

**FRIENDS OF THE CHILDREN - SEATTLE**

Financial Statements

For the Years Ended August 31, 2022 and 2021

## Table of Contents

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	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 12

## Independent Auditor's Report

**To the Board of Directors  
Friends of the Children - Seattle  
Seattle, Washington**

### Opinion

We have audited the accompanying financial statements of Friends of the Children - Seattle (Friends - Seattle), which comprise the statements of financial position as of August 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Friends - Seattle as of August 31, 2022 and 2021, 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 of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Friends - Seattle and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 doubt about Friends - Seattle's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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## **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 GAAS 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 GAAS, 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 - Seattle'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 - Seattle'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.

*Clark Nuber PS*

Certified Public Accountants  
January 10, 2023

FRIENDS OF THE CHILDREN - SEATTLE

Statements of Financial Position  
August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,532,642	\$ 1,519,729
Pledges and grants receivable, net	301,146	450,840
Prepaid expenses	<u>31,761</u>	<u>34,667</u>
Total current assets	5,865,549	2,005,236
Long-term pledges and grants receivable, net of current portion	85,511	126,844
Advances to mentors	2,565	8,700
Property and equipment, net	<u>115,726</u>	<u>155,053</u>
<b>Total Assets</b>	<b><u>\$ 6,069,351</u></b>	<b><u>\$ 2,295,833</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 31,996	\$ 31,515
Accrued expenses	<u>71,982</u>	<u>100,332</u>
Total current liabilities	<b>103,978</b>	<b>131,847</b>
Deferred rent	5,565	3,674
Deferred revenue	<u>99,890</u>	<u></u>
<b>Total Liabilities</b>	<b>209,433</b>	<b>135,521</b>
<b>Net Assets:</b>		
Without donor restrictions	5,514,407	1,673,277
With donor restrictions	<u>345,511</u>	<u>487,035</u>
<b>Total Net Assets</b>	<b><u>5,859,918</u></b>	<b><u>2,160,312</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 6,069,351</u></b>	<b><u>\$ 2,295,833</u></b>

See accompanying notes.

FRIENDS OF THE CHILDREN - SEATTLE

Statements of Activities  
For the Years Ended August 31, 2022 and 2021

	2022			2021		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
<b>Revenue and Support:</b>						
Individual contributions	\$ 498,860	\$ 123,667	\$ 622,527	\$ 549,350	\$ 94,585	\$ 643,935
Foundation grants	5,039,590	75,000	5,114,590	1,298,659	266,259	1,564,918
Government grants	311,064		311,064	455,493		455,493
Business contributions	315,818		315,818	93,814	23,306	117,120
Special event revenue	555,577		555,577	482,504		482,504
Special event direct donor costs	(48,753)		(48,753)	(38,794)		(38,794)
In-kind contributions	16,201		16,201	47,288		47,288
Federal COVID-relief funding	304,367		304,367	443,700		443,700
Other income	6,418		6,418	644		644
Net assets released from restrictions	340,191	(340,191)		285,799	(285,799)	
<b>Total Revenue and Support</b>	<b>7,339,333</b>	<b>(141,524)</b>	<b>7,197,809</b>	<b>3,618,457</b>	<b>98,351</b>	<b>3,716,808</b>
<b>Expenses:</b>						
Program services	2,630,852		2,630,852	2,751,739		2,751,739
Management and general	234,495		234,495	231,059		231,059
Fundraising	632,856		632,856	647,596		647,596
<b>Total Expenses</b>	<b>3,498,203</b>		<b>3,498,203</b>	<b>3,630,394</b>		<b>3,630,394</b>
<b>Change in Net Assets</b>	<b>3,841,130</b>	<b>(141,524)</b>	<b>3,699,606</b>	<b>(11,937)</b>	<b>98,351</b>	<b>86,414</b>
Net assets, beginning of year	1,673,277	487,035	2,160,312	1,685,214	388,684	2,073,898
<b>Net Assets, End of Year</b>	<b>\$ 5,514,407</b>	<b>\$ 345,511</b>	<b>\$ 5,859,918</b>	<b>\$ 1,673,277</b>	<b>\$ 487,035</b>	<b>\$ 2,160,312</b>

See accompanying notes.

FRIENDS OF THE CHILDREN - SEATTLE

Statements of Functional Expenses  
For the Years Ended August 31, 2022 and 2021

	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,769,459	\$ 103,821	\$ 455,377	\$ 2,328,657	\$ 1,802,682	\$ 90,912	\$ 479,183	\$ 2,372,777
Benefits	202,050	8,981	47,126	258,157	228,426	6,808	48,445	283,679
Program costs	222,369		252	222,621	271,660	508	3,481	275,649
Payroll taxes	152,356	6,520	37,392	196,268	148,110	7,197	38,525	193,832
Professional services	20,731	86,196	8,684	115,611	49,709	108,719	20,047	178,475
Occupancy	109,501	6,105	22,092	137,698	97,363	7,900	20,685	125,948
Staff development	36,893	9,318	38,524	84,735	8,120	210	1,430	9,760
Office expenses	50,076	4,976	10,685	65,737	41,509	6,116	13,720	61,345
Depreciation and amortization	35,895	438	7,442	43,775	35,831	487	7,320	43,638
Family holiday gifts (in-kind)	16,201			16,201	25,211			25,211
Student supplies (in-kind)					22,077			22,077
Miscellaneous	15,321	8,140	5,282	28,743	21,041	2,202	14,760	38,003
<b>Total Expenses Presented on the Statement of Activities</b>	<b>2,630,852</b>	<b>234,495</b>	<b>632,856</b>	<b>3,498,203</b>	<b>2,751,739</b>	<b>231,059</b>	<b>647,596</b>	<b>3,630,394</b>
Plus special event direct donor costs			48,753	48,753			38,794	38,794
<b>Total Functional Expenses</b>	<b>\$ 2,630,852</b>	<b>\$ 234,495</b>	<b>\$ 681,609</b>	<b>\$ 3,546,956</b>	<b>\$ 2,751,739</b>	<b>\$ 231,059</b>	<b>\$ 686,390</b>	<b>\$ 3,669,188</b>

See accompanying notes.

FRIENDS OF THE CHILDREN - SEATTLE

Statements of Cash Flows  
For the Years Ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 3,699,606	\$ 86,414
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Depreciation and amortization	43,774	43,638
Forgiveness of Paycheck Protection Program loan		(443,700)
Changes in operating assets and liabilities:		
Pledges and grants receivable	191,027	(298,608)
Affiliate receivables - related party		91,852
Prepaid expenses	2,906	(34,667)
Advances to mentors	6,135	(870)
Accounts payable	481	4,700
Accrued expenses	(28,350)	14,172
Deferred rent	1,891	3,674
Deferred revenue	99,890	
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>4,017,360</b>	<b>(533,395)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(4,447)	(22,863)
<b>Net Cash Used in Investing Activities</b>	<b>(4,447)</b>	<b>(22,863)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>4,012,913</b>	<b>(556,258)</b>
Cash and cash equivalents, beginning of year	1,519,729	2,075,987
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 5,532,642</b>	<b>\$ 1,519,729</b>

See accompanying notes.



## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements For the Years Ended August 31, 2022 and 2021

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#### Note 1 - Summary of Significant Accounting Policies

**Organization** - Friends of the Children - Seattle (Friends - Seattle) was incorporated as a nonprofit entity in May 2000. Through long-term mentoring relationships, Friends - Seattle empowers youth facing the toughest challenges to achieve their greatest potential. Friends - Seattle selects children in kindergarten or first grade who face the highest risk of school failure, dropout, and other poor outcomes, and commits to them for 12½ 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 years ended August 31, 2022 and 2021, Friends - Seattle served approximately 200 and 231 children in kindergarten through twelfth grade, respectively.

**Basis of Presentation** - Net assets and revenues, along with gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Friends - Seattle and changes therein are classified, and report as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to externally-imposed restrictions.

Net Assets With Donor Restrictions - Net assets subject to externally-imposed restrictions that will be met either by action of Friends - Seattle or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. 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. Expirations of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

It is Friends - Seattle's policy to record contributions with donor restrictions received and fulfilled in the same accounting period in the net assets without donor restriction class. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**Revenue Recognition From Contributions and Grants** - Revenue from unconditional contributions (including those received from special events) is recorded when the pledge to Friends - Seattle is made. Revenue from unconditional contribution-type grants is recognized during the period for which it was awarded to Friends - Seattle. Revenue from governmental grants that contain certain conditions are recognized when the condition is met. At August 31, 2022 and 2021, Friends - Seattle had approximately \$160,000 and \$33,000 in grants awarded where conditions had not yet been met, respectively. Conditional grants of \$100,000 at August 31, 2022 were received in advance and are included in deferred revenue on the statements of financial position. No amounts were received in advance at August 31, 2022.

**In-Kind Contributions** - In-kind contributions are recognized at the estimated fair value of the contributions received. In-kind contributions for the years ended August 31, 2022 and 2021, consisted of donated holiday gifts for families in Friends - Seattle's programs for both years and technology to assist in distance learning for students within Friends - Seattle's programs (primarily laptops) in the prior year.

**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.

**FRIENDS OF THE CHILDREN - SEATTLE**

**Notes to Financial Statements  
For the Years Ended August 31, 2022 and 2021**

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**Note 1 - Continued**

**Pledges and Grants Receivable** - Pledges and grants receivable that are expected to be collected within one year are recorded at net realizable value. Pledges and grants receivable that are expected to be collected in future years are recorded at fair value, which is measured at the present value of the future cash flows. The discount is computed using risk-adjusted interest rates applicable to the years in which the pledges and grants are received. Amortization of the discount is included in grants and contributions revenue in the statements of activities.

**Advances to Mentors** - Mentors are advanced approximately \$400 upon hiring for program expenses. Advances made to mentors are repaid to Friends - Seattle upon the termination or retirement of the mentor unless the mentor has been with the program for three years. After three years, the mentor is not required to repay the advance, as such, at the mentor's three-year anniversary, the advance is recognized as a program expense.

**Property and Equipment** - Property and equipment are recorded at cost, if purchased, or at fair value at the date of receipt, if donated. Friends - Seattle's policy is to capitalize assets with a cost greater than \$1,000 and a useful life greater than one year. Maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful lives or the anticipated lease term and are related to improvements on Friends - Seattle's leased office space (Note 4).

Furniture	3 - 5 years
Computer equipment	3 years
Leasehold improvements	Lesser of 10 years or remaining lease term

**Deferred Rent** - Friends - Seattle has entered into an operating lease agreement for office space, which contains provisions for future rent increases. In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), Friends - Seattle records monthly rent expense equal to the total of the payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent, which is reflected as a separate line item in the accompanying statements of financial position.

**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 and functional expenses. Accordingly, salaries, benefits, office, occupancy and insurance have been allocated among the programs and supporting services benefited. Allocated expenses are allocated based on estimates of time and effort.

**Income Taxes** - Friends - Seattle is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Concentrations** - Friends - Seattle is primarily supported by foundation grants and private contributions. During the year ended August 31, 2022, approximately 55% of total revenue was from one donor. During the year ended August 31, 2021, approximately 27% of total revenue was from two donors.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements For the Years Ended August 31, 2022 and 2021

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#### Note 1 - Continued

**Subsequent Events** - Management of Friends - Seattle has evaluated subsequent events through January 10, 2023, the date these financial statements were available to be issued.

#### Note 2 - Pledges and Grants Receivable

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

	<u>2022</u>	<u>2021</u>
Receivables due in less than one year	\$ 301,146	\$ 450,840
Receivables due in one to five years	<u>90,000</u>	<u>135,000</u>
	391,146	585,840
Less discounts to present value (5.25% for 2022 and 2021)	<u>(4,489)</u>	<u>(8,156)</u>
<b>Total Pledges Receivable, Net</b>	<b><u>\$ 386,657</u></b>	<b><u>\$ 577,684</u></b>

Pledges receivable consist of promises to give due from contributors. Grants receivable consist of grants due from contributors. Management reviews the collectability 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, 2022 or 2021.

#### Note 3 - Property and Equipment

Property and equipment consist of the following at August 31:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 99,694	\$ 95,246
Leasehold improvements	<u>345,957</u>	<u>345,957</u>
	445,651	441,203
Less accumulated depreciation and amortization	<u>(329,925)</u>	<u>(286,150)</u>
	<b><u>\$ 115,726</u></b>	<b><u>\$ 155,053</u></b>

#### Note 4 - Lease Commitment

During the year ended August 31, 2020, Friends - Seattle exercised its option to extend its operating lease for office space effective October 1, 2020 through September 30, 2025. Total rent expense was \$126,391 and \$115,699 for the years ended August 31, 2022 and 2021, respectively. These amounts include common area costs, insurance, and other costs as part of the lease payments. Rent expense is included in occupancy expense on the statements of functional expenses.

## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements For the Years Ended August 31, 2022 and 2021

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#### Note 4 - Continued

Future minimum lease payments under the current lease agreement are as follows for the years ending August 31:

For the Year Ending August 31,

2023	\$	63,038
2024		64,929
2025		66,877
	\$	<u>194,844</u>

#### Note 5 - Line of Credit

Friends - Seattle has a line of credit with a bank with no specific maturity date. The line of credit is unsecured and has a maximum borrowing base of \$50,000. Interest-only payments are required monthly until maturity. Interest on the line of credit is based on the prime rate plus 2.0%, subject to a minimum of 5.0% and a maximum of 18.0%. No funds had been drawn on the line of credit at August 31, 2022 or 2021.

#### Note 6 - Federal COVID-Relief Funding

**Paycheck Protection Program** - In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. In April 2020, Friends - Seattle obtained a loan under the PPP with a principal balance of \$443,700 and an annual interest rate of 1%. The principal and interest was forgiven on December 31, 2020 and was recorded as revenue in the statements of activities for the year ended August 31, 2021.

**Employee Retention Tax Credit (ERTC)** - In response to the COVID-19 pandemic, the U.S. Congress passed the CARES Act. Included in the CARES Act was the ERTC to encourage businesses and not-for-profit organizations impacted by COVID-19 to keep employees on their payroll. The ERTC is a refundable tax credit computed based on wages paid by Friends - Seattle. Friends - Seattle's accounting policy for the ERTC is to record revenue when the refundable tax credits are received from the government. Total ERTC revenue recognized during the year ended August 31, 2022, was \$304,367.

#### Note 7 - 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 \$35,729 and \$42,634 to the Plan during the years ended August 31, 2022 and 2021, respectively.

**FRIENDS OF THE CHILDREN - SEATTLE**

**Notes to Financial Statements  
For the Years Ended August 31, 2022 and 2021**

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**Note 8 - Net Assets Without Donor Restrictions**

Net assets without donor restrictions are as follows at August 31:

	<u>2022</u>	<u>2021</u>
Board-designated general operating reserve	\$ 500,000	\$ 500,000
Undesignated	<u>5,014,407</u>	<u>1,173,277</u>
<b>Net Assets Without Donor Restrictions</b>	<b><u>\$ 5,514,407</u></b>	<b><u>\$ 1,673,277</u></b>

**Note 9 - Net Assets With Donor Restrictions**

Net assets with donor restrictions are as follows at August 31:

	<u>2022</u>	<u>2021</u>
Time restrictions	\$ 345,511	\$ 423,844
Youth mentorship expansion		39,885
Development of mentorship application		<u>23,306</u>
<b>Net Assets With Donor Restrictions</b>	<b><u>\$ 345,511</u></b>	<b><u>\$ 487,035</u></b>

**Note 10 - Affiliated Organization**

Friends - Seattle is affiliated with a national organization (Friends - National). Friends - National received three separate grants from the federal government. A portion of each of these grants was passed on to Friends - Seattle. For the years ended August 31, 2022 and 2021, respectively, Friends - Seattle recognized \$7,545 and \$119,639 in revenue related to these grants, which is included with government grants on the statements of activities.

**Note 11 - Liquidity and Availability of Resources**

Friends - Seattle strives to maintain liquid financial assets sufficient to cover six months of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds.

**FRIENDS OF THE CHILDREN - SEATTLE**

**Notes to Financial Statements  
For the Years Ended August 31, 2022 and 2021**

**Note 11 - Continued**

The following table reflects Friends - Seattle's financial assets as of August 31, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include board-designated projects fund that are intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Additionally, to help manage unanticipated liquidity needs, Friends - Seattle has a line of credit in the amount of \$50,000, which could be drawn upon (Note 5).

	<u>2022</u>	<u>2021</u>
Financial assets-		
Cash and cash equivalents	\$ 5,532,642	\$ 1,519,729
Pledges and grants receivable	<u>386,657</u>	<u>577,684</u>
Total financial assets	5,919,299	2,097,413
Less amounts not available to meet general expenditures-		
Net assets with donor restrictions	(345,511)	(487,035)
Board designated funds	<u>(500,000)</u>	<u>(500,000)</u>
<b>Financial Assets Available to Meet General Expenditures Available Within One Year</b>	<b><u>\$ 5,073,788</u></b>	<b><u>\$ 1,110,378</u></b>