

FRIENDS OF THE CHILDREN – SEATTLE

FINANCIAL REPORT

AUGUST 31, 2017

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENTS OF FUNCTIONAL EXPENSES.....	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 10

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, 2017 and 2016, 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, 2017 and 2016, 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

January 4, 2018

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF FINANCIAL POSITION

August 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 1,471,107	\$ 1,160,224
Certificates of deposit	250,662	250,567
Pledges and grants receivable	325,000	932,344
Affiliate receivables - related party	81,628	50,210
Prepaid expenses	<u>19,862</u>	<u>19,718</u>
Total current assets	2,148,259	2,413,063
Long-Term Pledges and Grants Receivable, net of current portion	200,000	145,000
Advances to Mentors	5,755	4,150
Property and Equipment, net	<u>285,376</u>	<u>316,466</u>
Total assets	<u>\$ 2,639,390</u>	<u>\$ 2,878,679</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 31,028	\$ 19,297
Accrued expenses	<u>41,284</u>	<u>28,841</u>
Total current liabilities	72,312	48,138
Deferred Rent	<u>31,844</u>	<u>39,022</u>
Total liabilities	104,156	87,160
Net Assets		
Unrestricted	2,010,234	1,668,965
Temporarily restricted	<u>525,000</u>	<u>1,122,554</u>
Total net assets	<u>2,535,234</u>	<u>2,791,519</u>
Total liabilities and net assets	<u>\$ 2,639,390</u>	<u>\$ 2,878,679</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Foundation grants	\$ 244,358	\$ 85,000	\$ 329,358	\$ 246,533	\$ 156,054	\$ 402,587
Individual contributions	310,206	280,000	590,206	364,511	190,000	554,511
Business contributions	105,227	15,000	120,227	113,758	20,000	133,758
Government grants	256,001		256,001			
Special event revenue	502,982		502,982	536,829		536,829
Special event direct expenses	(101,229)		(101,229)	(71,934)		(71,934)
In-kind contributions	56,400		56,400	25,925		25,925
Other income	679		679	716		716
Net assets released from restrictions	977,554	(977,554)		934,188	(934,188)	
Total revenue and support	2,352,178	(597,554)	1,754,624	2,150,526	(568,134)	1,582,392
Functional Expenses						
Program services	1,465,460		1,465,460	1,221,823		1,221,823
Management and general	133,682		133,682	86,025		86,025
Fundraising	411,767		411,767	356,617		356,617
	2,010,909		2,010,909	1,664,465		1,664,465
Change in net assets	341,269	(597,554)	(256,285)	486,061	(568,134)	(82,073)
Net Assets, beginning of year	1,668,965	1,122,554	2,791,519	1,182,904	1,690,688	2,873,592
Net Assets, end of year	\$ 2,010,234	\$ 525,000	\$ 2,535,234	\$ 1,668,965	\$ 1,122,554	\$ 2,791,519

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended August 31, 2017 and 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 844,943	\$ 50,739	\$ 261,261	\$ 1,156,943	\$ 696,936	\$ 28,168	\$ 221,763	\$ 946,867
Payroll taxes	69,090	4,009	21,164	94,263	57,785	2,266	18,254	78,305
Benefits	101,434	4,226	28,966	134,626	88,902	2,437	24,694	116,033
Program costs	152,151			152,151	133,252			133,252
Professional services	44,508	50,803	27,045	122,356	27,565	37,837	31,645	97,047
Occupancy	75,457	2,718	17,313	95,488	67,795	3,306	14,570	85,671
Holiday gifts	40,600			40,600	25,925			25,925
Staff development	18,218	4,446	12,776	35,440	13,461	1,235	10,000	24,696
Volunteer training and support	20,722	3,921	1,874	26,517	16,519	1,239	1,522	19,280
Dues, fees, and licenses	10,472	2,262	5,974	18,708	11,394	514	1,666	13,574
Travel, transportation, and meetings	12,530	1,400	1,767	15,697	9,719	1,018	2,492	13,229
Copying and printing	7,298	264	6,506	14,068	5,608	138	3,751	9,497
Repair and maintenance	8,169	1,509	1,899	11,577	6,685	2,606	1,834	11,125
Equipment	7,820	216	2,596	10,632	5,597	337	2,827	8,761
Telephone and internet	6,217	206	4,040	10,463	7,394	135	4,026	11,555
Supplies	6,839	1,760	1,555	10,154	8,100	1,360	2,473	11,933
Insurance	4,618	3,612	1,133	9,363	6,001	1,901	1,443	9,345
Other events			4,482	4,482			2,881	2,881
Bank fees	886	720	1,678	3,284	866	392	2,034	3,292
Postage	1,008	29	1,760	2,797	473	103	1,496	2,072
Miscellaneous	495		825	1,320	500	250	190	940
	<u>1,433,475</u>	<u>132,840</u>	<u>404,614</u>	<u>1,970,929</u>	<u>1,190,477</u>	<u>85,242</u>	<u>349,561</u>	<u>1,625,280</u>
Depreciation and amortization	<u>31,985</u>	<u>842</u>	<u>7,153</u>	<u>39,980</u>	<u>31,346</u>	<u>783</u>	<u>7,056</u>	<u>39,185</u>
Total expenses	<u>\$ 1,465,460</u>	<u>\$ 133,682</u>	<u>\$ 411,767</u>	<u>\$ 2,010,909</u>	<u>\$ 1,221,823</u>	<u>\$ 86,025</u>	<u>\$ 356,617</u>	<u>\$ 1,664,465</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (256,285)	\$ (82,073)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	39,980	39,185
Donated property and equipment	(2,800)	
Change in discount on long-term receivables		(14,563)
Changes in operating assets and liabilities		
Pledges and grants receivable	552,344	623,344
Affiliate receivables - related party	(31,418)	(50,210)
Prepaid expenses	(144)	(17,903)
Advances to mentors	(1,605)	(1,150)
Accounts payable	11,731	(5,462)
Accrued expenses	12,443	3,992
Deferred rent	(7,178)	(5,670)
	317,068	489,490
Net cash flows from operating activities	317,068	489,490
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,090)	(1,335)
Purchase of certificates of deposit	(95)	(222)
	(6,185)	(1,557)
Net cash flows from investing activities	(6,185)	(1,557)
	310,883	487,933
Net change in cash and cash equivalents	310,883	487,933
Cash and Cash Equivalents, beginning of year	1,160,224	672,291
Cash and Cash Equivalents, end of year	\$ 1,471,107	\$ 1,160,224

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, 2017, Friends – Seattle served approximately 160 children in kindergarten through twelfth grade.

Friends – Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2017, approximately 17% of total revenue was from one individual donor. During the year ended August 31, 2016, approximately 26% of total revenue was from two individual donors.

Financial Statement Presentation

Friends – Seattle reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Friends – Seattle has no permanently restricted net assets, so this class of net assets is not shown on the financial statements. All contributions and grants that are received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions.

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 interest. The certificates have stated interest rates between 0.05% and 0.10% as of August 31, 2017 and 2016. The certificates at August 31, 2017, mature between September 17, 2017, and March 17, 2018.

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, 2017 or 2016, as management determined the discount was immaterial to the financial statements taken as a whole.

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.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions expire. Friends – Seattle has elected to show temporarily restricted contributions for which the restrictions are met in the same reporting period as unrestricted support. At August 31, 2017 and 2016, all temporarily restricted net assets were restricted for time purposes.

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, 2017, consisted of donated property and equipment, staff and volunteer gift cards, and holiday gifts. For the year ended August 31, 2016, in-kind contributions consisted entirely of donated 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 4, 2018.

Note 2. Pledges and Grants Receivable

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

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 325,000	\$ 932,344
Receivable in one to two years	<u>200,000</u>	<u>145,000</u>
Pledges and grants receivable	<u>\$ 525,000</u>	<u>\$ 1,077,344</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, 2017 or 2016.

Approximately 66% of the total pledges and grants receivable balance was due from one donor at August 31, 2017. Approximately 77% of the total pledges and grants receivable balance was due from three donors at August 31, 2016.

Note 3. 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 4 below. Property and equipment consisted of the following at August 31:

	2017	2016
Furniture	\$ 25,748	\$ 25,748
Computer equipment	76,936	68,046
Leasehold improvements	327,218	327,218
	429,902	421,012
Less: accumulated depreciation and amortization	(144,526)	(104,546)
	<u>\$ 285,376</u>	<u>\$ 316,466</u>

Note 4. Lease Commitment

In September 2014, Friends – Seattle signed an operating lease for office space for the period from October 1, 2014, through September 30, 2020.

Total rent expense was \$85,779 and \$78,089 for the years ended August 31, 2017 and 2016, respectively. 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:

2018	\$ 54,231
2019	55,863
2020	57,548
2021	4,807
	<u>\$ 172,449</u>

Note 5. 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 \$17,790 and \$14,300 to the Plan during the years ended August 31, 2017 and 2016, respectively.

Note 6. 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, 2017 or 2016.

Note 7. Unrestricted Net Assets

Unrestricted net assets consist of the following at August 31:

	<u>2017</u>	<u>2016</u>
Board-designated general operating reserve	\$ 500,000	\$ 500,000
Undesignated	<u>1,510,234</u>	<u>1,168,965</u>
Unrestricted net assets	<u>\$ 2,010,234</u>	<u>\$ 1,668,965</u>

Note 8. Related Party Transactions

Fundraising Agreement

During the year ended August 31, 2016, Friends – Seattle received a grant from Friends of the Children – National ("Friends – National") for \$60,420 to cover the costs of hiring a Director of Advancement. Under the grant, Friends – Seattle signed a Memorandum of Understanding ("MOU") to provide references on existing contacts and fundraising opportunities for donors who may be interested in donating to Friends - National. The MOU was in place as of March 4, 2016, and was set to continue through March 4, 2017. The grant, however, was terminated on January 31, 2017. There was \$30,210 remaining as a receivable at August 31, 2016, of which \$20,140 was collected, with the remaining \$10,070 written off during fiscal year-end 2017.

Sub-grants

In addition, during the year ended August 31, 2016, Friends – National received a contribution from a corporation in which Friends – National granted a portion of the funds to various related Friends organizations. Friends – Seattle received \$40,000 from that contribution, with \$20,000 remaining as a receivable at August 31, 2016, which was received in full during 2017.

Friends – National also received three separate grants from the federal government. A portion of each of these grants was passed on to Friends – Seattle. For the year ended August 31, 2017, Friends – Seattle recognized \$256,001 in revenue related to these grants, which is included with government grants on the statements of activities. As of August 31, 2017, Friends – Seattle had a receivable from Friends – National of \$81,628, which is shown as affiliate receivables – related party on the statements of financial position.