

FRIENDS OF THE CHILDREN SEATTLE

FINANCIAL REPORT

AUGUST 31, 2014

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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, 2014 and 2013, 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, 2014 and 2013, 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, 2015

FRIENDS OF THE CHILDREN SEATTLE

STATEMENTS OF FINANCIAL POSITION

August 31, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents	\$ 514,560	\$ 128,827
Pledges and grants receivable	558,680	352,200
Promise to give - rent		6,000
Prepaid expenses	4,488	9,537
Total current assets	1,077,728	496,564
Long-term Pledges and Grants Receivable, net	929,315	20,000
Advances to Mentors	2,000	2,300
Computer Equipment and Furniture, net	5,101	2,204
Total assets	<u>\$ 2,014,144</u>	<u>\$ 521,068</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 16,748	\$ 16,887
Accrued expenses	25,354	22,051
Note payable - related party		34,500
Total current liabilities	42,102	73,438
Net Assets		
Unrestricted	496,039	78,630
Temporarily restricted	1,476,003	369,000
Total net assets	1,972,042	447,630
Total liabilities and net assets	<u>\$ 2,014,144</u>	<u>\$ 521,068</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN SEATTLE

STATEMENTS OF ACTIVITIES

For the Years Ended August 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
Foundation grants	\$ 154,874	\$ 41,688	\$ 196,562	\$ 306,658	\$ 75,000	\$ 381,658
Government grants	2,760		2,760	3,795		3,795
Individual contributions	604,554	1,414,315	2,018,869	40,129	45,000	85,129
Business contributions	136,775		136,775	81,264		81,264
Special event revenue	238,268		238,268	270,363		270,363
Special event direct expenses	(53,733)		(53,733)	(79,930)		(79,930)
In-kind contributions	34,499		34,499	27,050		27,050
Other	11,547		11,547	1,097		1,097
Net assets released from restrictions	349,000	(349,000)		314,000	(314,000)	
Total revenue and support	1,478,544	1,107,003	2,585,547	964,426	(194,000)	770,426
Functional expenses						
Program services	832,276		832,276	734,442		734,442
Management and general	77,556		77,556	69,594		69,594
Fundraising	151,303		151,303	130,298		130,298
	1,061,135		1,061,135	934,334		934,334
Change in net assets	417,409	1,107,003	1,524,412	30,092	(194,000)	(163,908)
Net assets, beginning of year	78,630	369,000	447,630	48,538	563,000	611,538
Net assets, end of year	<u>\$ 496,039</u>	<u>\$ 1,476,003</u>	<u>\$ 1,972,042</u>	<u>\$ 78,630</u>	<u>\$ 369,000</u>	<u>\$ 447,630</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN SEATTLE

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended August 31, 2014 and 2013

	2014				2013			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 472,236	\$ 29,374	\$ 101,534	\$ 603,144	\$ 440,658	\$ 21,047	\$ 86,642	\$ 548,347
Payroll taxes	43,455	2,514	8,850	54,819	42,540	1,812	7,660	52,012
Benefits	62,946	3,046	8,591	74,583	58,756	1,821	6,815	67,392
Program costs	100,277			100,277	94,669			94,669
Professional services	40,430	31,332	8,084	79,846	4,662	36,058	8,364	49,084
In-kind expenses	38,699	360	1,440	40,499	36,770	480	1,800	39,050
Occupancy	25,664	903	3,612	30,179	23,316	1,151	4,318	28,785
Equipment	11,257	257	457	11,971	671	230	124	1,025
Staff development	6,209	3,476	735	10,420	1,277	590	399	2,266
Dues, fees, and licenses	6,347	1,052	1,747	9,146	6,957	732	951	8,640
Insurance	6,006	1,899	984	8,889	7,176	354	1,329	8,859
Supplies	2,827	1,293	3,577	7,697	2,343	1,237	2,743	6,323
Telephone and internet	5,282	186	1,831	7,299	7,017	895	2,144	10,056
Copying and printing	3,888	137	1,994	6,019	3,367	506	898	4,771
Travel, transportation, and meetings	2,323	972	1,717	5,012	1,268	1,711	1,290	4,269
Bank fees	553	351	2,867	3,771	521	639	378	1,538
Other events	695		2,874	3,569	274		3,702	3,976
Repair and maintenance	1,539	265	185	1,989	1,575	78	292	1,945
Postage	503	117	137	757	525	96	449	1,070
Miscellaneous	522			522	100			100
	<u>831,658</u>	<u>77,534</u>	<u>151,216</u>	<u>1,060,408</u>	<u>734,442</u>	<u>69,437</u>	<u>130,298</u>	<u>934,177</u>
Depreciation and amortization	<u>618</u>	<u>22</u>	<u>87</u>	<u>727</u>	<u>157</u>	<u>157</u>	<u>157</u>	<u>157</u>
Total expenses	<u>\$ 832,276</u>	<u>\$ 77,556</u>	<u>\$ 151,303</u>	<u>\$ 1,061,135</u>	<u>\$ 734,442</u>	<u>\$ 69,594</u>	<u>\$ 130,298</u>	<u>\$ 934,334</u>

See Notes to Financial Statements

FRIENDS OF THE CHILDREN SEATTLE

STATEMENTS OF CASH FLOWS

For the Years Ended August 31, 2014 and 2013

	2014	2013
Cash Flows from (Used in) Operating Activities		
Change in net assets	\$ 1,524,412	\$ (163,908)
Adjustments to reconcile change in net assets to net cash flows from (used in) operating activities		
Depreciation	727	157
Change in operating assets and liabilities		
Pledges and grants receivable	(1,115,795)	206,250
Promise to give - rent	6,000	12,000
Prepaid expenses	5,049	143
Advances to mentors	300	660
Accounts payable	(139)	1,396
Accrued expenses	3,303	3,498
	423,857	60,196
Net cash flows from operating activities	423,857	60,196
Cash Flows Used in Investing Activities		
Purchase of computer equipment and furniture	(3,624)	(2,361)
Cash Flows Used in Financing Activities		
Principal payments on note payable - related party	(34,500)	(34,500)
	385,733	23,335
Net change in cash and cash equivalents	385,733	23,335
Cash and cash equivalents, beginning of year	128,827	105,492
Cash and cash equivalents, end of year	\$ 514,560	\$ 128,827

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

Friends of the Children Seattle, formerly Friends of the Children King County, ("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, 2014, Friends – Seattle served approximately 99 children in kindergarten through twelfth grade.

Friends – Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2014, approximately 74% of total revenue was from one individual donor. During the year ended August 31, 2013, approximately 13% 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.

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, 2014 and 2013, all temporarily restricted net assets were restricted for time purposes.

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.

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 five years. After five years, the mentor is not required to repay the advance.

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.

Grants Receivable and Pledges

Grants receivable and pledges that are expected to be collected within one year are recorded at net realizable value. Grants receivable and pledges 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 grants and pledges 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 grants and pledges receivable at August 31, 2014. A discount was calculated at August 31, 2013, but was considered immaterial (and, therefore, was not recognized).

Revenue Recognition from Contributions and Grants

Revenue from contributions is recorded when the pledge to Friends – Seattle is made. Revenue from grants is recognized when 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, 2014, consisted entirely of rent and donated goods. During the year ended August 31, 2013, in-kind contributions consisted mostly of 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. Tax returns for the last three years are open to examination by the Internal Revenue Service.

Subsequent Events

Management of Friends – Seattle has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report. See Note 5 for additional discussion.

Note 2. Pledges and Grants Receivable

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

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 558,680	\$ 352,200
Receivable in one to three years	<u>1,015,000</u>	<u>20,000</u>
	1,573,680	372,200
Less discount on long-term receivables (3.0% in 2014)	<u>(85,685)</u>	
Net Pledges and Grants receivable	<u>\$ 1,487,995</u>	<u>\$ 372,200</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, 2014 or 2013.

Approximately 95% of the total pledges and grants receivable balance was due from one donor at August 31, 2014. Approximately 74% of the total pledges and grants receivable balance was due from four donors at August 31, 2013.

Note 3. Promise to Give – Rent

The promise to give – rent represents the fair value of rent contributed to Friends – Seattle in excess of the actual rent to be paid under the lease. The promise to give – rent represents the entire contribution over the remaining term of the lease, which expired February 2014. See Note 5 for discussion of this lease commitment. The full amount of the contributed rent totals \$25,000, which has been amortized over the life of the lease as in-kind rent expense, and is included as in-kind expense on the statements of functional expenses. Total in-kind rent expense under this agreement was \$6,000 and \$12,000 for the years ended August 31, 2014 and 2013, respectively.

Note 4. Computer Equipment and Furniture

Computer equipment and furniture 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. Computer equipment and furniture consisted of the following at August 31:

	2014	2013
Computer equipment	\$ 46,740	\$ 43,685
Furniture	3,391	3,391
Leasehold Improvements	570	
	50,701	47,076
Less accumulated depreciation and amortization	(45,600)	(44,872)
	<u>\$ 5,101</u>	<u>\$ 2,204</u>

Note 5. Lease Commitment

Friends – Seattle leases space under an operating lease agreement that expired in February 2014 and is currently leasing office space on a month-to-month basis. The agreement includes a monthly in-kind donation for rent charged below market rates (see Note 3).

Total rent expense was \$36,000 for both years ended August 31, 2014 and 2013, which includes in-kind donations of \$12,000 for each year. 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).

Subsequent to year end, a new operating lease was signed effective from October 2014 through September 2020. Future minimum lease payments under this agreement are as follows for the years ending August 31:

2015	\$ -
2016	48,382
2017	52,780
2018	54,231
2019	55,863
Thereafter	57,447
	<u>\$ 268,703</u>

Also subsequent to year end, Friends – Seattle received a \$400,000 donation from a foundation for renovation and furnishings of the space associated with the new lease agreement.

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 \$7,170 and \$8,113 to the Plan during the years ended August 31, 2014 and 2013, respectively.

Note 7. Note Payable – Related Party

In May 2011, Friends – Seattle signed a note payable agreement with Friends of the Children, Inc. (national organization of Friends of the Children). The funds from the note payable were used to help Friends – Seattle pay for the majority of the salary of a development manager for the first eighteen months. The note payable agreement is for a total of \$69,000. The note does not bear interest and management has not recorded imputed interest since the amount is deemed to be immaterial to these financial statements. The note has been repaid with eight equal principal payments of \$8,625 due quarterly from November 2012 until the note matured in August 2014.

Note 8. 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%. No funds had been drawn on the line of credit at August 31, 2014 or 2013.

Note 9. Unrestricted Net Assets

Unrestricted net assets consist of the following at August 31:

	<u>2014</u>	<u>2013</u>
Board designated general operating reserve	\$ 200,000	\$ -
Undesignated	<u>296,039</u>	<u>78,630</u>
Net Pledges and Grants Receivable	<u>\$ 496,039</u>	<u>\$ 78,630</u>