

FRIENDS OF THE CHILDREN – SEATTLE

FINANCIAL REPORT

AUGUST 31, 2016

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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, 2016 and 2015, 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, 2016 and 2015, 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 6, 2017

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF FINANCIAL POSITION

August 31, 2016 and 2015

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 1,160,224	\$ 672,291
Certificates of deposit	250,567	250,345
Pledges and grants receivable	932,344	944,188
Affiliate receivables - related party	50,210	
Prepaid expenses	19,718	1,815
Total current assets	2,413,063	1,868,639
Long-term Pledges and Grants Receivable, net	145,000	741,937
Advances to Mentors	4,150	3,000
Property and Equipment, net	316,466	354,316
Total assets	\$ 2,878,679	\$ 2,967,892
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 19,297	\$ 24,759
Accrued expenses	28,841	24,849
Total current liabilities	48,138	49,608
Deferred Rent	39,022	44,692
Total liabilities	87,160	94,300
Net Assets		
Unrestricted	1,668,965	1,182,904
Temporarily restricted	1,122,554	1,690,688
Total net assets	2,791,519	2,873,592
Total liabilities and net assets	\$ 2,878,679	\$ 2,967,892

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Foundation grants	\$ 246,533	\$ 156,054	\$ 402,587	\$ 669,936	\$ 555,688	\$ 1,225,624
Individual contributions	364,511	190,000	554,511	214,832	100,000	314,832
Business contributions	113,758	20,000	133,758	107,669	15,000	122,669
Special event revenue	536,829		536,829	639,025		639,025
Special event direct expenses	(71,934)		(71,934)	(77,854)		(77,854)
In-kind contributions	25,925		25,925	34,072		34,072
Other income	716		716	2,290		2,290
Net assets released from restrictions	934,188	(934,188)		456,003	(456,003)	
Total revenue and support	2,150,526	(568,134)	1,582,392	2,045,973	214,685	2,260,658
Functional Expenses						
Program services	1,221,823		1,221,823	1,068,580		1,068,580
Management and general	86,025		86,025	78,718		78,718
Fundraising	356,617		356,617	211,810		211,810
	1,664,465		1,664,465	1,359,108		1,359,108
Change in net assets	486,061	(568,134)	(82,073)	686,865	214,685	901,550
Net Assets, beginning of year	1,182,904	1,690,688	2,873,592	496,039	1,476,003	1,972,042
Net Assets, end of year	<u>\$ 1,668,965</u>	<u>\$ 1,122,554</u>	<u>\$ 2,791,519</u>	<u>\$ 1,182,904</u>	<u>\$ 1,690,688</u>	<u>\$ 2,873,592</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended August 31, 2016 and 2015

	2016				2015			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 696,936	\$ 28,168	\$ 221,763	\$ 946,867	\$ 558,761	\$ 27,116	\$ 132,470	\$ 718,347
Payroll taxes	57,785	2,266	18,254	78,305	48,487	2,063	11,031	61,581
Benefits	88,902	2,437	24,694	116,033	72,755	2,634	12,435	87,824
Program costs	133,252			133,252	105,588			105,588
Professional services	27,565	37,837	31,645	97,047	38,019	33,228	10,539	81,786
Occupancy	67,795	3,306	14,570	85,671	87,864	2,590	14,847	105,301
In-kind expenses	25,925			25,925	33,235	194	643	34,072
Staff development	13,461	1,235	10,000	24,696	13,274	1,196	2,955	17,425
Volunteer training and support	16,519	1,239	1,522	19,280	15,186	444	24	15,654
Dues, fees, and licenses	11,394	514	1,666	13,574	8,803	848	1,611	11,262
Travel, transportation, and meetings	9,719	1,018	2,492	13,229	4,353	1,477	1,919	7,749
Supplies	8,100	1,360	2,473	11,933	7,530	1,910	3,648	13,088
Telephone and internet	7,394	135	4,026	11,555	7,666	202	2,587	10,455
Repair and maintenance	6,685	2,606	1,834	11,125	6,698	169	1,171	8,038
Copying and printing	5,608	138	3,751	9,497	4,754	220	2,208	7,182
Insurance	6,001	1,901	1,443	9,345	6,751	1,960	1,037	9,748
Equipment	5,597	337	2,827	8,761	27,342	771	4,245	32,358
Bank fees	866	392	2,034	3,292	699	424	1,185	2,308
Other events			2,881	2,881	681		3,490	4,171
Postage	473	103	1,496	2,072	347	440	345	1,132
Miscellaneous	500	250	190	940	3,189	437	653	4,279
	<u>1,190,477</u>	<u>85,242</u>	<u>349,561</u>	<u>1,625,280</u>	<u>1,051,982</u>	<u>78,323</u>	<u>209,043</u>	<u>1,339,348</u>
Depreciation and amortization	<u>31,346</u>	<u>783</u>	<u>7,056</u>	<u>39,185</u>	<u>16,598</u>	<u>395</u>	<u>2,767</u>	<u>19,760</u>
Total expenses	<u>\$ 1,221,823</u>	<u>\$ 86,025</u>	<u>\$ 356,617</u>	<u>\$ 1,664,465</u>	<u>\$ 1,068,580</u>	<u>\$ 78,718</u>	<u>\$ 211,810</u>	<u>\$ 1,359,108</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN – SEATTLE

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (82,073)	\$ 901,550
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	39,185	19,760
Change in discount on long-term receivables	(14,563)	(71,122)
Change in operating assets and liabilities		
Pledges and grants receivable	623,344	(127,008)
Affiliate receivables - related party	(50,210)	
Prepaid expenses	(17,903)	2,673
Advances to mentors	(1,150)	(1,000)
Accounts payable	(5,462)	8,011
Accrued expenses	3,992	(505)
Deferred rent	(5,670)	44,692
	489,490	777,051
Net cash flows from operating activities	489,490	777,051
Cash Flows Used in Investing Activities		
Purchase of property and equipment	(1,335)	(368,975)
Purchase of certificates of deposit	(222)	(275)
	(1,557)	(369,250)
Net cash flows from investing activities	(1,557)	(369,250)
Net change in cash and cash equivalents	487,933	407,801
Cash and Cash Equivalents, beginning of year	672,291	264,490
Cash and Cash Equivalents, end of year	\$ 1,160,224	\$ 672,291

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 12 ½ 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, 2016, Friends – Seattle served approximately 130 children in kindergarten through twelfth grade.

Friends – Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2016, approximately 26% of total revenue was from two individual donors. During the year ended August 31, 2015, approximately 27% of total revenue was from one foundation.

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 0.10% and 0.12% as of August 31, 2016 and 2015. The certificates at August 31, 2016, mature between September 17, 2016, and March 17, 2017.

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. See Note 2 for the discount amount calculated by management and included in net pledges and grants receivable at August 31, 2015. There was no discount recognized at August 31, 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, 2016 and 2015, all temporarily restricted net assets were restricted for time purposes.

Revenue Recognition from Contributions and Grants

Revenue from contributions is recorded when the pledge to Friends – Seattle is made. Revenue from grants is recognized during the period for which it was awarded to Friends – Seattle.

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, 2016 consisted entirely of donated goods and for the year ended August 31, 2015, consisted entirely of rent and donated goods.

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 6, 2017.

Note 2. Pledges and Grants Receivable

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

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 932,344	\$ 944,188
Receivable in one to three years	<u>145,000</u>	<u>756,500</u>
	1,077,344	1,700,688
Less discount on long-term receivables (3.0%)		<u>(14,563)</u>
Net pledges and grants receivable	<u>\$ 1,077,344</u>	<u>\$ 1,686,125</u>

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, 2016 or 2015.

Approximately 77% of the total pledges and grants receivable balance was due from three donors at August 31, 2016. Approximately 73% of the total pledges and grants receivable balance was due from two donors at August 31, 2015.

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:

	2016	2015
Computer equipment	\$ 25,748	\$ 24,412
Furniture	68,046	68,046
Leasehold Improvements	327,218	327,218
	421,012	419,676
Less accumulated depreciation and amortization	(104,546)	(65,360)
	<u>\$ 316,466</u>	<u>\$ 354,316</u>

Note 4. Lease Commitment

Friends – Seattle leased space under an operating lease agreement that expired in February 2014, and was leasing office space on a month-to-month basis under the agreement through September 2014. The agreement included a monthly in-kind donation for rent charged below market rates.

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 \$78,089 and \$96,761 for the years ended August 31, 2016 and 2015, respectively, which includes in-kind donations of \$6,000 for 2015, related to its prior lease noted above. Rent expense is included in occupancy expense on the statements of functional expenses (the in-kind portion is included with in-kind expenses on the statements of functional expenses).

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

2017	\$ 52,780
2018	54,231
2019	55,863
2020	57,548
2021	4,807
	<u>\$ 225,229</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 \$14,300 and \$8,129 to the Plan during the years ended August 31, 2016 and 2015, respectively.

Note 6. Line of Credit

Friends – Seattle has a line of credit with a bank. 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%, subject to a minimum of 5.25%. No funds had been drawn on the line of credit at August 31, 2016 or 2015.

Note 7. Unrestricted Net Assets

Unrestricted net assets consist of the following at August 31:

	2016	2015
Board-designated general operating reserve	\$ 500,000	\$ 500,000
Undesignated	1,168,965	682,904
Unrestricted net assets	<u>\$ 1,668,965</u>	<u>\$ 1,182,904</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 continues through March 4, 2017. As a result, \$60,420 was recognized as a foundation contribution on the statements of activities, with \$30,210 remaining as a receivable at August 31, 2016, included with affiliate receivables – related party on the statements of financial position.

Sub-grant

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, which is recognized on the statements of activities under foundation contributions, with \$20,000 remaining as a receivable at August 31, 2016, included with affiliate receivables – related party on the statements of financial position.