
**FR1ENDS of the
CH1LDREN**

SF Bay Area

FINANCIAL STATEMENTS

Year Ended August 31, 2021

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - SF BAY AREA

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Independent Auditors' Report

The Board of Directors
Friends of the Children - SF Bay Area

Report on the Financial Statements

We have audited the accompanying financial statements of *Friends of the Children - SF Bay Area* (*Friends - SF Bay Area*), which comprise the statement of financial position as of August 31, 2021, 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.

Auditors' 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 auditors' 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 - SF Bay Area* as of August 31, 2021, 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.

Report on Summarized Comparative Information

We have previously audited *Friends - SF Bay Area*'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2021. In our opinion, the summarized comparative information presented herein, as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

HANMAN, STEWART & SCHMIDT, P.C.

Lake Oswego, Oregon
January 27, 2022

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Financial Position

August 31, 2021 <i>(With Comparative Amounts for 2020)</i>	2021	2020
ASSETS		
Cash and cash equivalents	\$ 1,177,974	\$ 1,275,414
Receivables <i>(Note 4)</i>	11,927	52,916
Prepaid expenses	29,135	23,739
Property and equipment - net <i>(Note 5)</i>	<u>197,791</u>	<u>149,329</u>
Total assets	<u>\$ 1,416,827</u>	<u>\$ 1,501,398</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 30,760	\$ 29,067
Accrued payroll expenses	83,110	44,591
Capital lease obligations <i>(Note 6)</i>	<u>64,645</u>	<u>82,097</u>
Total liabilities	178,515	155,755
Commitments <i>(Notes 9 and 12)</i>		
Net assets:		
Without donor restrictions	1,191,812	1,345,643
With donor restrictions <i>(Note 7)</i>	<u>46,500</u>	<u>-</u>
Total net assets	<u>1,238,312</u>	<u>1,345,643</u>
Total liabilities and net assets	<u>\$ 1,416,827</u>	<u>\$ 1,501,398</u>

The accompanying notes are an integral part of the financial statements.

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Activities

August 31, 2021 (With Comparative Amounts for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Public support and revenue:				
Contributions:				
Individuals	\$ 1,035,990	\$ 2,000	\$ 1,037,990	\$ 1,299,986
Foundations	224,686	169,500	394,186	281,000
Corporations	226,857	25,000	251,857	80,743
	1,487,533	196,500	1,684,033	1,661,729
Grant revenue - <i>Friends of the Children - National (Note 11)</i>	102,452	-	102,452	369,575
Paycheck Protection Program proceeds (Note 8)	274,588	-	274,588	234,225
Special events	-	-	-	330,888
Less direct costs	-	-	-	(98,415)
Special events - net	-	-	-	232,473
In-kind contributions	79,711	-	79,711	34,312
Other income	18,135	-	18,135	15,922
Released from restriction (Note 7)	150,000	(150,000)	-	-
Total public support and revenue	2,112,419	46,500	2,158,919	2,548,236
Expenses:				
Program services	1,688,067	-	1,688,067	1,556,957
Administrative	213,008	-	213,008	150,989
Development	365,175	-	365,175	290,384
Total expenses	2,266,250	-	2,266,250	1,998,330
Increase (decrease) in net assets	(153,831)	46,500	(107,331)	549,906
Net assets, beginning of year	1,345,643	-	1,345,643	795,737
Net assets, end of year	\$ 1,191,812	\$ 46,500	\$ 1,238,312	\$ 1,345,643

The accompanying notes are an integral part of the financial statements.

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Functional Expenses

August 31, 2021 (With Comparative Amounts for 2020)

	Program			Indirect Costs	Total	
	Services	Administrative	Development		2021	2020
Salaries and related expenses:						
Salaries and wages	\$ 1,094,548	\$ 92,642	\$ 178,085	\$ -	\$ 1,365,275	\$ 1,162,137
Payroll taxes and benefits	255,853	19,866	31,244	-	306,963	265,942
Total salaries and related expenses	1,350,401	112,508	209,329	-	1,672,238	1,428,079
Children's activities	10,233	-	-	-	10,233	17,498
Family engagement	108,178	-	-	-	108,178	-
Friends' expenses	10,647	-	-	-	10,647	6,733
Travel and meetings	596	160	305	302	1,363	15,017
Professional expenses (Note 11)	2,748	70,533	53,030	1,130	127,441	67,312
Marketing and communication	1,274	-	59,590	1,461	62,325	17,168
Staff development	6,455	2,861	-	-	9,316	12,006
Supplies	976	-	130	3,400	4,506	43,990
Payroll and banking fees	31,095	1,553	7,661	-	40,309	43,249
Information technology (Note 11)	8,059	917	13,462	28,636	51,074	70,582
Equipment	2,087	-	-	1,856	3,943	14,363
Insurance	667	-	-	28,328	28,995	23,699
Occupancy	29,616	-	-	15,558	45,174	45,205
Depreciation and amortization	2,693	-	-	30,825	33,518	34,624
Postage and printing	1,459	55	5,474	246	7,234	615
Other	4,275	6,221	883	42	11,421	11,048
Event expense	-	-	-	-	-	82,394
Interest expense	-	10,235	-	-	10,235	12,228
Affiliation fees (Note 11)	-	-	-	5,600	5,600	7,500
Research and evaluation (Note 11)	22,500	-	-	-	22,500	45,020
	1,593,959	205,043	349,864	117,384	2,266,250	1,998,330
Allocation of indirect costs	94,108	7,965	15,311	(117,384)	-	-
Total expenses	\$ 1,688,067	\$ 213,008	\$ 365,175	\$ -	\$ 2,266,250	\$ 1,998,330

The accompanying notes are an integral part of the financial statements.

FRIENDS OF THE CHILDREN - SF BAY AREA

Statement of Cash Flows

August 31, 2021 <i>(With Comparative Amounts for 2020)</i>	2021	2020
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (107,331)	\$ 549,906
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	33,518	34,624
Changes in:		
Receivables	40,989	188,011
Prepaid expenses	(5,396)	10,470
Accounts payable	(2,648)	10,012
Accrued payroll expenses	38,519	21,071
Deferred revenue	-	(35,000)
Net cash provided (used) by operating activities	(2,349)	779,094
Cash flows from investing activities:		
Purchase of property and equipment	(77,639)	(17,871)
Net cash used by investing activities	(77,639)	(17,871)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(17,452)	(15,218)
Net cash used by financing activities	(17,452)	(15,218)
Net increase (decrease) in cash and cash equivalents	(97,440)	746,005
Cash and cash equivalents, beginning of year	1,275,414	529,409
Cash and cash equivalents, end of year	\$ 1,177,974	\$ 1,275,414
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 10,235	\$ 12,228
Supplemental disclosures of noncash transaction:		
Additions to property and equipment included in accounts payable	\$ 4,341	\$ -

The accompanying notes are an integral part of the financial statements.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Friends of the Children - SF Bay Area (*Friends - SF Bay Area*) commits to standing alongside our community's youth as they work to overcome barriers to their success. Each child receives 1:1 support and guidance from a salaried, professional mentor (called a Friend), from kindergarten through high school graduation - 12½ years, no matter what. Friends work collaboratively with high-priority youth and their caregivers to set and achieve individualized goals, as well as advocate for them in the school, child welfare, healthcare, and other systems that impact them.

Youth in the Friends program face considerable challenges, including placement in the foster care system, under-resourced neighborhood schools, homelessness, hunger, and disparities in access to, and quality of, health care. Despite these barriers, program youth enter adulthood with a strong foundation for continuing achievement: nationally 83 percent graduate high school or earn a GED, 93 percent avoid the juvenile justice system, and 98 percent avoid teen parenting.

Summary of Significant Accounting Policies - The significant accounting policies followed by *Friends - SF Bay Area* are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of *Friends - SF Bay Area*, and changes therein, are classified and reported as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of *Friends - SF Bay Area* and/or the passage of time. These donor restrictions may be temporary in nature or perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit *Friends - SF Bay Area* to use all or part of the income earned on related investments for general or specific purposes. *Friends - SF Bay Area's* net assets with donor restrictions consist solely of restrictions that are temporary in nature.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the financial statements for, among other things, the calculation of depreciation expense, determination of any required allowance for potentially uncollectible receivables, and functional allocation of certain expenses.

Cash and Cash Equivalents - *Friends - SF Bay Area* considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Receivables - Receivables are recorded as related revenue is recognized. Contributions receivable are recognized when unconditionally promised by a donor. Once recorded, these receivables are evaluated by management for potential collection problems and an allowance for uncollectible receivables may be recorded. Management considers a variety of factors in determining the allowance for uncollectible receivables, including length of time accounts are past due, the donor's ability to pay, and the economy as a whole. Management does not believe an allowance for uncollectible receivables is necessary at August 31, 2021.

Property and Equipment - Acquisitions of property and equipment in excess of \$1,000 and expenditures for repairs, maintenance, renewals, and significant improvements that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded at cost or estimated fair value at date of donation. Depreciation and amortization of property and equipment is calculated using the straight-line method over estimated useful lives ranging from three to seven years.

Contribution Recognition - *Friends - SF Bay Area* recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions. Grants are considered available for unrestricted use unless specifically restricted by the donor.

Friends - SF Bay Area reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets released from restrictions are reported in the statement of activities.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Contribution of Long-Lived Assets - *Friends - SF Bay Area* reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Grant Revenue - *Friends - SF Bay Area's* grant revenue includes amounts derived from *Friends of the Children - National (Friends - National)* which are considered conditional contributions and which are conditioned upon barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as revenue when *Friends - SF Bay Area* has satisfied the related barrier. At August 31, 2021, *Friends - SF Bay Area* had available award balances of approximately \$18,100. These balances will be recognized as revenue when the related barriers are satisfied.

Conditional grants whose conditions are satisfied in the same reporting period in which the funding is received are reported as an increase in net assets without donor restrictions.

In-Kind Contributions - *Friends - SF Bay Area* receives contributed services from unpaid volunteers who assist in a range of fundraising and program activities. The values of such services are not recognized in the financial statements unless specific criteria are met in accordance with GAAP. Significant services received that create or enhance a non-financial asset or require specialized skills *Friends - SF Bay Area* would have purchased if not donated are recognized in the statement of activities at their estimated fair value. In-kind contributions of equipment and other materials are recorded at their estimated fair value.

Income Tax Status - Income taxes are not provided for in the financial statements since *Friends - SF Bay Area* is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. *Friends - SF Bay Area* is not classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe *Friends - SF Bay Area* has any uncertain tax positions. *Friends - SF Bay Area* files informational returns. There are currently no tax examinations in progress. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. The statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Expenses are allocated based on estimates of time and effort attributable to each function.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued
Summary of Significant Accounting Policies - Continued

Summarized Financial Information for 2020 - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the *Friends - SF Bay Area's* financial statements for the year ended August 31, 2020, from which the summarized information was derived.

2. Program and Supporting Services

Program Services - Program activities include costs of day-to-day activities with at-risk children, sustaining the children's relationships with adult role models and helping them become productive members of the community.

Supporting Services

Administrative - Administrative activities include business management, recordkeeping, budgeting, public relations, financing, and related administrative activities. These services provide the necessary developmental, organizational, and managerial support for the effective operation of the programs.

Development - Development activities include conducting fundraising and public awareness campaigns, preparing and distributing fundraising materials, and other activities aimed at the solicitation of contributions from individuals, businesses, and foundations.

3. Liquidity and Availability of Financial Resources

Friends - SF Bay Area's financial assets available for general expenditure within one year of the statement of financial position date consist of the following at August 31, 2021:

Cash and cash equivalents	\$ 1,177,974
Receivables	<u>11,927</u>
	<u><u>\$ 1,189,901</u></u>

As part of *Friends - SF Bay Area's* liquidity management, management has a practice to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

4. Receivables

Receivables consist of the following at August 31:

	2021	2020
Grants receivable due within one year	\$ 11,840	\$ 48,618
Other receivables	87	4,298
	<u>\$ 11,927</u>	<u>\$ 52,916</u>

5. Property and Equipment

Property and equipment consist of the following at August 31:

	2021	2020
Office equipment	\$ 19,992	\$ 19,992
Computer equipment and software	75,706	72,780
Vehicles	170,539	128,354
Leasehold improvements	47,914	12,459
	314,151	233,585
Less accumulated depreciation and amortization	<u>(116,360)</u>	<u>(84,256)</u>
	<u>\$ 197,791</u>	<u>\$ 149,329</u>

6. Capital Lease Obligations

During 2018, *Friends - SF Bay Area* entered into capital leases for vehicles costing \$128,354 (with accumulated amortization of \$40,920 at August 31, 2021). Total amortization expense for the year ended August 31, 2021, of \$18,336 is included in depreciation and amortization expense. The leases are payable in monthly installments ranging from \$281 to \$292 including interest ranging from 13.5 percent to 14.3 percent per annum. The leases expire in July 2024.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

6. Capital Lease Obligations - Continued

Future minimum lease payments under the capital leases at August 31, 2021, are as follows:

Years Ending August 31,	Amount
2022	\$ 27,687
2023	27,687
2024	<u>23,072</u>
Less amount representing interest	<u>(13,801)</u>
	<u><u>\$ 64,645</u></u>

7. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2021, are available for the following purposes:

Family engagement	\$ 27,000
Literacy skills	15,000
Mentor training	<u>4,500</u>
	<u><u>\$ 46,500</u></u>

During August 31, 2021, *Friends - SF Bay Area* released \$150,000 of net assets from donor restrictions due to the passage of time.

8. Paycheck Protection Program

On January 20, 2021, *Friends - SF Bay Area* received proceeds in the amount of \$274,588 from Crestmark National Association under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides for full or partial loan forgiveness if proceeds are used for qualifying expenses and certain other conditions are satisfied.

Friends - SF Bay Area has elected to account for the loan as a conditional contribution to be recognized as qualifying forgiveness expenses are incurred. During 2021, *Friends - SF Bay Area* received full forgiveness. As such, the entire PPP loan has been recognized in revenue.

FRIENDS OF THE CHILDREN - SF BAY AREA

Notes to Financial Statements - Continued

9. Retirement Plan

Friends - SF Bay Area participates in a multi-employer retirement plan pursuant to IRC Section 401(k), in which employees with at least three months of service are eligible to participate. Employee contributions to the plan are in the form of salary deferral, and are vested over four years. The plan allows for employer matching contributions up to 3 percent of the eligible employees compensation. Contributions to the plan for the year ended August 31, 2021, totaled \$15,874.

10. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject *Friends - SF Bay Area* to concentrations of risk consist primarily of cash and cash equivalents and contributions receivable. *Friends - SF Bay Area* maintains balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation limits throughout the year. Concentrations of risk with respect to contributions receivable are due primarily from local business, charitable foundations, and individuals. At August 31, 2021, grants receivable was due from one donor and 27 percent of contribution revenue was provided by two donors.

11. Related-Party Transactions

During the year ended August 31, 2021, *Friends - SF Bay Area* received contributions from employees and members of the Board of Directors totaling \$212,131.

Friends - National provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support. For the year ended August 31, 2021, *Friends - SF Bay Area* incurred expenses to *Friends - National* for chapter affiliation fees of \$5,600, professional fees of \$41,702, information technology support of \$7,500, and \$22,500 in research and evaluation expenses. Also, *Friends - National* provided *Friends - SF Bay Area* with grant revenue of \$102,452 during the year ended August 31, 2021.

12. Operating Lease Commitment

Friends - SF Bay Area leases office space under an operating lease agreement with escalating payments currently calling for monthly payments of \$3,151. Rent expense for the year ended August 31, 2021, was \$39,038. Minimum payments remaining under the non-cancelable operating lease are \$28,363, all of which is due during the year ending August 31, 2022.

13. Subsequent Events

Management has evaluated subsequent events through January 27, 2022, the date the financial statements were available to be issued.