
**FR1ENDS of the
CH1LDREN**

SF Bay Area

FINANCIAL STATEMENTS

Year Ended August 31, 2019

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - SF BAY AREA

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Independent Auditors' Report

The Board of Directors
Friends of the Children - SF Bay Area

Report on the Financial Statements

We have audited the accompanying financial statements of *Friends of the Children - SF Bay Area* (*Friends - SF Bay Area*), 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.

Emphasis of a Matter

As discussed in *Note 1* to the financial statements, *Friends - SF Bay Area* 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Friends of the Children - SF Bay Area* 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.

Hellman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
December 2, 2019

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Financial Position

August 31, 2019 <i>(With Comparative Amounts for 2018)</i>	2019	2018
ASSETS		
Cash and cash equivalents	\$ 529,409	\$ 562,762
Receivables <i>(Notes 4 and 10)</i>	240,927	260,475
Prepaid expenses	34,209	14,782
Property and equipment - net <i>(Note 5)</i>	<u>166,082</u>	<u>29,884</u>
Total assets	<u>\$ 970,627</u>	<u>\$ 867,903</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 19,055	\$ 3,772
Accrued vacation	23,520	16,663
Deferred revenue	35,000	-
Capital lease obligations <i>(Note 6)</i>	<u>97,315</u>	<u>-</u>
Total liabilities	174,890	20,435
Commitments <i>(Notes 8 and 11)</i>		
Net assets:		
Without donor restrictions	606,237	692,468
With donor restrictions <i>(Note 7)</i>	<u>189,500</u>	<u>155,000</u>
Total net assets	<u>795,737</u>	<u>847,468</u>
Total liabilities and net assets	<u>\$ 970,627</u>	<u>\$ 867,903</u>

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

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Activities

Year Ended August 31, 2019 (With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
Public support and revenue:				
Contributions:				
Individuals	\$ 497,402	\$ 185,000	\$ 682,402	\$ 265,380
Foundations	119,660	135,000	254,660	622,958
Corporations	92,053	17,500	109,553	48,716
	<u>709,115</u>	<u>337,500</u>	<u>1,046,615</u>	<u>937,054</u>
Grant revenue - <i>Friends of the Children - National (Note 10)</i>	360,000	-	360,000	388,236
Special events	5,600	77,000	82,600	-
Less direct costs	(2,800)	-	(2,800)	-
Special events - net	<u>2,800</u>	<u>77,000</u>	<u>79,800</u>	<u>-</u>
In-kind contributions	19,738	-	19,738	-
Other income	4,392	-	4,392	16
Released from restriction (Note 7)	<u>380,000</u>	<u>(380,000)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	1,476,045	34,500	1,510,545	1,325,306
Expenses:				
Program services	1,246,619	-	1,246,619	731,961
Administrative	135,648	-	135,648	86,897
Development	180,009	-	180,009	189,590
Total expenses	1,562,276	-	1,562,276	1,008,448
Increase (decrease) in net assets	(86,231)	34,500	(51,731)	316,858
Net assets, beginning of year	<u>692,468</u>	<u>155,000</u>	<u>847,468</u>	<u>530,610</u>
Net assets, end of year	<u>\$ 606,237</u>	<u>\$ 189,500</u>	<u>\$ 795,737</u>	<u>\$ 847,468</u>

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

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Functional Expenses

Year Ended August 31, 2019 *(With Comparative Totals for 2018)*

	Program			Indirect Costs	Total	
	Services	Administrative	Development		2019	2018
Salaries and related expenses:						
Salaries and wages	\$ 784,258	\$ 51,193	\$ 106,226	\$ 6,857	\$ 948,534	\$ 589,609
Payroll taxes and benefits	184,826	12,568	16,907	-	214,301	134,752
Total salaries and related expenses	969,084	63,761	123,133	6,857	1,162,835	724,361
Children's activities	16,946	-	-	-	16,946	3,709
Friends' expenses	6,638	-	-	-	6,638	1,590
Travel and meetings	27,359	953	5,671	5,300	39,283	20,395
Professional expenses <i>(Note 10)</i>	2,258	37,220	12,195	6,560	58,233	54,758
Marketing and communication	293	-	3,135	4,454	7,882	9,034
Staff development	1,229	322	306	2,556	4,413	1,565
Supplies	1,377	-	349	10,509	12,235	7,794
Payroll and banking fees	22,039	1,056	3,806	15	26,916	19,347
Information technology <i>(Note 10)</i>	20	6,958	11,026	21,809	39,813	39,843
Equipment	2,746	-	-	5,348	8,094	1,333
Insurance	4,002	-	-	3,301	7,303	2,833
Occupancy	-	-	-	49,813	49,813	50,195
Depreciation and amortization	-	-	-	23,139	23,139	18,071
Postage and printing	1,952	96	7,538	2,407	11,993	1,504
Other	4,882	497	5,660	1,734	12,773	8,916
Interest expense	-	4,167	-	-	4,167	-
Affiliation fees <i>(Note 10)</i>	-	4,800	-	-	4,800	3,200
Research and evaluation <i>(Note 10)</i>	65,000	-	-	-	65,000	40,000
	1,125,825	119,830	172,819	143,802	1,562,276	1,008,448
Allocation of indirect costs	120,794	15,818	7,190	(143,802)	-	-
Total expenses	\$ 1,246,619	\$ 135,648	\$ 180,009	\$ -	\$ 1,562,276	\$ 1,008,448

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

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Cash Flows

Year Ended August 31, 2019 <i>(With Comparative Totals for 2018)</i>	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (51,731)	\$ 316,858
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,139	18,071
Donated property and equipment	(17,608)	-
Loss on disposal of office equipment	1,007	-
Changes in:		
Receivables	19,548	40,837
Prepaid expenses	(19,427)	5,600
Accounts payable	15,283	683
Accrued vacation	6,857	16,663
Deferred revenue	35,000	-
Net cash provided by operating activities	12,068	398,712
Cash flows from investing activities:		
Purchase of property and equipment	(42,842)	(8,150)
Net cash used by investing activities	(42,842)	(8,150)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(2,579)	-
Net cash used by financing activities	(2,579)	-
Net increase (decrease) in cash and cash equivalents	(33,353)	390,562
Cash and cash equivalents, beginning of year	562,762	172,200
Cash and cash equivalents, end of year	\$ 529,409	\$ 562,762
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 4,167	\$ -
Supplemental disclosures of noncash transaction:		
Vehicles acquired in exchange for capital leases	\$ 99,894	\$ -

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

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Friends of the Children - SF Bay Area (*Friends - SF Bay Area*) 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 - SF Bay Area* 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 - SF Bay Area*, 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 - SF Bay Area* 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 - SF Bay Area* to use all or part of the income earned on related investments for general or specific purposes. *Friends - SF Bay Area*'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 restrictions.

FRIENDS OF THE CHILDREN - SF BAY AREA

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 - SF Bay Area* 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.

Revenue Recognition - All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. For exchange transactions, amounts received but not yet earned are recorded as deferred revenue.

Property and Equipment - Acquisitions of property and equipment in excess of \$1,000 and 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.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

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

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 - SF Bay Area 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.

Contribution of Long-Lived Assets - *Friends - SF Bay Area* 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 - SF Bay Area* receives contributed services from unpaid volunteers who assist in a range of fundraising and program activities. The values of such services, which *Friends - SF Bay Area* 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 - SF Bay Area* 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 - SF Bay Area's* activities.

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

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 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. Expenses are allocated based on estimates of time and effort attributable to each function.

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 - SF Bay Area* implemented ASU 2016-14 during the year ended August 31, 2019, and has adjusted the presentation in these financial statements accordingly.

Summarized Financial Information for 2018 - 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 Organization's financial statements for the year ended August 31, 2018, from which the summarized information was derived.

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 - SF BAY AREA

Notes to Financial Statements - Continued

3. Liquidity and Availability of Financial Resources

Friends - SF Bay Area'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	\$ 529,409
Receivables	<u>240,927</u>
	<u>\$ 770,336</u>

As part of *Friends - SF Bay Area'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	2018
Unconditional promises due within one year	\$ 162,000	\$ 155,000
Grants receivable - <i>Friends of the Children - National (Note 10)</i>	76,239	103,145
Other receivables	<u>2,688</u>	<u>2,330</u>
	<u>\$ 240,927</u>	<u>\$ 260,475</u>

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

5. Property and Equipment

Property and equipment consisted of the following at August 31:

	2019	2018
Office equipment	\$ 19,992	\$ 6,287
Computer equipment and software	57,523	51,120
Vehicles	128,354	-
Leasehold improvements	9,844	-
	215,713	57,407
Less accumulated depreciation and amortization	(49,631)	(27,523)
	\$ 166,082	\$ 29,884

6. Capital Lease Obligations

During 2018, *Friends - SF Bay Area* entered into several capital leases for vehicles costing \$128,354 (with accumulated amortization of \$4,253 at August 31, 2019). Total amortization expense for the year ended August 31, 2019, of \$4,253 is included in depreciation and amortization expense. The leases are payable in monthly installments ranging from \$281 to \$292 including interest ranging from 13.5 percent to 14.3 percent per annum. The leases expire July 2024.

Future minimum lease payments under the capital leases at August 31, 2019:

Years Ending December 31,	Amount
2020	\$ 27,687
2021	27,687
2022	27,687
2023	27,687
2024	23,637
	(37,070)
Less amount representing interest	\$ 97,315

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

7. 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 - SF Bay Area* released \$380,000 of net assets from donor restrictions due to the passage of time.

8. Retirement Plan

Friends - SF Bay Area participates in a multi-employer 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 vested over four years. The plan allows for employer matching contributions up to three percent of the eligible employees compensation. Contributions to the plan for the year ended August 31, 2019, totaled \$6,331.

9. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject *Friends - SF Bay Area* to concentrations of risk consist primarily of cash and cash equivalents and contributions receivable. *Friends - SF Bay Area* maintains balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation limits throughout the year. Concentrations of risk with respect to contributions receivable are due primarily from local business, charitable foundations, and individuals. At August 31, 2019, 74 percent of contributions receivable was due from two donors and 47 percent of contribution revenue was provided by two donors.

10. Related-Party Transactions

During the year ended August 31, 2019, *Friends - SF Bay Area* received contributions from employees and members of the Board of Directors totaling \$94,563. At August 31, 2019, contributions receivable from members of the Board of Directors totaled \$50,000.

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 - SF Bay Area* incurred expenses to *Friends - National* for chapter affiliation fees of \$4,800, professional fees of \$26,000, information technology support of \$6,900, and \$65,000 in research and evaluation expenses. Also, *Friends - National* provided *Friends - SF Bay Area* with grant income of \$360,000 of which \$76,239 was included in receivables at August 31, 2019.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

11. Commitments

Friends - SF Bay Area leases office space under an operating lease agreement with escalating payments currently calling for monthly payments of \$2,884. Rent expense for the year ended August 31, 2019, was \$34,952. Minimum payments remaining under the non-cancelable operating leases are as follows at August 31, 2019:

Years Ending August 31,	Amounts
2020	\$ 35,914
2021	36,991
2022	<u>28,363</u>
	<u><u>\$ 101,268</u></u>

12. Subsequent Events

Management has evaluated subsequent events through December 2, 2019, the date the financial statements were available to be issued.