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**FR1ENDS of the  
CH1LDREN**  
**Utah**

**FINANCIAL STATEMENTS**

**Year Ended August 31, 2023**

**with**

**Independent Auditors' Report**

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# FRIENDS OF THE CHILDREN - UTAH

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## **Independent Auditors' Report**

The Board of Directors  
Friends of the Children - Utah

### **Opinion**

We have audited the accompanying financial statements of Friends of the Children - Utah (Friends - Utah), which comprise the statement of financial position as of August 31, 2023, 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 - Utah as of August 31, 2023, 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. 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 - Utah 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.

### **Change in Accounting Principle**

As discussed in *Note 1* to the financial statements, Friends - Utah has adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to that matter.

### **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 Friends - Utah'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 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 Friends - Utah'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 - Utah'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**

We have previously audited Friends - Utah's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 26, 2023. In our opinion, the summarized comparative information presented herein, as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Hoffman, Stewart & Schmitt, P.C.*

Lake Oswego, Oregon  
February 29, 2024

**FRIENDS OF THE CHILDREN - UTAH**

**Statement of Financial Position**

<b>August 31, 2023</b> <i>(With Comparative Amounts for 2022)</i>	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 562,644	\$ 666,795
Contributions receivable - net <i>(Note 4)</i>	107,146	533,562
Other receivables	65	-
Prepaid expenses	12,435	16,323
Operating right-of-use asset <i>(Note 12)</i>	49,283	-
Equipment and leasehold improvements - net <i>(Note 5)</i>	<u>1,915</u>	<u>2,914</u>
<b>Total assets</b>	<b><u>\$ 733,488</u></b>	<b><u>\$ 1,219,594</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 25,223	\$ 19,057
Accrued payroll liabilities	89,346	66,969
Refundable advances <i>(Note 6)</i>	83,725	218,827
Operating lease liability <i>(Note 12)</i>	<u>47,533</u>	<u>-</u>
<b>Total liabilities</b>	<b>245,827</b>	<b>304,853</b>
Commitments <i>(Notes 9 and 12)</i>		
<b>Net assets:</b>		
Without donor restrictions	407,596	371,171
With donor restrictions <i>(Note 7)</i>	<u>80,065</u>	<u>543,570</u>
<b>Total net assets</b>	<b><u>487,661</u></b>	<b><u>914,741</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 733,488</u></b>	<b><u>\$ 1,219,594</u></b>

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

**FRIENDS OF THE CHILDREN - UTAH**

**Statement of Activities**

**Year Ended August 31, 2023** *(With Comparative Totals for 2022)*

	Without Donor Restrictions	With Donor Restrictions	Total	
			2023	2022
<b>Public support and revenue:</b>				
Contributions:				
Individuals	\$ 68,031	\$ -	\$ 68,031	\$ 117,662
Foundations	290,102	125,000	415,102	380,411
Corporations	154,067	4,527	158,594	212,203
<b>Total contributions</b>	<b>512,200</b>	<b>129,527</b>	<b>641,727</b>	<b>710,276</b>
Contributed nonfinancial assets	10,362	-	10,362	-
Grant revenue	284,057	-	284,057	407,894
Employee Retention Credit <i>(Note 8)</i>	-	-	-	158,323
Special events	-	-	-	17,853
Less direct expenses	-	-	-	(11,503)
Special events - net	-	-	-	6,350
Interest income	1,124	-	1,124	3,141
Other income	1,743	-	1,743	2,365
Net assets released from restriction restriction <i>(Note 7)</i>	593,032	(593,032)	-	-
<b>Total public support and revenue</b>	<b>1,402,518</b>	<b>(463,505)</b>	<b>939,013</b>	<b>1,288,349</b>
<b>Expenses:</b>				
Program services	1,068,336	-	1,068,336	774,026
Administrative	177,960	-	177,960	158,779
Development	119,797	-	119,797	170,740
<b>Total expenses</b>	<b>1,366,093</b>	<b>-</b>	<b>1,366,093</b>	<b>1,103,545</b>
<b>Increase (decrease) in net assets</b>	<b>36,425</b>	<b>(463,505)</b>	<b>(427,080)</b>	<b>184,804</b>
Net assets, beginning of year	371,171	543,570	914,741	729,937
<b>Net assets, end of year</b>	<b>\$ 407,596</b>	<b>\$ 80,065</b>	<b>\$ 487,661</b>	<b>\$ 914,741</b>

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

**FRIENDS OF THE CHILDREN - UTAH**

**Statement of Functional Expenses**

**Year Ended August 31, 2023** *(With Comparative Totals for 2022)*

	Program			Indirect Costs	Total	
	Services	Administrative	Development		2023	2022
<b>Salaries and related expenses:</b>						
Salaries and wages	\$ 710,483	\$ 70,768	\$ 54,571	\$ -	\$ 835,822	\$ 669,818
Payroll taxes and benefits	168,607	13,823	10,579	-	193,009	135,988
<b>Total salaries and related expenses</b>	<b>879,090</b>	<b>84,591</b>	<b>65,150</b>	<b>-</b>	<b>1,028,831</b>	<b>805,806</b>
Children's activities	25,644	-	-	-	25,644	12,751
Friends' expenses	19,841	-	-	-	19,841	12,354
Family support and engagement	32,859	-	-	-	32,859	14,764
Travel and meetings	963	8,932	556	-	10,451	14,020
Professional expenses	4,100	47,624	26,497	-	78,221	81,995
Marketing and communication	-	200	17,459	-	17,659	9,992
Staff development	153	21,447	2,800	-	24,400	10,331
Affiliation fees	-	-	-	11,840	11,840	31,440
Supplies	1,111	237	158	3,157	4,663	12,319
Payroll and banking fees	5,684	5,178	837	-	11,699	7,231
Information technology	13,976	2,107	2,643	14,413	33,139	29,450
Business insurance	-	-	-	8,275	8,275	6,954
Depreciation and amortization	-	-	-	999	999	1,727
Postage and printing	5	741	310	591	1,647	1,729
Occupancy	40,810	-	-	12,605	53,415	44,956
Miscellaneous	-	2,510	-	-	2,510	5,726
	<b>1,024,236</b>	<b>173,567</b>	<b>116,410</b>	<b>51,880</b>	<b>1,366,093</b>	<b>1,103,545</b>
Allocation of indirect costs	44,100	4,393	3,387	(51,880)	-	-
<b>Total expenses</b>	<b>\$ 1,068,336</b>	<b>\$ 177,960</b>	<b>\$ 119,797</b>	<b>\$ -</b>	<b>\$ 1,366,093</b>	<b>\$ 1,103,545</b>

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

**FRIENDS OF THE CHILDREN - UTAH**

**Statement of Cash Flows**

<b>Year Ended August 31, 2023</b> <i>(With Comparative Totals for 2022)</i>	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ (427,080)	\$ 184,804
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	999	1,727
Changes in:		
Contributions receivable - net	426,416	(279,597)
Other receivables	(65)	1,644
Prepaid expenses	3,888	(997)
Operating right-of-use assets and lease liabilities	(1,750)	-
Accounts payable	6,166	(19,097)
Accrued payroll liabilities	22,377	8,238
Refundable advances	(135,102)	218,827
<b>Net cash provided (used) by operating activities</b>	<b>(104,151)</b>	<b>115,549</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(104,151)</b>	<b>115,549</b>
Cash and cash equivalents, beginning of year	666,795	551,246
<b>Cash and cash equivalents, end of year</b>	<b>\$ 562,644</b>	<b>\$ 666,795</b>

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



# FRIENDS OF THE CHILDREN - UTAH

## Notes to Financial Statements

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### 1. Nature of Activities and Summary of Significant Accounting Policies

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

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

**Summary of Significant Accounting Policies** - The significant accounting policies followed by *Friends - Utah* 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 - Utah, 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 - Utah and/or the passage of time. These donor restrictions can be temporary in nature or perpetual in nature, whereby the donor stipulates the funds be maintained in perpetuity. Friends - Utah's net assets with donor restrictions consist solely of restrictions that are temporary in nature.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets 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 restriction.

**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.

## FRIENDS OF THE CHILDREN - UTAH

### Notes to Financial Statements - Continued

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

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

**Receivables** - Accounts receivable are recorded as related revenues are 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, 2023.

**Equipment and Leasehold Improvements** - All acquisitions of property and 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 at cost or estimated fair value at date of donation. Depreciation or amortization of office equipment and leasehold improvements is calculated using the straight-line method over estimated useful lives ranging from two to five years.

**Contribution Recognition** - Friends - Utah 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 to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Friends - Utah 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.

**Contribution of Long-Lived Assets** - Friends - Utah reports gifts of furniture 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 income** - Friends - Utah's grant income includes amounts derived from Friends of the Children - National (Friends - National) and government grantors, all of which are conditioned upon the satisfaction of barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as revenue when Friends - Utah has satisfied the related barriers. At August 31, 2023, Friends - Utah had remaining available award balances totaling \$1,073,304 that will be recognized as revenue when the related barriers are satisfied.

## FRIENDS OF THE CHILDREN - UTAH

### Notes to Financial Statements - Continued

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

**Donated Nonfinancial Assets** - Friends - Utah receives contributed services from unpaid volunteers who assist in a range of fundraising and program activities. Significant services received that create or enhance a non-financial asset or require specialized skills Friends - Utah would have purchased if not donated are recognized in the statement of activities at their estimated fair value. Contributions of supplies and other materials are recorded at estimated fair value at the date of donation. During the year ended August 31, 2023, Friends - Utah received donated supplies valued at \$10,362, all of which were utilized in program operations and none of which were restricted by donors.

**Income Tax Status** - Income taxes are not provided for in the financial statements since Friends - Utah is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. Friends - Utah 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 - Utah has any uncertain tax positions. Friends - Utah files informational returns. There are currently no tax examinations in progress. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis. The statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Therefore, these expenses require allocation on a reasonable basis using a method that is consistently applied. Expenses are generally allocated based on estimates of time and effort attributable to each function.

**Adoption of New Accounting Standard** - Effective September 1, 2022, Friends - Utah adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires a lessee to record a right-of-use (ROU) asset and a lease liability for all leases with an initial term greater than 12 months. Leases are classified as either financing or operating, with classification affecting the recognition, measurement, and presentation of expenses and cash flows.

Upon adoption of the new guidance, Friends - Utah elected to apply several practical expedients, including: (1) not reassessing existing contracts to determine whether they are or contain a lease; (2) not reassessing existing leases to determine whether they are an operating or financing lease; and (3) not reassessing any initial direct costs for existing leases. In addition, Friends - Utah has elected not to separate lease components from non-lease components, and to apply the short-term lease exception, which does not require the capitalization of leases with terms of 12 months or less.

**Reclassifications** - Certain accounts in the 2022 comparative financial information have been reclassified, for comparative purposes, to conform with the 2023 presentation.

**FRIENDS OF THE CHILDREN - UTAH**

**Notes to Financial Statements - Continued**

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

**Summarized Financial Information for 2022** - 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 Friends - Utah's financial statements for the year ended August 31, 2022, from which the summarized information was derived.

**2. Program and Supporting Services**

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

**Supporting Services**

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

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

**3. Liquidity and Availability of Financial Resources**

Friends - Utah's financial assets available for general expenditure within one year of the statement of financial position date consist of the following at August 31, 2023:

Cash and cash equivalents	\$ 562,644
Contributions receivable to be collected in less than one year	107,146
Other receivables	65
	<hr/>
	\$ 669,855
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As part of Friends - Utah's liquidity management, it has a practice to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

**FRIENDS OF THE CHILDREN - UTAH**  
**Notes to Financial Statements - Continued**

**4. Contributions Receivable**

Contributions receivable consist of the following at August 31:

	<b>2023</b>	<b>2022</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 107,146	\$ 394,364
One year to five years	-	143,725
	107,146	538,089
Discount to present value (4 percent rate used)	-	(4,527)
	\$ 107,146	\$ 533,562

**5. Equipment and Leasehold Improvements**

A summary of equipment and leasehold improvements is as follows at August 31:

	<b>2023</b>	<b>2022</b>
Leasehold improvements	\$ 1,589	\$ 1,589
Computers and software	4,995	4,995
	6,584	6,584
Less accumulated depreciation and amortization	(4,669)	(3,670)
	\$ 1,915	\$ 2,914

**6. Refundable Advances**

During the year ended August 31, 2023, Friends - Utah received funding for ongoing and future projects from grants that included both specific performance barriers as well as a right of return for any unspent funds. The unspent portion of these funds that has been collected by Friends - Utah totaled \$83,725 and is reflected as a liability on the accompanying statement of financial position. Once the performance barriers are satisfied, these amounts will be recognized as support and revenue.

## FRIENDS OF THE CHILDREN - UTAH

### Notes to Financial Statements - Continued

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#### 7. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2023, consist of net assets restricted by donors for future periods totaling \$80,065. During the year ended August 31, 2023, Friends - Utah released \$593,032 of net assets from donor restrictions due to the satisfaction of purposes restrictions and/or the passage of time.

#### 8. Government Funding in Response to COVID-19

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided fully refundable tax credits (known as the employee retention credit or ERC) against the employer share of federal payroll taxes for employers who met certain criteria. Friends - Utah has analogized to guidance provided by Accounting Standards Codification 958-605: *Not-for-Profit Entities - Revenue Recognition*. As such, ERC totaling \$158,323 were recognized as revenue during the year ended August 31, 2022, when the qualifying expenses were incurred and are included as a component of public support and revenue in the 2022 statement of activities.

#### 9. Retirement Plan

Friends - Utah has a 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 fully vested immediately. The plan allows for employer matching contributions of the first 2 percent and 50 percent on the next 2 percent of eligible employee compensation. Employer matching contributions under this plan totaled \$19,757 and \$13,579 for the year ended August 31, 2023 and 2022, respectively.

#### 10. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject Friends - Utah to concentrations of risk consist primarily of cash and cash equivalents and contributions receivable. Friends - Utah maintains balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation limits. Contributions receivable are due primarily from local business, charitable foundations, and individuals. At August 31, 2023, 100 percent of contributions receivable were due from two donors, and for the year ended August 31, 2023, 49 percent of contribution revenue was provided by three donors.

## FRIENDS OF THE CHILDREN - UTAH

### Notes to Financial Statements - Continued

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#### 11. Related-Party Transactions

Friends - National organization provides Friends of the Children chapters with training, program quality monitoring, data warehousing, and operational support. For the year ended August 31, 2023, Friends - Utah received grant income totaling \$25,000 from Friends - National. Amounts paid to Friends - National include chapter affiliation fees of \$11,840, development consulting fees of \$30,373, marketing services fees of \$3,400, audit and accounting fees of \$24,170, and information technology fees of \$9,175. Also, at August 31, 2023, total amounts payable to Friends - National was \$10,184.

#### 12. Leases

Friends - Utah determines if an arrangement is a lease or a service contract at inception. A contract is determined to be or contain a lease if the contract conveys the right to control the use of an identified asset in exchange for consideration. When an arrangement is a lease, Friends - Utah determines whether it is an operating or finance lease.

Leases result in recognition of ROU assets and lease liabilities on the balance sheet. ROU assets represent the right to use an underlying asset for the lease term. Lease liabilities represent the obligation to make lease payments, measured on a discounted basis. At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability, adjusted for any direct costs, prepaid or deferred rent, and lease incentives. Friends - Utah has elected not to separate lease components from non-lease components, and to apply the short-term lease exception, which does not require the capitalization of leases with a term of 12 months or less. Short-term leases are recognized as expense on a straight-line basis over the term of the lease. Variable lease payments, if any, are recognized as expense in the period in which the obligation for payment is incurred. Friends - Utah considers any options to extend or terminate a lease when determining the lease term, and only options that Friends - Utah believes are reasonably certain to be exercised are included in the measurement of the ROU assets and lease liabilities.

Friends - Utah leases its office under an operating lease with a 2-year initial term. Some leases may include renewal options which can extend the lease term. The exercise of these renewal options are generally at the discretion of Friends - Utah, and only lease options that Friends - Utah believes are reasonably certain to be exercised are included in the measurement of the lease assets and liabilities. The lease agreements do not include any residual value guarantees or restrictive covenants. Friends - Utah has elected to use the risk-free rate of return as the discount rate as neither the rate implicit in the lease nor Friends - Utah incremental borrowing rate are readily available.

**FRIENDS OF THE CHILDREN - UTAH**  
**Notes to Financial Statements - Continued**

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**12. Leases - Continued**

The following summarizes the line items in the statement of financial position which include amounts for operating leases as of August 31, 2023:

Operating right-of-use asset	<u>\$ 49,283</u>
Operating lease liability	<u>\$ 47,533</u>

Total lease expense was comprised of \$50,050 in operating lease expense for the year ended August 31, 2023.

The following summarizes the cash flow information related to operating leases for the year ended August 31, 2023:

Operating lease expense	\$ 50,050
Short-term lease expense	<u>-</u>
	<u>\$ 50,050</u>

Weighted average lease term and discount rate were as follows at August 31, 2023:

Weighted-average remaining lease terms in (in years) for operating leases	1.00
Weighted-average discount rate for operating leases	3.51%

The maturities of operating lease liabilities were as follows as of August 31, 2023:

	<b>Years Ending August 31,</b>	<b>Amount</b>
	2024	\$48,300
Less present value discount		<u>(767)</u>
Operating lease liabilities		<u>\$47,533</u>



**FRIENDS OF THE CHILDREN - UTAH**  
**Notes to Financial Statements - Continued**

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**13. Subsequent Events**

Management has evaluated subsequent events through February 29, 2024, the date the financial statements were available to be issued.