

**FRIENDS OF THE CHILDREN – SEATTLE**

FINANCIAL REPORT

AUGUST 31, 2015

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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, 2015 and 2014, 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 audits 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, 2015 and 2014, 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 13, 2016

**FRIENDS OF THE CHILDREN – SEATTLE**

STATEMENTS OF FINANCIAL POSITION

August 31, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 672,291	\$ 264,490
Certificates of deposit	250,345	250,070
Pledges and grants receivable	944,188	558,680
Prepaid expenses	<u>1,815</u>	<u>4,488</u>
Total current assets	1,868,639	1,077,728
Long-term Pledges and Grants Receivable, net	741,937	929,315
Advances to Mentors	3,000	2,000
Property and Equipment, net	<u>354,316</u>	<u>5,101</u>
Total assets	<u><u>\$ 2,967,892</u></u>	<u><u>\$ 2,014,144</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 24,759	\$ 16,748
Accrued expenses	<u>24,849</u>	<u>25,354</u>
Total current liabilities	49,608	42,102
Deferred Rent	<u>44,692</u>	
Total liabilities	94,300	42,102
Net Assets		
Unrestricted	1,182,904	496,039
Temporarily restricted	<u>1,690,688</u>	<u>1,476,003</u>
Total net assets	<u>2,873,592</u>	<u>1,972,042</u>
Total liabilities and net assets	<u><u>\$ 2,967,892</u></u>	<u><u>\$ 2,014,144</u></u>

See Notes to Financial Statements

**FRIENDS OF THE CHILDREN – SEATTLE**

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
Foundation grants	\$ 669,936	\$ 555,688	\$ 1,225,624	\$ 154,874	\$ 41,688	\$ 196,562
Government grants	1,559		1,559	2,760		2,760
Individual contributions	214,832	100,000	314,832	604,554	1,414,315	2,018,869
Business contributions	107,669	15,000	122,669	136,775		136,775
Special event revenue	639,025		639,025	238,268		238,268
Special event direct expenses	(77,854)		(77,854)	(53,733)		(53,733)
In-kind contributions	34,072		34,072	34,499		34,499
Other income	731		731	11,547		11,547
Net assets released from restrictions	456,003	(456,003)		349,000	(349,000)	
Total revenue and support	2,045,973	214,685	2,260,658	1,478,544	1,107,003	2,585,547
Functional expenses						
Program services	1,068,580		1,068,580	832,276		832,276
Management and general	78,718		78,718	77,556		77,556
Fundraising	211,810		211,810	151,303		151,303
	1,359,108		1,359,108	1,061,135		1,061,135
<b>Change in net assets</b>	<b>686,865</b>	<b>214,685</b>	<b>901,550</b>	<b>417,409</b>	<b>1,107,003</b>	<b>1,524,412</b>
Net assets, beginning of year	496,039	1,476,003	1,972,042	78,630	369,000	447,630
Net assets, end of year	\$ 1,182,904	\$ 1,690,688	\$ 2,873,592	\$ 496,039	\$ 1,476,003	\$ 1,972,042

See Notes to Financial Statements

**FRIENDS OF THE CHILDREN – SEATTLE**

STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended August 31, 2015 and 2014

	2015				2014			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 558,761	\$ 27,116	\$ 132,470	\$ 718,347	\$ 472,236	\$ 29,374	\$ 101,534	\$ 603,144
Payroll taxes	48,487	2,063	11,031	61,581	43,455	2,514	8,850	54,819
Benefits	72,755	2,634	12,435	87,824	62,946	3,046	8,591	74,583
Program costs	105,588			105,588	100,277			100,277
Professional services	38,019	33,228	10,539	81,786	40,430	31,332	8,084	79,846
In-kind expenses	33,235	194	643	34,072	38,699	360	1,440	40,499
Occupancy	87,864	2,590	14,847	105,301	25,664	903	3,612	30,179
Equipment	27,342	771	4,245	32,358	11,257	257	457	11,971
Staff development	13,274	1,196	2,955	17,425	6,209	3,476	735	10,420
Volunteer training and support	15,186	444	24	15,654				
Dues, fees, and licenses	8,803	848	1,611	11,262	6,347	1,052	1,747	9,146
Insurance	6,751	1,960	1,037	9,748	6,006	1,899	984	8,889
Supplies	7,530	1,910	3,648	13,088	2,827	1,293	3,577	7,697
Telephone and internet	7,666	202	2,587	10,455	5,282	186	1,831	7,299
Copying and printing	4,754	220	2,208	7,182	3,888	137	1,994	6,019
Travel, transportation, and meetings	4,353	1,477	1,919	7,749	2,323	972	1,717	5,012
Bank fees	699	424	1,185	2,308	553	351	2,867	3,771
Other events	681		3,490	4,171	695		2,874	3,569
Repair and maintenance	6,698	169	1,171	8,038	1,539	265	185	1,989
Postage	347	440	345	1,132	503	117	137	757
Miscellaneous	3,189	437	653	4,279	522			522
	<u>1,051,982</u>	<u>78,323</u>	<u>209,043</u>	<u>1,339,348</u>	<u>831,658</u>	<u>77,534</u>	<u>151,216</u>	<u>1,060,408</u>
Depreciation and amortization	<u>16,598</u>	<u>395</u>	<u>2,767</u>	<u>19,760</u>	<u>618</u>	<u>22</u>	<u>87</u>	<u>727</u>
Total expenses	<u>\$ 1,068,580</u>	<u>\$ 78,718</u>	<u>\$ 211,810</u>	<u>\$ 1,359,108</u>	<u>\$ 832,276</u>	<u>\$ 77,556</u>	<u>\$ 151,303</u>	<u>\$ 1,061,135</u>

See Notes to Financial Statements

**FRIENDS OF THE CHILDREN – SEATTLE**

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ 901,550	\$ 1,524,412
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	19,760	727
Change in discount on long-term receivables	(71,122)	85,685
Change in operating assets and liabilities		
Pledges and grants receivable	(127,008)	(1,201,480)
Promise to give - rent		6,000
Prepaid expenses	2,673	5,049
Advances to mentors	(1,000)	300
Accounts payable	8,011	(139)
Accrued expenses	(505)	3,303
Deferred rent	44,692	
	777,051	423,857
Net cash flows from operating activities	777,051	423,857
Cash Flows Used in Investing Activities		
Purchase of property and equipment	(368,975)	(3,624)
Purchase of certificates of deposit	(275)	(250,070)
	(369,250)	(253,694)
Net cash flows from investing activities	(369,250)	(253,694)
Cash Flows Used in Financing Activity		
Principal payments on note payable - related party		(34,500)
		(34,500)
<b>Net change in cash and cash equivalents</b>	<b>407,801</b>	<b>135,663</b>
Cash and cash equivalents, beginning of year	264,490	128,827
Cash and cash equivalents, end of year	\$ 672,291	\$ 264,490

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, 2015, Friends – Seattle served approximately 116 children in kindergarten through twelfth grade.

Friends – Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2015, approximately 27% of total revenue was from one foundation. During the year ended August 31, 2014, approximately 74% of total revenue was from one individual donor.

#### **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, 2015 and 2014. The certificates at August 31, 2015, mature between September 17, 2015, and March 17, 2016.



### **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 and 2014, respectively.

### **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.

### **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, 2015 and 2014, 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 years ended August 31, 2015 and 2014, 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.

## **Reclassification**

Certain amounts have been reclassified in the prior year financial statements to conform to the current year presentation.

## **Subsequent Events**

Management of Friends – Seattle has evaluated subsequent events through the date these financial statements were available to be issued, which was January 13, 2016.

## **Note 2. Pledges and Grants Receivable**

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

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 944,188	\$ 558,680
Receivable in one to three years	<u>756,500</u>	<u>1,015,000</u>
	1,700,688	1,573,680
Less discount on long-term receivables (3.0%)	<u>(14,563)</u>	<u>(85,685)</u>
Net pledges and grants receivable	<u><u>\$ 1,686,125</u></u>	<u><u>\$ 1,487,995</u></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, 2015 or 2014.

Approximately 73% of the total pledges and grants receivable balance was due from two donors at August 31, 2015. Approximately 95% of the total pledges and grants receivable balance was due from one donor at August 31, 2014.

### 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 lease term, and are related to improvements on Friends – Seattle's new office; see Note 4 below. Property and equipment consisted of the following at August 31:

	2015	2014
Computer equipment	\$ 24,412	\$ 46,740
Furniture	68,046	3,391
Leasehold Improvements	327,218	570
	419,676	50,701
Less accumulated depreciation and amortization	(65,360)	(45,600)
	<u>\$ 354,316</u>	<u>\$ 5,101</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 \$96,761 and \$36,000 for the years ended August 31, 2015 and 2014, respectively, which includes in-kind donations of \$6,000 and \$12,000 for 2015 and 2014, respectively, 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:

2016	\$ 43,383
2017	52,780
2018	54,231
2019	55,863
2020	57,548
Thereafter	4,807
	<u>\$ 268,612</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 \$8,129 and \$7,170 to the Plan during the years ended August 31, 2015 and 2014, respectively.

**Note 6. Line of Credit**

In April 2013, Friends – Seattle obtained 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 in April 2016. 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, 2015 or 2014.

**Note 7. Unrestricted Net Assets**

Unrestricted net assets consist of the following at August 31:

	2015	2014
Board designated general operating reserve	\$ 500,000	\$ 200,000
Undesignated	682,904	296,039
Unrestricted Net Assets	<u>\$ 1,182,904</u>	<u>\$ 496,039</u>