FR1ENDS of the CH1LDREN

Generational Change,
One Child at a Time

Phoenix

Friends of the Children – Phoenix
Management Explanation of Fiscal Year 2025 Operating Results

The fiscal year which ended August 31, 2025, represented a transition period for Friends of the Children–Phoenix as the organization continued its evolution from a newly launched nonprofit supported by significant start-up philanthropy to one sustained through recurring annual grants and charitable contributions.

The organization reported a change in net assets of **($126,950)** during FY2025. This operating deficit reflects the timing and nature of philanthropic funding combined with strategic investments made to establish a sustainable long-term organization. During FY2025, Friends of the Children–Phoenix generated more than **$1.22 million in public support and revenue**, more than doubling the prior year's revenue, while reducing the operating deficit by approximately 77% compared to FY2024.

As a young organization founded in 2022, our early years were supported by substantial multi-year seed investments from philanthropic partners that enabled us to launch programming, hire professional mentors, and build the operational infrastructure necessary to serve children over our unique **12+ year commitment**. As those initial investments have been expended as intended, the organization has shifted to an annual fundraising model relying primarily on foundation grants, major gifts, corporate support, and special events.

During FY2025, management intentionally maintained program capacity while continuing to strengthen and diversify philanthropic support. **These efforts, along with the groundwork laid to build a more sustainable fundraising model, are positioning the organization for long-term financial stability, with a balanced budget projected by FY2027.**

Sincerely,

C. Patris-Browne

Cassandra Patris-Browne
Executive Director
Friends of the Children–Phoenix

FRIENDS OF THE CHILDREN - PHOENIX

Financial Statements and
Independent Auditors' Report

Year Ended August 31, 2025
(with comparative financial information as of and for the year ended August 31, 2024)

CONTENTS

Page

Independent Auditors' Report .... 1 - 2

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 - 11

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Friends of the Children - Phoenix
Phoenix, Arizona

Opinion

We have audited the accompanying financial statements of Friends of the Children - Phoenix ("the Organization", a nonprofit corporation), which comprise the statement of financial position as of August 31, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2025, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Address • 9019 East Bahia Drive Suite 100 • Scottsdale, AZ 85260 | **Phone** • (602) 264-3077 | **Fax** • (602) 265-6241

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

The financial statements of the Organization as of August 31, 2024, were audited by a predecessor auditor, whose report dated February 20, 2025, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

July 14, 2026

FRIENDS OF THE CHILDREN - PHOENIX

Statement of Financial Position

August 31, 2025
(with comparative financial information as of August 31, 2024)

	2025	2024
ASSETS		
Cash	$ 272,180	$ 385,558
Prepaid expenses	24,048	9,459
Right-of-use asset - operating lease	18,838	80,123
Office equipment, net	-	573
Total assets	$ 315,066	$ 475,713
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 9,031	$ 9,091
Accrued payroll	67,619	36,966
Operating lease liability	16,815	81,105
Total liabilities	93,465	127,162
Net assets:		
Without donor restrictions	221,601	348,551
Total liabilities and net assets	$ 315,066	$ 475,713

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

FRIENDS OF THE CHILDREN - PHOENIX

Statement of Activities

Year ended August 31, 2025
(with comparative financial information for the year ended August 31, 2024)

	2025			
	Without Donor Restrictions	With Donor Restrictions	Total	2024
Public support and revenues				
Contributions	$ 1,072,807	$ -	$ 1,072,807	$ 523,980
Grant income	152,000	-	152,000	45,270
Other revenue	509	-	509	8,278
Total public support and revenue	1,225,316	-	1,225,316	577,528
Expenses:				
Program services	889,876		889,876	804,051
Management and general	324,451		324,451	172,381
Development	137,939		137,939	164,440
Total expenses	1,352,266		1,352,266	1,140,872
Change in net assets	(126,950)	-	(126,950)	(563,344)
Net assets, beginning of year	348,551	-	348,551	911,895
Net assets, end of year	$ 221,601	$ -	$ 221,601	$ 348,551

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

FRIENDS OF THE CHILDREN - PHOENIX

Statement of Functional Expenses

Year ended August 31, 2025
(with comparative financial information for the year ended August 31, 2024)

	2025				2024
		Supporting Services			
	Program Services	Management and General	Development	Total	2024 Total
Salaries and wages	$ 703,809	$ 119,628	$ 84,029	$ 907,466	$ 600,050
Payroll taxes and benefits	34,094	15,697	11,586	61,377	100,809
Friends' expenses	30,143	30	-	30,173	32,018
Family engagement and support	7,136	-	247	7,383	2,725
Travel and meetings	5,235	1,256	552	7,043	12,598
Professional expenses	8,454	70,711	1,564	80,729	137,520
Marketing and communication	12,050	769	7,632	20,451	15,471
Staff development	-	494	201	695	7,627
Affiliation and start up fees	16	35,435	-	35,451	99,534
Supplies	2,842	12,501	1,244	16,587	9,443
Payroll and banking fees	2,031	10,238	11	12,280	10,958
Information technology	17,390	12,027	1,403	30,820	21,493
Business insurance	12,391	10,614	-	23,005	24,941
Depreciation	-	228	-	228	229
Postage and printing	36	206	-	242	776
Occupancy	53,806	11,394	434	65,634	63,508
Other	443	23,223	29,036	52,702	1,172
Total expenses	$ 889,876	$ 324,451	$ 137,939	$ 1,352,266	$ 1,140,872

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

FRIENDS OF THE CHILDREN - PHOENIX

Statement of Cash Flows

Year ended August 31, 2025
(with comparative financial information for the year ended August 31, 2024)

	2025	2024
Cash flows from operating activities:		
Change in net assets	$ (126,950)	$ (563,344)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	228	229
Noncash operating lease expense	61,285	(2,896)
Changes in:		
Contributions receivable	-	422,672
Prepaid expenses and other assets	(14,015)	16,136
Accounts payable and accrued expenses	(60)	6,640
Accrued payroll	30,653	(10,353)
Operating lease liability	(64,519)	-
Net cash used by operating activities	(113,378)	(130,916)
Cash, beginning of the year	385,558	516,474
Cash, end of the year	$ 272,180	$ 385,558

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

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Friends of the Children - Phoenix (the Organization) is a private, nonprofit organization formed in 2022. The Organization 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 - 12 1/2 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: 83 percent graduate high school or earn a GED, 93 percent avoid the juvenile justice system, and 98 percent avoid teen parenting.

The significant accounting policies of the Organization are as follows:

<u>Basis of Presentation:</u> Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Organization to report information regarding its financial position and activities according to the following net asset classifications:

> *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor- (or certain grantor-) restrictions.
>
> *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

<u>Use of Estimates:</u> In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Office Equipment: All acquisitions of office equipment in excess of $1,000 and all expenditures for repairs, maintenance, renewals, and significant improvements that materially prolong the useful lives of assets are capitalized. Office equipment is recorded at cost or estimated fair value at the date of donation. Depreciation is computed using the straight-line method based on estimated useful life of five years.

Revenue and Revenue Recognition: Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. Special events revenue is recognized in an amount equal to the fair value of direct benefits to donors when the special event takes place. The contribution element of special event revenue is recognized immediately, unless there is a right of return if the special event does not take place.

Contributions: Contributions are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Functional Expenses: The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of facility usage and the estimated percentage of payroll costs benefiting the program or supporting services. Payroll and related expenses are allocated based on estimates of time and effort devoted to each function. Depreciation and utilities are allocated based on square footage.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Concentrations: The Organization maintains cash that is insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). Balances may at times exceed insured or covered amounts. Management believes it is not exposed to any significant credit risk on cash. See also Note 4 for revenue concentrations.

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.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Organization had cash totaling $272,180 and $385,558 that could readily be made available within one year of each fiscal year end to fund expenses without limitations at August 31, 2025 and 2026, respectively:

In addition to financial assets available to meet general expenditures over the year, the Organization operates with a balanced budget and anticipates covering its general expenditures by collecting contributions and other revenues.

NOTE 3 - NET ASSETS WITH DONOR RESTRICTIONS

During the year ended August 31, 2024, the Organization released $592,672 of net assets from donor restrictions for donor-restricted purposes. The Organization did not have net assets with donor restrictions at August 31, 2025 or 2024.

NOTE 4 - RELATED PARTY TRANSACTIONS

Friends of the Children - National organization provides the Organization with training, program quality monitoring, data warehousing, and operational support. For the year ended August 31, 2025, the Organization received grant income totaling $150,000 from Friends of the Children - National. At August 31, 2025, total amounts payable to Friends of the Children - National was $4,151. For the year end August 31, 2024, the Organization received grant income totaling $45,270 from Friends of the Children - National and paid start-up fees of $99,534, and professional fees of $101,231. At August 31, 2024, total amounts payable to Friends of the Children - National was $6,813. During the year ended August 31, 2024, $106,349 of contributions received was from employees and board members.

NOTE 5 - OPERATING LEASE

The Organization entered into an operating lease agreement for its offices expiring in December 2025. Amounts paid to satisfy the operating lease liability for the lease was $65,634 for the year ended August 31, 2025, and is included in occupancy expense on the Statement of Functional Expenses.

During the years ended August 31, the components of the lease expense were as follows:

	2025	2024
Operating lease cost:		
Rent expense	$ 65,634	$ 63,508

Supplemental information for the statements of financial position for the years ended August 31, related to the lease was as follows:

	2025	2024
Operating lease right-of-use asset	$ 18,838	$ 80,123
Operating lease liability	$ 16,815	$ 81,105

During the years ended August 31, the Organization had the following cash and non-cash activities associated with lease:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating lease	$ 65,634	$ 63,508

NOTE 5 - OPERATING LEASE - CONTINUED

Future payments due under the operating lease are as follows:

Year ending August 31:	
2026	$ 22,354
Less: interest	(5,539)
Present value of lease liabilities	$ 16,815

As of August 31, 2025, the discount rate on the operating lease was 3.54%. The remaining term of the operating lease was 4 months at August 31, 2025.

NOTE 6 - RETIREMENT PLAN

The Organization has a retirement plan pursuant to Internal Revenue Code (IRC) Section 401(k) in which employees meeting certain requirements are eligible to participate. Employee contributions to the plan are in the form of salary deferral and are vested immediately. The Organization did not make any employer contributions to the plan during the years ended August 31, 2025 and 2024, respectively.

NOTE 7 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 14, 2026, the date the Organization's financial statements were available to be issued.

In January 2026, the Organization extended it's office lease through December 2027, with monthly payments totaling approximately $70,000 per year.