FRIENDS of the CHILDREN

SF Bay Area

FINANCIAL STATEMENTS

Year Ended August 31, 2025

with

Independent Auditors' Report

Table of Contents

Aprio

Independent Auditors' Report

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

Opinion

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, 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 Friends - SF Bay Area as of August 31, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Friends - SF Bay Area 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 the 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 doubts about Friends - SF Bay Area's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 and *Government 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 and *Government 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 Friends - SF Bay Area'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 Friends - SF Bay Area'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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, We have also issued our report dated February 7, 2026, on our consideration of the Friends - SF Bay Area's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Friends - SF Bay Area's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Friends - SF Bay Area's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financials statements as of August 31, 2024 were audited by Hoffman, Stewart & Schmidt, P.C., who merged with Aprio, LLP as of January 1, 2026, and whose report dated January 23, 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 respect, with the audited financial statements from which it has been derived.

Aprio, LLP

Lake Oswego, Oregon
February 7, 2026

Friends of the Children - SF Bay Area
Statement of Financial Position

August 31, 2025 *(With Comparative Amounts for 2024)*	**2025**	**2024**
ASSETS		
Cash and cash equivalents	$ 2,046,503	$ 2,294,673
Receivables *(Note 4)*	579,810	485,177
Prepaid expenses	49,224	34,944
Deposit on property and equipment *(Note 5)*	-	64,500
Property and equipment - net *(Note 5)*	2,571,524	141,551
Related party finance lease right-of-use assets *(Note 11)*	300,914	-
Total assets	**$ 5,547,975**	**$ 3,020,845**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 99,961	$ 30,628
Accrued payroll expenses	167,001	99,361
Related party finance lease liabilities *(Note 11)*	300,914	-
Related party note payable *(Note 12)*	680,173	-
Total liabilities	**1,248,049**	**129,989**
Net assets:		
Without donor restrictions	1,276,293	2,325,785
With donor restrictions *(Note 6)*	3,023,633	565,071
Total net assets	**4,299,926**	**2,890,856**
Total liabilities and net assets	**$ 5,547,975**	**$ 3,020,845**

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

Friends of the Children - SF Bay Area
Statement of Activities

Year Ended August 31, 2025 *(With Comparative Totals for 2024)*

	Without Donor Restrictions	With Donor Restrictions	Total 2025	Total 2024
Public support and revenue:				
Contributions:				
Individuals	$ 438,683	$ 1,514,713	$ 1,953,396	$ 993,037
Foundations	84,000	593,846	677,846	795,638
Corporations	162,571	57,857	220,428	136,160
	685,254	2,166,416	2,851,670	1,924,835
Grant revenue	270,742	750,000	1,020,742	355,695
Special events	1,034,522	-	1,034,522	1,061,690
Less direct costs	(189,380)	-	(189,380)	(164,172)
Special events - net	845,142	-	845,142	897,518
Contributed nonfinancial assets *(Note 9)*	123,859	-	123,859	24,994
Interest income	48,892	-	48,892	83,208
Gain on sale of property and equipment	15,594	-	15,594	-
Other income	15,081	-	15,081	14,979
Released from restriction *(Note 6)*	457,854	(457,854)	-	-
Total public support and revenue	**2,462,418**	**2,458,562**	**4,920,980**	**3,301,229**
Expenses:				
Program services	2,577,421	-	2,577,421	2,533,206
Administrative	461,501	-	461,501	278,972
Development	472,988	-	472,988	562,758
Total expenses	**3,511,910**	**-**	**3,511,910**	**3,374,936**
Change in net assets	**(1,049,492)**	**2,458,562**	**1,409,070**	**(73,707)**
Net assets, beginning of year	2,325,785	565,071	2,890,856	2,964,563
Net assets, end of year	**$ 1,276,293**	**$ 3,023,633**	**$ 4,299,926**	**$ 2,890,856**

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

Friends of the Children - SF Bay Area
Statement of Functional Expenses

Year Ended August 31, 2025 *(With Comparative Totals for 2024)*

	Program Services	Administrative	Development	Indirect Costs	Total 2025	Total 2024
Salaries and related expenses:						
Salaries and wages	$ 1,670,566	$ 152,726	$ 229,198	$ -	$ 2,052,490	$ 2,091,667
Payroll taxes and benefits	398,814	35,079	48,437	-	482,330	501,242
Total salaries and related expenses	**2,069,380**	**187,805**	**277,635**	**-**	**2,534,820**	**2,592,909**
Children's activities	34,743	-	-	-	34,743	47,298
Family engagement	48,680	-	-	-	48,680	50,849
Friends' expenses	83,793	-	-	-	83,793	27,152
Travel and meetings	1,954	3,656	15	9,795	15,420	24,112
Professional expenses	5,900	180,424	30,890	4,510	221,724	103,247
Marketing and communication	-	-	7,948	-	7,948	44,108
Staff development	8,831	9,064	427	32,861	51,183	49,574
Supplies	41	-	-	7,246	7,287	5,058
Payroll and banking fees	48,271	6,766	16,619	244	71,900	65,444
Information technology	9,095	1,034	12,122	33,484	55,735	45,228
Equipment	11,179	-	-	1,388	12,567	4,231
Insurance	-	-	-	45,232	45,232	41,906
Occupancy	60,464	-	-	39,972	100,436	85,943
Depreciation and amortization	25,358	-	-	14,695	40,053	42,989
Postage and printing	230	20	280	3,558	4,088	4,762
Other	6,958	360	14,251	-	21,569	15,772
Event expense	-	-	90,500	-	90,500	97,154
Interest expense	-	20,709	-	-	20,709	1,095
Affiliation fees	-	-	-	6,720	6,720	-
Hiring fees	-	36,803	-	-	36,803	26,105
	2,414,877	**446,641**	**450,687**	**199,705**	**3,511,910**	**3,374,936**
Allocation of indirect costs	162,544	14,860	22,301	(199,705)	-	-
Total expenses	**$ 2,577,421**	**$ 461,501**	**$ 472,988**	**$ -**	**$ 3,511,910**	**$ 3,374,936**

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

Friends of the Children - SF Bay Area
Statement of Cash Flows

Year Ended August 31, 2025 *(With Comparative Totals for 2024)*	**2025**	**2024**
Cash flows from operating activities:		
Change in net assets	$ 1,409,070	$ (73,707)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	40,053	42,989
Gain on sale of property and equipment	(15,594)	-
Contributions restricted for capital projects	(2,384,713)	(53,000)
Changes in:		
Receivables	(94,633)	(324,785)
Prepaid expenses	(14,280)	(12,509)
Accounts payable	69,333	(11,871)
Accrued payroll expenses	67,640	27,655
Net cash used by operating activities	**(923,124)**	**(405,228)**
Cash flows from investing activities:		
Deposit on property and equipment	-	(64,500)
Purchase of property and equipment	(1,723,467)	(43,810)
Proceeds from sale of property and equipment	33,535	-
Net cash used by investing activities	**(1,689,932)**	**(108,310)**
Cash flows from financing activities:		
Contributions restricted for capital projects	2,384,713	53,000
Principal payments on finance lease obligations	-	(21,680)
Principal payments on note payable	(19,827)	-
Net cash provided by financing activities	**2,364,886**	**31,320**
Net decrease in cash and cash equivalents	**(248,170)**	**(482,218)**
Cash and cash equivalents, beginning of year	2,294,673	2,776,891
Cash and cash equivalents, end of year	**$ 2,046,503**	**$ 2,294,673**

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

Friends of the Children - SF Bay Area

Statement of Cash Flows - Continued

Year Ended August 31, 2025 *(With Comparative Totals for 2024)*		**2025**		**2024**
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	$	20,709	$	1,095
Supplemental disclosures of noncash transaction:				
Purchase of property and equipment with note payable	$	700,000	$	-
Right-of-use assets acquired through finance lease	$	300,914	$	-

1. 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 **-** 12+ 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 challenges in access to and quality of health care. Friends of the Children works with the goal of helping program youth overcome these challenges with strong foundations for continuing achievement, including increasing the likelihood of high school graduation or earning a GED; increasing the likelihood of enrolling in post-secondary education, serving our country, or entering the workforce; increasing the likelihood of waiting to parent until after their teen years; and decreasing the likelihood of juvenile justice system involvement.

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.

1. 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, 2025.

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.

1. 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, 2025, Friends - SF Bay Area had available award balances of approximately $100,000. 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.

Contributed Nonfinancial Assets - 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. 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.

1. Summary of Significant Accounting Policies – Continued

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.

Summarized Financial Information for 2024 - 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, 2024, from which the summarized information was derived.

2. Functional Expense Classifications

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.

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, 2025:

Cash and cash equivalents	$ 2,046,503
Receivables	579,810
Total financial assets	2,626,313
Less amounts not available to be used within one year:	
Net assets with temporary purpose restrictions	(106,155)
Net assets with time restrictions greater than one year	(276,276)
	$ 2,243,882

As of August 31, 2025, Friends - SF Bay Area's net assets with donor restrictions include contributions receivable of $240,000 restricted for the year ending August 31, 2026. These net assets will be available for general purposes within one year. 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.

4. Receivables

Receivables consist of the following at August 31:

	2025	**2024**
Contributions and grants receivable:		
Due within one year	$ 270,000	$ 182,000
Due from one to five years	300,000	330,000
Discount to present value (3.6 percent discount rate)	(23,725)	(35,428)
Net contributions and grants receivable	546,275	476,572
Other receivables	33,535	8,605
	$ 579,810	$ 485,177

5. Property and Equipment

Property and equipment consist of the following at August 31:

	2025	2024
Office equipment	$ 21,294	$ 21,294
Computer equipment and software	62,591	64,124
Vehicles	42,184	170,539
Leasehold improvements	47,914	47,914
Total depreciable assets	173,983	303,871
Less accumulated depreciation and amortization	(102,469)	(197,677)
Construction in progress	2,500,010	35,357
	$ 2,571,524	$ 141,551

During the year ended August 31, 2024, Friends - SF Bay Area initiated proceedings for the purchase of a new clubhouse property. An initial escrow deposit of $64,500 was made along with an offer for purchase. This offer was accepted during the year ended August 31, 2025, and the escrow deposit is reflected as a component of construction in progress as of August 31, 2025. Contracts in the amount of approximately $280,000 have been entered into to complete renovations of the property. Management anticipates completion of the construction during the year ending August 31, 2026.

6. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2025, are available for the following purposes:

Youth empowerment program	$ 81,707
LifeHub program	24,448
Capital campaign - construction in process	2,401,202
Operations in future fiscal years	516,276
	$ 3,023,633

During August 31, 2025, Friends - SF Bay Area released $457,854 of net assets from donor restrictions by utilizing the funds for their specified purposes and/or due to the passage of time.

7. 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, 2025, totaled $39,712.

8. 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 businesses, charitable foundations, and individuals. At August 31, 2025, 86 percent of receivables was due from two donors and 58 percent of contribution revenue was provided by three donors.

9. Contributed Nonfinancial Assets

Friends - SF Bay recognizes contributed nonfinancial assets at the time of donation at their estimated fair value. Such contributions consisted of the following for the year ended August 31, 2025.

Supplies	$ 34,344
Services	110,230
	144,574
Less amounts included with special events	(20,715)
	$ 123,859

These amounts are reflected as contributions without donor restrictions with the related expenses allocated in the accompanying statement of functional expenses as follows:

Program services	$ 10,276
Administrative	106,305
Development	100
Indirect costs	7,178
	$ 123,859

10. Related-Party Transactions

During the year ended August 31, 2025, Friends - SF Bay Area received contributions from employees and members of the Board of Directors totaling $422,730. In addition, Friends - National provided Friends - SF Bay Area with grant revenue of $76,000 during the year ended August 31, 2025

Friends - National provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support. Amounts paid to Friends - National include development consulting fees of $15,890, audit and accounting fees of $27,120, affiliation fees of $6,720, and information technology fees of $8,820. Total amounts payable to Friends - National was $10,300 as of August 31, 2025.

During the year ended August 31, 2025, Friends - SF Bay Area borrowed $700,000 from FOTC Properties, LLC for purposes of purchasing new facilities. The terms and ending balance on this note payable are described in *Note 12*.

Friends - SF Bay Area leased vehicles through a sublease through Friends - National during the year ended August 31, 2025. The terms, ending balances, and activity for the year ended August 31, 2025 are detailed in *Note 11*.

11. Leases

Friends - SF Bay Area examines all contracts to determine if they contain a lease. Friends - SF Bay Area considers any contract in which a specific asset is identified and control of the identified asset is transferred to Friends - SF Bay Area. At lease inception, the present value of lease payments are recorded as a right-of-use asset and lease liability on the statement of financial position. The discount rates are generally based on the discount rates implicit in Friends - SF Bay Area leases. Friends - SF Bay Area has elected not to recognize leases with an original lease term of 12 months or less (short-term lease) on the statement of financial position.

Friends - SF Bay Area leases automobiles under the provisions of a finance lease arrangement with 5-year initial term. The lease does not include a renewal options to extend the lease term. The lease agreements do not include any residual value guarantees or restrictive covenants. The discount rates are measured at the implicit rates in the leases.

The following summarizes the line items in the balance sheet which include amounts for financing leases as of August 31, 2025:

Right-of-use assets	$ 300,914
Finance lease liabilities	$ 300,914

11. Leases - Continued

Lease expense was composed of the following as of August 31, 2025:

Finance lease expense	
Amortization of ROU Assets	$ 10,023
Interest on lease liabilities	1,875
	$ 11,898

The following summarizes the cash flow information related to financing and leases for the year ended August 31, 2025:

ROU assets obtained in exchange for new finance lease liabilities	$ 300,914

Weighted average lease term and discount rate were as follows at August 31, 2025

Weighted-average remaining lease term (in years) for finance leases	4.8
Weighted-average discount rate for finance leases	3.8%

Friends - SF Bay Area also leases office space under an operating lease agreement with escalating payments currently calling for monthly payments of $6,100. The initial lease term expired during the year ended August 31, 2022, and the lease remains in place on a month-to-month basis.

The maturities of finance lease liabilities were as follows as of August 31, 2025:

Years Ending August 31,	**Amount**
2026	$ 65,979
2027	65,979
2028	65,979
2029	65,979
2030	54,982
	$ 318,898
Less present value discount	(17,984)
Finance lease liabilities	$ 300,914

12. Notes Payable

The notes payable consisted of the following at August 31, 2025:

Notes payable to FOTC Properties LLC, in monthly installments of $5,067, including interest at 4.5 percent per annum. Secured by real property with a carrying value of $700,000	$ 680,173

Principal maturities for the years subsequent to August 31, 2025 are as follows:

Years Ending August 31,	Amount
2026	$ 30,830
2027	32,247
2028	33,702
2029	35,301
2030	36,898
Thereafter	511,195
	$ 680,173

13. Subsequent Events

Management has evaluated subsequent events through February 7, 2026, the date the financial statements were available to be issued.