

Year Ended August 31, 2019

	Program Services	Administrative	Development	Indirect Costs	Total
Salaries and related expenses:					
Salaries and wages	\$ 585,998	\$ 33,333	\$ 153,091	\$ -	\$ 772,422
Payroll taxes and benefits	<u>124,357</u>	<u>5,222</u>	<u>24,880</u>	<u>-</u>	<u>154,459</u>
Total salaries and related expenses	710,355	38,555	177,971	-	926,881
Children's activities	21,497	-	-	-	21,497
Friends' expenses	45,554	-	-	-	45,554
Travel and meetings	5,465	3,356	1,743	935	11,499
Professional expenses <i>(Note 9)</i>	16,598	47,838	19,895	3,335	87,666
Marketing and communication	-	-	9,341	6,075	15,416
Staff development	10,578	4,129	227	480	15,414
Chapter affiliation fees <i>(Note 9)</i>	10,000	-	-	-	10,000
Supplies	26,835	123	91	22,480	49,529
Payroll and banking fees	15,873	717	14,551	-	31,141
Information technology	6,900	269	4,996	10,234	22,399
Telephone and internet	-	-	-	1,662	1,662
Insurance	-	-	-	6,146	6,146
Occupancy	30,608	-	-	29,637	60,245
Depreciation and amortization	3,852	-	-	5,868	9,720
Postage and printing	209	132	3,266	5,320	8,927
Research and evaluation <i>(Note 9)</i>	31,250	-	-	-	31,250
Development and consulting fee <i>(Note 9)</i>	-	-	9,000	-	9,000
Other expenses	<u>630</u>	<u>220</u>	<u>5</u>	<u>240</u>	<u>1,095</u>
	936,204	95,339	241,086	92,412	1,365,041
Allocation of indirect costs	<u>70,108</u>	<u>3,988</u>	<u>18,316</u>	<u>(92,412)</u>	<u>-</u>
Total expenses	<u>\$1,006,312</u>	<u>\$ 99,327</u>	<u>\$ 259,402</u>	<u>\$ -</u>	<u>\$ 1,365,041</u>

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

FRIENDS OF THE CHILDREN - AUSTIN

Statement of Cash Flows

Year Ended August 31, 2019

Cash flows from operating activities:

Increase in net assets \$ 258,857

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

Depreciation and amortization 9,720
Donated property and equipment (63,480)
Loss on disposal of property and equipment 743

Changes in:

Receivables 315,673
Prepaid expenses (15,138)
Accounts payable (3,885)
Accrued expenses 54,482
Payable - *Friends of the Children - National* (7,350)

Net cash provided by operating activities 549,622

Cash flows from investing activities:

Purchase of office equipment (38,455)

Net cash used by investing activities (38,455)

Net increase in cash and cash equivalents 511,167

Cash and cash equivalents, beginning of year 232,209

Cash and cash equivalents, end of year \$ 743,376

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. Generally, the donors of these assets permit *Friends - Austin* to use all or part of the income earned on related investments for general or specific purposes.

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 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.

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.

Grants receivable - Grants receivable are recorded as revenue is earned, which occurs as allowable costs are incurred.

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 - 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.

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.

In-Kind Contributions - *Friends - Austin* receives contributed services from unpaid volunteers who assist in a range of fundraising and program activities. The values of such services, which *Friends - Austin* consider not practical 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 - Austin* would have purchased if not donated are recognized in the statement of activities. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and the contributions are an essential part of *Friends - Austin*' 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.

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.

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

New Accounting Pronouncement - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. *Friends - Austin* implemented ASU 2016-14 during the year ended August 31, 2019, and has adjusted the presentation in these financial statements accordingly.

Subsequent Events - Management has evaluated subsequent events through January 15, 2020, 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 - AUSTIN

Notes to Financial Statements - Continued

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, 2019:	
Cash and cash equivalents	\$ 743,376
Receivables	<u>896,351</u>
	1,639,727
Less amounts not available to be used within one year:	
Net assets with temporary donor restrictions to be met in over one year	<u>(35,660)</u>
	<u><u>\$1,604,067</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.

4. Receivables

Receivables consisted of the following at August 31, 2019:

Contributions receivable expected to be collected in:	
Less than one year	\$ 759,705
Greater than one year	35,660
Grants receivable - <i>Friends of the Children - National</i> (Note 9)	88,247
Other receivables	<u>12,739</u>
	<u><u>\$ 896,351</u></u>

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

FRIENDS OF THE CHILDREN - AUSTIN

Notes to Financial Statements - Continued

5. Property and Equipment

Property and equipment consisted of the following at August 31:

Office equipment	\$ 92,480
Leasehold improvements	<u>29,641</u>
	122,121
Less accumulated depreciation and amortization	<u>(11,973)</u>
	<u><u>\$ 110,148</u></u>

6. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2019, are available for the following purposes:

Friend salaries	\$ 43,412
Future periods	<u>795,365</u>
	<u><u>\$ 838,777</u></u>

During the year ended August 31, 2019, *Friends - Austin* released \$767,746 of net assets from donor restrictions due to the passage of time.

7. 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 \$535 for the year ended August 31, 2019.

FRIENDS OF THE CHILDREN - AUSTIN

Notes to Financial Statements - Continued

8. 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, 2019, 33 percent of contributions receivable was due from two donors and 19 percent of contribution revenue was provided by one donor.

9. Related-Party Transactions

During the year ended August 31, 2019, *Friends - Austin* received contributions from employees and members of the Board of Directors of \$83,385. At August 31, 2019, receivables from employees and members of the Board of Directors totaled \$76,982.

Friends of the Children - National (*Friends - National*) organization provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support. For the year ended August 31, 2019, *Friends - Austin* incurred expenses to *Friends - National* for chapter affiliation fees of \$10,000, professional and consulting fees of \$21,600, information technology support of \$6,900, and \$31,250 in research and evaluation expenses. Also, *Friends - National* provided *Friends - Austin* with grant income of \$320,000 of which \$88,247 was included in receivables at August 31, 2019.

10. Commitments

Friends - Austin leases office space under an operating lease agreement with escalating payments currently calling for monthly payments of \$4,945 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, 2019:

Years Ending August 31,	Amounts
2020	\$ 75,877
2021	61,730
2022	<u>41,968</u>
	<u>\$ 179,575</u>

Rent expense for the year ended August 31, 2019 was \$59,472.