

FRIENDS OF THE CHILDREN – SEATTLE

FINANCIAL REPORT

AUGUST 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Friends of the Children – Seattle
Seattle, Washington

We have audited the accompanying financial statements of Friends of the Children – Seattle, which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 auditor's 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 – Seattle as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

December 23, 2019

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF FINANCIAL POSITION

August 31, 2019 and 2018

ASSETS	2019	2018
Current Assets		
Cash and cash equivalents	\$ 1,682,155	\$ 1,643,084
Certificates of deposit		250,850
Pledges and grants receivable	191,740	296,240
Affiliate receivables - related party	67,709	129,973
Prepaid expenses	26,605	22,647
Total current assets	1,968,209	2,342,794
Long-Term Pledges and Grants Receivable, net of current portion		192,000
Advances to Mentors	8,615	8,150
Property and Equipment, net	218,549	248,492
Total assets	\$ 2,195,373	\$ 2,791,436
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 41,011	\$ 45,957
Accrued expenses	61,797	46,783
Total current liabilities	102,808	92,740
Deferred Rent	12,953	23,214
Total liabilities	115,761	115,954
Net Assets		
Without donor restrictions	1,682,374	2,201,315
With donor restrictions	397,238	474,167
Total net assets	2,079,612	2,675,482
Total liabilities and net assets	\$ 2,195,373	\$ 2,791,436

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Individual contributions	\$ 268,268	\$ -	\$ 268,268	\$ 777,124	\$ 60,000	\$ 837,124
Foundation grants	1,010,346	288,738	1,299,084	464,353	214,167	678,520
Government grants	418,523		418,523	520,003		520,003
Business contributions	144,685		144,685	104,310		104,310
Special event revenue	459,128		459,128	573,122		573,122
Special event direct expenses	(118,945)		(118,945)	(101,520)		(101,520)
In-kind contributions	54,757		54,757	38,852		38,852
Other income	1,218		1,218	829		829
Net assets released from restrictions	365,667	(365,667)		325,000	(325,000)	
Total revenue and support	2,603,647	(76,929)	2,526,718	2,702,073	(50,833)	2,651,240
Functional Expenses						
Program services	2,466,594		2,466,594	1,888,672		1,888,672
Management and general	133,092		133,092	200,794		200,794
Fundraising	522,902		522,902	421,526		421,526
	3,122,588		3,122,588	2,510,992		2,510,992
Change in net assets	(518,941)	(76,929)	(595,870)	191,081	(50,833)	140,248
Net Assets, beginning of year	2,201,315	474,167	2,675,482	2,010,234	525,000	2,535,234
Net Assets, end of year	<u>\$ 1,682,374</u>	<u>\$ 397,238</u>	<u>\$ 2,079,612</u>	<u>\$ 2,201,315</u>	<u>\$ 474,167</u>	<u>\$ 2,675,482</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended August 31, 2019 and 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,535,687	\$ 40,578	\$ 356,655	\$ 1,932,920	\$ 1,131,580	\$ 65,978	\$ 290,457	\$ 1,488,015
Payroll taxes	125,212	3,240	27,382	155,834	91,125	5,392	22,575	119,092
Benefits	197,818	3,254	38,626	239,698	147,947	5,425	34,191	187,563
Program costs	238,209			238,209	194,786			194,786
Professional services	75,726	60,567	34,646	170,939	61,784	101,781	12,480	176,045
Special events			118,945	118,945			101,520	101,520
Occupancy	80,372	1,234	16,902	98,508	81,006	1,837	14,223	97,066
Office expenses	57,352	4,944	17,956	80,252	44,339	4,309	17,459	66,107
Depreciation and amortization	34,584	420	7,037	42,041	33,361	736	6,560	40,657
Holiday gifts	46,105			46,105	38,852			38,852
Staff development	26,590	7,003	4,784	38,377	21,778	2,940	6,893	31,611
Volunteer training and support	20,973	1,085	1,268	23,326	18,323	1,418	1,240	20,981
Miscellaneous	27,966	10,767	17,646	56,379	23,791	10,978	15,448	50,217
Total expenses	2,466,594	133,092	641,847	3,241,533	1,888,672	200,794	523,046	2,612,512
Less: direct cost of fundraising events			(118,945)	(118,945)			(101,520)	(101,520)
Total expenses included in expenses on the statements of activities	\$ 2,466,594	\$ 133,092	\$ 522,902	\$ 3,122,588	\$ 1,888,672	\$ 200,794	\$ 421,526	\$ 2,510,992

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (595,870)	\$ 140,248
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	42,041	40,657
Donated property and equipment	(8,652)	
Changes in operating assets and liabilities		
Pledges and grants receivable	296,500	36,760
Affiliate receivables - related party	62,264	(48,345)
Prepaid expenses	(3,958)	(2,785)
Advances to mentors	(465)	(2,395)
Accounts payable	(4,946)	14,929
Accrued expenses	15,014	5,499
Deferred rent	(10,261)	(8,630)
	(208,333)	175,938
Net cash flows from operating activities	(208,333)	175,938
Cash Flows from Investing Activities		
Purchase of property and equipment	(3,446)	(3,773)
Proceeds (purchase) from certificates of deposit	250,850	(188)
	247,404	(3,961)
Net cash flows from investing activities	247,404	(3,961)
Net change in cash and cash equivalents	39,071	171,977
Cash and Cash Equivalents, beginning of year	1,643,084	1,471,107
Cash and Cash Equivalents, end of year	\$ 1,682,155	\$ 1,643,084

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

Friends of the Children – Seattle ("Friends – Seattle") was incorporated as a nonprofit entity in May 2000. Through long-term mentoring relationships, Friends – Seattle empowers youth facing the toughest challenges to achieve their greatest potential. Friends – Seattle selects children in kindergarten or first grade who face the highest risk of school failure, dropout, and other poor outcomes, and commits to them for 12½ years through high school graduation, providing four hours of professional mentoring each week. The long-term goals for each child are to graduate from high school with a diploma, avoid teen parenting, and avoid incarceration. During the year ended August 31, 2019, Friends – Seattle served approximately 222 children in kindergarten through twelfth grade.

Friends – Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2019, approximately 36% of total revenue was from two donors. Approximately 21% of total revenue was from one donor during the year ended August 31, 2018.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Cash and Cash Equivalents

Cash consists of funds held in checking, savings, and money market accounts. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. On occasion, Friends – Seattle may have amounts deposited with a financial institution in excess of federally insured limits.

Certificates of Deposit

Certificates of deposit consist of two certificates with original maturities over three months and are recorded at cost plus accrued interest. The certificates had both matured at August 31, 2019.

Pledges and Grants Receivable

Pledges and grants receivable that are expected to be collected within one year are recorded at net realizable value. Pledges and grants receivable that are expected to be collected in future years are recorded at fair value, which is measured at the present value of the future cash flows. The discount is computed using risk-adjusted interest rates applicable to the years in which the pledges and grants are received. Amortization of the discount is included in grants and contributions revenue in the statements of activities. There was no discount recognized at August 31, 2019 or 2018, based on materiality.

Advances to Mentors

Mentors are advanced approximately \$400 upon hiring for program expenses. Advances made to mentors are repaid to Friends – Seattle upon the termination or retirement of the mentor unless the mentor has been with the program for three years. After three years, the mentor is not required to repay the advance so at the mentor's three-year anniversary, the advance is recognized as a program expense.

Deferred Rent

Friends – Seattle has entered into an operating lease agreement for office space, which contains provisions for future rent increases, and periods in which rent payments are reduced (abated). In accordance with generally accepted accounting principles, Friends – Seattle records monthly rent expense equal to the total of the payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected as a separate line item in the accompanying statements of financial position.

Financial Statement Presentation

Friends – Seattle reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. All contributions and grants that are received are recorded depending on the existence and/or nature of any donor restrictions.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted programs or as time restrictions expire. If Friends – Seattle receives a contribution with donor restrictions and it meets the restrictions in the same year the contribution is received, then it records the contribution as being without donor restrictions. Net assets with donor restrictions are as follows at August 31:

	<u>2019</u>	<u>2018</u>
Youth mentorship expansion	\$ 213,738	\$ -
Time restrictions	<u>183,500</u>	<u>474,167</u>
	<u>\$ 397,238</u>	<u>\$ 474,167</u>

Net Assets without Donor Restrictions

Net assets without donor restrictions consist of the following at August 31:

	<u>2019</u>	<u>2018</u>
Board-designated general operating reserve	\$ 500,000	\$ 500,000
Undesignated	<u>1,182,374</u>	<u>1,701,315</u>
Net assets without donor restrictions	<u>\$ 1,682,374</u>	<u>\$ 2,201,315</u>

Revenue Recognition from Contributions and Grants

Revenue from contributions (including those received from special events) is recorded when the pledge to Friends – Seattle is made. Revenue from contribution-type grants is recognized during the period for which it was awarded to Friends – Seattle. Revenue from governmental grants that contain certain conditions is recognized when the condition is met and the grant is earned.

In-Kind Contributions

In-kind contributions are recognized at the estimated fair value of the contributions received. In-kind contributions for the year ended August 31, 2019, consisted of donated property and equipment and holiday gifts. For the year ended August 31, 2018, in-kind contributions consisted of only holiday gifts.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and related costs are allocated based on estimates of time and effort. Expenses allocated based on square footage are office, occupancy expenses, and insurance. All other expenses are based on individual invoices and/or work performed.

Income Taxes

Friends – Seattle is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Recent Accounting Pronouncement Adopted

During the year ended August 31, 2019, Friends – Seattle adopted the provisions of 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 classifications, 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 – Seattle has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

Subsequent Events

Management of Friends – Seattle has evaluated subsequent events through the date these financial statements were available to be issued, which was December 23, 2019.

Note 2. Liquidity and Availability of Resources

Friends - Seattle strives to maintain liquid financial assets sufficient to cover six months of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, certificates of deposit, or treasury bills.

The following table reflects the organization's financial assets as of August 31, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include board-designated projects fund that are intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Additionally, to help manage unanticipated liquidity needs, the organization has a line of credit in the amount of \$50,000, which could be drawn upon (see note 7). The amounts not available to meet general expenditures within one year also may include net assets with donor restrictions. At August 31, 2019, all net assets with donor restrictions were available for general expenditures in the following year.

Financial assets:		
Cash and cash equivalents	\$	1,682,155
Pledges and grants receivable		191,740
Affiliate receivables - related party		67,709
Advances to mentors		8,615
		<hr/>
Total financial assets		1,950,219
Less amounts not available to meet general expenditures:		
Board designated funds		500,000
Advances to mentors		8,615
		<hr/>
Financial assets available to meet general expenditures available within one year	\$	<u>1,441,604</u>

Note 3. Pledges and Grants Receivable

Pledges and grants receivable consist of the following at August 31:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 191,740	\$ 296,240
Receivable in one to five years		192,000
	<hr/>	<hr/>
Pledges and grants receivable	<u>\$ 191,740</u>	<u>\$ 488,240</u>

Pledges receivable consist of promises to give due from contributors. Grants receivable consist of grants due from contributors. Management reviews the collectibility of pledges and grants receivable on a periodic basis and determines the appropriate amount of any allowance. Friends – Seattle charges off pledges and grants receivable to the allowance when management determines that a receivable is not collectible. No allowance was considered necessary by management at August 31, 2019 or 2018.

Approximately 71% of the total pledges and grants receivable balance was due from two donors at August 31, 2019. Approximately 76% of the total pledges and grants receivable balance was due from two donors at August 31, 2018.

Note 4. Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of receipt, if donated. Friends – Seattle’s policy is to capitalize assets with a cost greater than \$1,000 and a useful life greater than one year. Maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful lives or the anticipated lease term and are related to improvements on Friends – Seattle’s leased office space (see Note 5 below). Property and equipment consist of the following at August 31:

	2019	2018
Furniture	\$ 25,748	\$ 25,748
Computer equipment	92,807	80,709
Leasehold improvements	327,218	327,218
	445,773	433,675
Less: accumulated depreciation and amortization	(227,224)	(185,183)
	<u>\$ 218,549</u>	<u>\$ 248,492</u>

Note 5. Lease Commitment

Friends – Seattle has an operating lease for office space through September 30, 2025.

Total rent expense was \$86,986 and \$85,570 for the years ended August 31, 2019 and 2018, respectively. These amounts include common area costs, insurance, and other costs as part of the lease payments. Rent expense is included in occupancy expense on the statements of functional expenses.

Future minimum lease payments under the current lease agreement are as follows for the years ending August 31:

2020	\$ 57,548
2021	59,275
2022	61,053
2023	62,885
2024	64,771
Thereafter	72,288
	<u>\$ 377,820</u>

Note 6. Retirement Plan

Friends – Seattle has a 401(k) defined contribution plan ("the Plan") covering all regular full-time employees upon their date of hire. Friends – Seattle makes a contribution to the Plan each year at its discretion. Friends – Seattle contributed \$28,921 and \$20,134 to the Plan during the years ended August 31, 2019 and 2018, respectively.

Note 7. Line of Credit

Friends – Seattle has a line of credit with a bank with no specific maturity date. The line of credit is unsecured and has a maximum borrowing base of \$50,000. Interest-only payments are required monthly until maturity. Interest on the line of credit is based on the prime rate plus 2.0%, subject to a minimum of 5.0% and a maximum of 18.0%. No funds had been drawn on the line of credit at August 31, 2019 or 2018.

Note 8. Related Party Transactions

Friends – Seattle is affiliated with a national organization ("Friends – National"). Friends – National received three separate grants from the federal government. A portion of each of these grants was passed on to Friends – Seattle. For the years ended August 31, 2019 and 2018, respectively, Friends – Seattle recognized \$319,644 and \$454,082 in revenue related to these grants, which is included with government grants on the statements of activities. As of August 31, 2019 and 2018, Friends – Seattle had a receivable from Friends – National of \$67,709 and \$129,973, respectively, which is shown as affiliate receivables – related party on the statements of financial position.