

**FRIENDS OF THE CHILDREN - SEATTLE**

Financial Statements

For the Years Ended August 31, 2021 and 2020

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Friends of the Children - Seattle (Friends - Seattle), 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.

## Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends - Seattle as of August 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

The financial statements of Friends - Seattle for the year ended August 31, 2020, before the restatement described in Note 12, were audited by another auditor whose report dated January 11, 2021, expressed an unmodified opinion on those statements.

As part of our audit of the August 31, 2021 financial statements, we also audited the adjustment described in Note 12 that was applied to restate the 2020 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2020 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

*Clark Nuber PS*

Certified Public Accountants  
February 22, 2022

**FRIENDS OF THE CHILDREN - SEATTLE**

**Statements of Financial Position  
August 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,519,729	\$ 2,075,987
Pledges and grants receivable	450,840	246,076
Affiliate receivables - related parties		91,852
Prepaid expenses	<u>34,667</u>	
Total current assets	2,005,236	2,413,915
Long-term pledges and grants receivable, net of current portion	126,844	33,000
Advances to mentors	8,700	7,830
Property and equipment, net	<u>155,053</u>	<u>175,828</u>
<b>Total Assets</b>	<b><u>\$ 2,295,833</u></b>	<b><u>\$ 2,630,573</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 31,515	\$ 26,815
Accrued expenses	<u>100,332</u>	<u>86,160</u>
Total current liabilities	<b>131,847</b>	<b>112,975</b>
Deferred rent	3,674	
Forgivable loan		<u>443,700</u>
<b>Total Liabilities</b>	<b>135,521</b>	<b>556,675</b>
<b>Net Assets:</b>		
Without donor restrictions	1,673,277	1,685,214
With donor restrictions	<u>487,035</u>	<u>388,684</u>
<b>Total Net Assets</b>	<b><u>2,160,312</u></b>	<b><u>2,073,898</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 2,295,833</u></b>	<b><u>\$ 2,630,573</u></b>

See accompanying notes.

**FRIENDS OF THE CHILDREN - SEATTLE**

**Statements of Activities  
For the Years Ended August 31, 2021 and 2020**

	2021			2020		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
<b>Revenue and Support:</b>						
Individual contributions	\$ 549,350	\$ 94,585	\$ 643,935	\$ 581,390	\$ 125,000	\$ 706,390
Foundation grants	1,298,659	266,259	1,564,918	1,308,286	206,184	1,514,470
Government grants	455,493		455,493	522,380		522,380
Business contributions	93,814	23,306	117,120	141,486	57,500	198,986
Special event revenue	482,504		482,504	558,204		558,204
Special event direct donor costs	(38,794)		(38,794)	(99,910)		(99,910)
In-kind contributions	47,288		47,288	81,630		81,630
Forgiveness of Paycheck Protection Program loan	443,700		443,700			
Other income	644		644	539		539
Net assets released from restrictions	285,799	(285,799)		397,238	(397,238)	
<b>Total Revenue and Support</b>	<b>3,618,457</b>	<b>98,351</b>	<b>3,716,808</b>	<b>3,491,243</b>	<b>(8,554)</b>	<b>3,482,689</b>
<b>Expenses:</b>						
Program services	2,751,739		2,751,739	2,717,214		2,717,214
Management and general	231,059		231,059	132,223		132,223
Fundraising	647,596		647,596	638,966		638,966
<b>Total Expenses</b>	<b>3,630,394</b>		<b>3,630,394</b>	<b>3,488,403</b>		<b>3,488,403</b>
<b>Change in Net Assets</b>	<b>(11,937)</b>	<b>98,351</b>	<b>86,414</b>	<b>2,840</b>	<b>(8,554)</b>	<b>(5,714)</b>
Net assets, beginning of year	1,685,214	388,684	2,073,898	1,682,374	397,238	2,079,612
<b>Net Assets, End of Year</b>	<b>\$ 1,673,277</b>	<b>\$ 487,035</b>	<b>\$ 2,160,312</b>	<b>\$ 1,685,214</b>	<b>\$ 388,684</b>	<b>\$ 2,073,898</b>

See accompanying notes.

FRIENDS OF THE CHILDREN - SEATTLE

Statements of Functional Expenses  
For the Years Ended August 31, 2021 and 2020

	2021				2020			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,802,682	\$ 90,912	\$ 479,183	\$ 2,372,777	\$ 1,736,373	\$ 44,235	\$ 482,456	\$ 2,263,064
Benefits	228,426	6,808	48,445	283,679	214,983	3,757	48,694	267,434
Program costs	271,660	508	3,481	275,649	278,697	65	63	278,825
Payroll taxes	148,110	7,197	38,525	193,832	139,950	3,293	37,377	180,620
Professional services	49,709	108,719	20,047	178,475	69,124	61,399	15,301	145,824
Occupancy	97,363	7,900	20,685	125,948	81,439	993	16,884	99,316
Office expenses	41,509	6,116	13,720	61,345	45,623	3,344	16,487	65,454
Depreciation and amortization	35,831	487	7,320	43,638	35,031	427	7,263	42,721
Family holiday gifts (in-kind)	25,211			25,211	53,470			53,470
Student supplies (in-kind)	22,077			22,077	28,160			28,160
Staff development	8,120	210	1,430	9,760	6,285	601		6,886
Miscellaneous	21,041	2,202	14,760	38,003	28,079	14,109	14,441	56,629
<b>Total Expenses Presented on the Statement of Activities</b>	<b>2,751,739</b>	<b>231,059</b>	<b>647,596</b>	<b>3,630,394</b>	<b>2,717,214</b>	<b>132,223</b>	<b>638,966</b>	<b>3,488,403</b>
Plus special event direct donor costs			38,794	38,794			99,910	99,910
<b>Total Functional Expenses</b>	<b>\$ 2,751,739</b>	<b>\$ 231,059</b>	<b>\$ 686,390</b>	<b>\$ 3,669,188</b>	<b>\$ 2,717,214</b>	<b>\$ 132,223</b>	<b>\$ 738,876</b>	<b>\$ 3,588,313</b>

See accompanying notes.

**FRIENDS OF THE CHILDREN - SEATTLE**

**Statements of Cash Flows**  
**For the Years Ended August 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 86,414	\$ (5,714)
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Depreciation and amortization	43,638	42,721
Forgiveness of Paycheck Protection Program loan	(443,700)	
Changes in operating assets and liabilities:		
Pledges and grants receivable	(298,608)	(87,336)
Affiliate receivables - related party	91,852	(24,143)
Prepaid expenses	(34,667)	26,605
Advances to mentors	(870)	785
Accounts payable	4,700	(14,196)
Accrued expenses	14,172	24,363
Deferred rent	3,674	(12,953)
<b>Net Cash Used in Operating Activities</b>	<b>(533,395)</b>	<b>(49,868)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(22,863)	
<b>Net Cash Used in Investing Activities</b>	<b>(22,863)</b>	
<b>Cash Flows From Financing Activities:</b>		
Proceeds from Paycheck Protection Program loan		443,700
<b>Net Cash Provided by Financing Activities</b>		<b>443,700</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(556,258)</b>	<b>393,832</b>
Cash and cash equivalents, beginning of year	2,075,987	1,682,155
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,519,729</b>	<b>\$ 2,075,987</b>

See accompanying notes.



## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements

For the Years Ended August 31, 2021 and 2020

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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, 2021 and 2020, Friends - Seattle served approximately 231 and 221 children in kindergarten through twelfth grade, respectively.

**Impacts of the Covid-19 Pandemic** - In early 2020, a novel strain of coronavirus (COVID-19) became prevalent throughout the world. The COVID-19 outbreak has caused business disruption through mandated and voluntary closings of businesses and organizations in the United States and abroad. Through August 31, 2021, the COVID-19 outbreak has not had a material impact on Friends - Seattle's operating results, however, all mentor sessions are now held virtually, and support staff are primarily working from home. Management continues to monitor events and conditions as they unfold and has established strategies to respond accordingly. The full financial impact to Friends - Seattle cannot be reasonably estimated at this time.

**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, 2021 and 2020, Friends - Seattle had \$33,000 and \$32,000 in grants awarded where conditions had not yet been met, respectively.

**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, 2021 and 2020, consisted of donated holiday gifts and technology to assist in distance learning for students (primarily laptops).

## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements

For the Years Ended August 31, 2021 and 2020

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#### Note 1 - Continued

**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.

**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. As of August 31, 2021 the present value discount was \$8,156. There was no discount recognized at August 31, 2020, based on materiality.

**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, 2021, approximately 27% of total revenue was from two donors. During the year ended August 31, 2020, approximately 42% of total revenue was from two donors.

## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements

For the Years Ended August 31, 2021 and 2020

#### Note 1 - Continued

**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.

**Financial Statement Reclassifications** - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances as previously reported.

**Subsequent Events** - Management of Friends - Seattle has evaluated subsequent events through February 22, 2022, 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:

	2021	2020
Receivables due in less than one year	\$ 450,840	\$ 246,076
Receivables due in one to five years	135,000	33,000
	585,840	279,076
Less discounts to present value (5.25%)	(8,156)	
<b>Total Pledges Receivable, Net</b>	<b>\$ 577,684</b>	<b>\$ 279,076</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, 2021 or 2020.

#### Note 3 - Property and Equipment

Property and equipment consist of the following at August 31:

	2021	2020
Furniture and equipment	\$ 95,246	\$ 91,122
Leasehold improvements	345,957	327,218
	441,203	418,340
Less accumulated depreciation and amortization	(286,150)	(242,512)
	<b>\$ 155,053</b>	<b>\$ 175,828</b>

## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements

For the Years Ended August 31, 2021 and 2020

#### 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 \$115,699 and \$89,047 for the years ended August 31, 2021 and 2020, 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.

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

For the Year Ending August 31,

2022	\$	61,202
2023		63,038
2024		64,929
2025		66,877
	\$	<u>256,046</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, 2021 or 2020.

#### Note 6 - Paycheck Protection Program Loan

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.

#### 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 \$42,634 and \$39,177 to the Plan during the years ended August 31, 2021 and 2020, respectively.

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

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

	<u>2021</u>	<u>2020</u>
Board-designated general operating reserve	\$ 500,000	\$ 500,000
Undesignated	<u>1,173,277</u>	<u>1,185,214</u>
<b>Net Assets Without Donor Restrictions</b>	<b><u>\$ 1,673,277</u></b>	<b><u>\$ 1,685,214</u></b>

## FRIENDS OF THE CHILDREN - SEATTLE

### Notes to Financial Statements For the Years Ended August 31, 2021 and 2020

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

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

	2021	2020
Youth mentorship expansion	\$ 39,885	\$ 120,184
Development of mentorship application	23,306	
Kitchen renovation		20,000
Time restrictions	423,844	248,500
<b>Net Assets With Donor Restrictions</b>	<b>\$ 487,035</b>	<b>\$ 388,684</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, 2021 and 2020, respectively, Friends - Seattle recognized \$119,639 and \$399,917 in revenue related to these grants, which is included with government grants on the statements of activities. As of August 31, 2020, Friends - Seattle had a receivable from Friends - National of \$91,852, which is shown as affiliate receivables - related party on the statements of financial position. There was no such receivable for the year ended August 31, 2021.

#### 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, certificates of deposit, or treasury bills.

The following table reflects Friends - Seattle's financial assets as of August 31, 2021 and 2020, 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).

	2021	2020
Financial assets-		
Cash and cash equivalents	\$ 1,519,729	\$ 2,075,987
Pledges and grants receivable	577,684	279,076
Affiliate receivables - related party		91,852
Total financial assets	2,097,413	2,446,915
Less amounts not available to meet general expenditures-		
Net assets with donor restrictions	(487,035)	(388,684)
Board designated funds	(500,000)	(500,000)
<b>Financial Assets Available to Meet General Expenditures Available Within One Year</b>	<b>\$ 1,110,378</b>	<b>\$ 1,558,231</b>

# FRIENDS OF THE CHILDREN - SEATTLE

## Notes to Financial Statements For the Years Ended August 31, 2021 and 2020

### Note 12 - Prior Period Adjustment

During the year ended August 31, 2021, management identified errors resulting in a prior period restatement of the financial statements for the year ended August 31, 2020. The impacts of those errors are summarized as follows:

	2020		
	As Previously Reported	Restatements	As Restated
<b>Impacted Lines - Statement of Financial Position:</b>			
Current assets-			
Pledges and grants receivable	\$ 446,076	\$ (200,000)	\$ 246,076
Long-term assets-			
Long-term pledges and grants receivable net of current portion	233,000	(200,000)	33,000
Total assets	679,076	(400,000)	279,076
<b>Net Assets:</b>			
Ending net assets with donor restrictions	788,684	(400,000)	388,684
Ending total net assets	2,473,898	(400,000)	2,073,898
<b>Impacted Lines - Statement of Activities:</b>			
Individual contributions with donor restrictions	525,000	(400,000)	125,000
Total revenue and support	3,882,689	(400,000)	3,482,689
Change in net assets with donor restrictions	391,446	(400,000)	(8,554)