



Friends of the Children - Seattle

Financial Statements Years Ended August 31, 2020 and 2019

Friends of the Children - Seattle

Financial Statements
Years Ended August 31, 2020 and 2019

Friends of the Children - Seattle

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Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Friends of the Children - Seattle, 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.

Auditor's 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 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.



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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, 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.

Other Matter - Prior-Period Financial Statements

The financial statements of Friends of the Children - Seattle as of and for the year ended August 31, 2019, were audited by Peterson Sullivan LLP, whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. Peterson Sullivan LLP expressed an unmodified opinion on those statements in their report dated December 23, 2019.

BDO USA, LLP

January 11, 2021

Financial Statements

Friends of the Children - Seattle

Statements of Financial Position

August 31,	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,075,987	\$ 1,682,155
Pledges and grants receivable	446,076	191,740
Affiliate receivables - related party	91,852	67,709
Prepaid expenses	-	26,605
Total Current Assets	2,613,915	1,968,209
Long-term pledges and grants receivable, net of current portion	233,000	-
Advances to mentors	7,830	8,615
Property and equipment, net	175,828	218,549
Total Assets	\$ 3,030,573	\$ 2,195,373
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 26,815	\$ 41,011
Accrued expenses	86,160	61,797
Total Current Liabilities	112,975	102,808
Deferred Rent	-	12,953
Paycheck Protection Program Loan	443,700	-
Total Liabilities	556,675	115,761
Net Assets		
Without donor restrictions	1,685,214	1,682,374
With donor restrictions	788,684	397,238
Total Net Assets	\$ 2,473,898	\$ 2,079,612
Total Liabilities and Net Assets	\$ 3,030,573	\$ 2,195,373

See accompanying notes to financial statements.

Friends of the Children - Seattle

Statements of Activities

Year Ended August 31,	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Individual contributions	\$ 181,390	\$ 525,000	\$ 706,390	\$ 268,268	\$ -	\$ 268,268
Foundation grants	1,708,286	206,184	1,914,470	1,010,346	288,738	1,299,084
Government grants	522,380	-	522,380	418,523	-	418,523
Business contributions	141,486	57,500	198,986	144,685	-	144,685
Special event revenue	558,204	-	558,204	459,128	-	459,128
Special event direct expenses	(99,910)	-	(99,910)	(118,945)	-	(118,945)
In-kind contributions	81,630	-	81,630	54,757	-	54,757
Other income	539	-	539	1,218	-	1,218
Net assets released from restrictions	397,238	(397,238)	-	365,667	(365,667)	-
Total Revenue and Support	3,491,243	391,446	3,882,689	2,603,647	(76,929)	2,526,718
Functional Expenses						
Program services	2,717,214	-	2,717,214	2,466,594	-	2,466,594
Management and general	132,223	-	132,223	133,092	-	133,092
Fundraising	638,966	-	638,966	522,902	-	522,902
Total Functional Expenses	3,488,403	-	3,488,403	3,122,588	-	3,122,588
Change in Net Assets	2,840	391,446	394,286	(518,941)	(76,929)	(595,870)
Net Assets, beginning of year	1,682,374	397,238	2,079,612	2,201,315	474,167	2,675,482
Net Assets, end of year	\$ 1,685,214	\$ 788,684	\$ 2,473,898	\$ 1,682,374	\$ 397,238	\$ 2,079,612

See accompanying notes to financial statements.

Friends of the Children - Seattle
Statements of Functional Expenses

<i>Year Ended August 31,</i>	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,736,373	\$ 44,235	\$ 482,456	\$ 2,263,064	\$ 1,535,687	\$ 40,578	\$ 356,655	\$ 1,932,920
Payroll taxes	139,950	3,293	37,377	180,620	125,212	3,240	27,382	155,834
Benefits	214,983	3,757	48,694	267,434	197,818	3,254	38,626	239,698
Program costs	278,697	65	63	278,825	238,209	-	-	238,209
Professional services	69,124	61,399	15,301	145,824	75,726	60,567	34,646	170,939
Special events	-	-	99,910	99,910	-	-	118,945	118,945
Occupancy	81,439	993	16,884	99,316	80,372	1,234	16,902	98,508
Office expenses	45,623	3,344	16,487	65,454	57,352	4,944	17,956	80,252
Depreciation and amortization	35,031	427	7,263	42,721	34,584	420	7,037	42,041
Family holiday gifts (in-kind)	53,470	-	-	53,470	46,105	-	-	46,105
Student supplies (in-kind)	28,160	-	-	28,160	-	-	-	-
Staff development	6,285	601	-	6,886	26,590	7,003	4,784	38,377
Volunteer training and support	63	1,049	-	1,112	20,973	1,085	1,268	23,326
Miscellaneous	28,016	13,060	14,441	55,517	27,966	10,767	17,646	56,379
Total Expenses	2,717,214	132,223	738,876	3,588,313	2,466,594	133,092	641,847	3,241,533
Less: Direct cost of fundraising events	-	-	(99,910)	(99,910)	-	-	(118,945)	(118,945)
Total expenses included in expenses on the statements of activities	\$ 2,717,214	\$ 132,223	\$ 638,966	\$ 3,488,403	\$ 2,466,594	\$ 133,092	\$ 522,902	\$ 3,122,588

See accompanying notes to financial statements.

Friends of the Children - Seattle

Statements of Cash Flows

<i>Year Ended August 31,</i>	2020	2019
Cash Flows for Operating Activities		
Change in net assets	\$ 394,286	\$ (595,870)
Adjustments to reconcile change in net assets to net cash flows for operating activities:		
Depreciation and amortization	42,721	42,041
Donated property and equipment	-	(8,652)
Changes in operating assets and liabilities		
Pledges and grants receivable	(487,336)	296,500
Affiliate receivables - related party	(24,143)	62,264
Prepaid expenses	26,605	(3,958)
Advances to mentors	785	(465)
Accounts payable	(14,196)	(4,946)
Accrued expenses	24,363	15,014
Deferred rent	(12,953)	(10,261)
Net Cash Flows for Operating Activities	(49,868)	(208,333)
Cash Flows from Investing Activities		
Purchase of property and equipment	-	(3,446)
Proceeds from certificates of deposit	-	250,850
Net Cash Flows from Investing Activities	-	247,404
Cash Flows from Financing Activity		
Proceeds from Paycheck Protection Program loan	443,700	-
Net Change in Cash and Cash Equivalents	393,832	39,071
Cash and Cash Equivalents, beginning of year	1,682,155	1,643,084
Cash and Cash Equivalents, end of year	\$ 2,075,987	\$ 1,682,155

See accompanying notes to financial statements.

Friends of the Children - Seattle

Notes to Financial Statements

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, 2020, Friends - Seattle served approximately 221 children in kindergarten through twelfth grade.

Friends - Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2020, approximately 42% of total revenue was from two donors. Approximately 36% of total revenue was from two donors during the year ended August 31, 2019.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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

During the year ended August 31, 2019, Friends-Seattle held two certificates of deposit. These certificates matured in 2019. There were no certificates of deposit held at August 31, 2020 or 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, 2020 or 2019, 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

Friends of the Children - Seattle

Notes to Financial Statements

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:

	2020	2019
Youth mentorship expansion	\$ 120,184	\$ 213,738
Kitchen renovation	20,000	-
Time restrictions	648,500	183,500
	\$ 788,684	\$ 397,238

Net Assets without Donor Restrictions

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

	2020	2019
Board-designated general operating reserve	\$ 500,000	\$ 500,000
Undesignated	1,185,214	1,182,374
Net Assets without Donor Restrictions	\$ 1,685,214	\$ 1,682,374

Friends of the Children - Seattle

Notes to Financial Statements

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 are recognized when the condition is met. At August 31, 2020, Friends - Seattle had \$32,000 in grants awarded where conditions had not yet been met.

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, 2020, consisted of donated holiday gifts and student supplies (primarily laptops). For the year ended August 31, 2019, in-kind contributions consisted of donated property and equipment and family 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.

Recent Accounting Pronouncement Adopted

During the year ended June 30, 2020, Friends - Seattle adopted the provisions of Accounting Standards Update (“ASU”) No. 2018-08, Not-for-Profit Entities (“Topic 958”) - clarifying the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. As result of adopting the ASU, there was no material change to Friends - Seattle’s financial statements.

Income Taxes

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

Subsequent Events

Management of Friends - Seattle has evaluated subsequent events through the date these financial statements were available to be issued, which was January 11, 2021.

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.

Friends of the Children - Seattle

Notes to Financial Statements

The following table reflects Friends - Seattle's financial assets as of August 31, 2020 and 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 8). The amounts not available to meet general expenditures within one year also may include net assets with donor restrictions. At August 31, 2020, net assets with donor restrictions were available for general expenditures in the following year with the exception of long-term donations restricted for time.

	2020	2019
Financial Assets		
Cash and cash equivalents	\$ 2,075,987	\$ 1,682,155
Pledges and grants receivable	679,076	191,740
Affiliate receivables - related party	91,852	67,709
Advances to mentors	7,830	8,615
Total Financial Assets	2,854,745	1,950,219
Less: Amounts not available to meet general expenditures		
Long-term pledges and grants receivable	233,000	-
Board designated funds	500,000	500,000
Advances to mentors	7,830	8,615
Financial assets available to meet general expenditures available within one year	\$ 2,113,915	\$ 1,441,604

3. Pledges and Grants Receivable

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

	2020	2019
Receivable in less than one year	\$ 446,076	\$ 191,740
Receivable due in one year	233,000	-
Pledges and Grants Receivable	\$ 679,076	\$ 191,740

Pledges receivable consist of promises to give due from contributors. Grants receivable consist of grants due from contributors. Management reviews the collectability 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, 2020 or 2019.

Friends of the Children - Seattle

Notes to Financial Statements

Approximately 53% of the total pledges and grants receivable balance was due from one donor at August 31, 2020. Approximately 71% of the total pledges and grants receivable balance was due from two donors at August 31, 2019.

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:

	2020	2019
Furniture	\$ 23,387	\$ 25,748
Computer equipment	67,735	92,807
Leasehold improvements	327,218	327,218
	418,340	445,773
Less: Accumulated depreciation and amortization	(242,512)	(227,224)
	\$ 175,828	\$ 218,549

5. Lease Commitment

During the year ended August 31, 2020, Friends - Seattle exercised its option to extend its operating lease for office space through September 30, 2025.

Total rent expense was \$89,047 and \$86,986 for the years ended August 31, 2020 and 2019, 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:

2021	\$ 59,275
2022	61,053
2023	62,885
2024	64,771
2025	66,715
Thereafter	5,573
	\$ 320,272

Friends of the Children - Seattle

Notes to Financial Statements

6. Paycheck Protection Program Loan

In April 2020, Friends - Seattle received a loan through the SBA Paycheck Protection Program (“PPP Loan”) in the amount of \$443,700. The loan bears interest at 1% per annum, is due in April 2022, and can be forgiven based on expenditures relating to payroll, rent, and utilities, twenty-four weeks from the when the loan was funded. Based on the terms of the PPP Loan, the principal maturities are due in the fiscal years ending August 31, 2021 and 2022, of \$0 and \$443,700, respectively, unless forgiven. As of August 31, 2020, management has not recognized accrued interest on the PPP Loan as the amount was immaterial to these financial statements.

The PPP Loan is forgivable in certain situations to promote continued employment, as well as to provide liquidity to small businesses harmed by the COVID-19 outbreak. The application for these funds required the Friends - Seattle to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of Friends - Seattle. This certification further required Friends - Seattle to take into account its current operations and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to its operations. Based on preliminary estimates, Friends - Seattle believes it will be able to use all of the PPP Loan funds for forgivable purposes based on the current allowable rules. Subsequent to the balance sheet date, Friends - Seattle has applied through its financial institution for forgiveness of 100% of the loan principal and accrued interest and amounts were forgiven in full as of December 31, 2020.

7. 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 \$39,177 and \$28,921 to the Plan during the years ended August 31, 2020 and 2019, respectively.

8. 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, 2020 or 2019.

9. 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, 2020 and 2019, respectively, Friends - Seattle recognized \$399,917 and \$319,644 in revenue related to these grants, which is included with government grants on the statements of activities. As of August 31, 2020 and 2019, Friends - Seattle had a receivable from Friends - National of \$91,852 and \$67,709, respectively, which is shown as affiliate receivables - related party on the statements of financial position.

Friends of the Children - Seattle

Notes to Financial Statements

10. Novel Coronavirus

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. Through August 31, 2020, the COVID-19 outbreak has not had a material impact on Friends - Seattle’s operating results, however, all mentor sessions are now held virtually, and support staff are primarily working from home.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on Friends - Seattle’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, Friends - Seattle is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act” was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

It also appropriated funds for the PPP Loan program that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by the COVID-19 outbreak. In April 2020, Friends - Seattle received a PPP Loan in the amount of \$443,700. See Note 6 for further details.