

Friends of the Children NY

Financial Statements

August 31, 2016 and 2015

Independent Auditors' Report

Board of Directors Friends of the Children NY

We have audited the accompanying financial statements of Friends of the Children NY (the "Organization"), which comprise the statements of financial position as of August 31, 2016 and 2015 and the related statements of activities and change in net assets and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of the Children NY as of August 31, 2016 and 2015, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 11 and 12 are presented for purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

Harrison, New York
March 24, 2017

Friends of the Children NY

Statements of Financial Position

August 31,

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 351,995	\$ 693,469
Pledges and grants receivable	640,361	125,000
Prepaid expenses	10,683	24,364
Children's activity advances	-	6,550
Security deposits	25,314	24,707
Property and equipment, net	<u>52,592</u>	<u>67,398</u>
	<u>\$ 1,080,945</u>	<u>\$ 941,488</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 15,375	\$ 14,250
Accrued payroll	133,275	-
Deferred rent	<u>5,490</u>	<u>8,551</u>
Total Liabilities	<u>154,140</u>	<u>22,801</u>
Net Assets		
Unrestricted	164,352	485,215
Temporarily restricted	<u>762,453</u>	<u>433,472</u>
Total Net Assets	<u>926,805</u>	<u>918,687</u>
	<u>\$ 1,080,945</u>	<u>\$ 941,488</u>

Friends of the Children NY

**Statements of Activities and Change in Net Assets
For the Year Ended August 31,**

	2016		2015		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
SUPPORT AND REVENUE					
Contributions					
Foundations and Corporations	\$ 675,190	\$ 1,310,352	\$ 1,985,542	\$ 44,583	\$ 1,707,838
Individuals	169,213	-	169,213	-	235,910
Special events, net of direct donor benefit expense	284,710	-	284,710	-	249,502
Other income	2,650	-	2,650	-	-
Net assets released from restrictions	981,371	(981,371)	-	(358,611)	-
Total Support and Revenue	<u>2,113,134</u>	<u>328,981</u>	<u>2,442,115</u>	<u>(314,028)</u>	<u>2,193,250</u>
EXPENSES					
Program services	1,997,683	-	1,997,683	-	1,671,399
Management and general	202,815	-	202,815	-	175,351
Fundraising	233,499	-	233,499	-	214,531
Total Expenses	<u>2,433,997</u>	<u>-</u>	<u>2,433,997</u>	<u>-</u>	<u>2,061,281</u>
Change in Net Assets	(320,863)	328,981	8,118	(314,028)	131,969
NET ASSETS					
Beginning of year	<u>485,215</u>	<u>433,472</u>	<u>918,687</u>	<u>747,500</u>	<u>786,718</u>
End of year	<u>\$ 164,352</u>	<u>\$ 762,453</u>	<u>\$ 926,805</u>	<u>\$ 433,472</u>	<u>\$ 918,687</u>

See notes to financial statements

Friends of the Children NY

Statements of Cash Flows

For the Year Ended
August 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,118	\$ 131,969
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	26,630	29,477
Changes in operating assets and liabilities		
Pledges and grants receivable	(515,361)	30,000
Prepaid expenses	13,681	(13,681)
Children's activity advances	6,550	(2,200)
Security deposits	(607)	-
Accounts payable and accrued expenses	1,125	(2,956)
Accrued payroll	133,275	-
Deferred rent	(3,061)	226
Net Cash from Operating Activities	(329,650)	172,835
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(11,824)	(28,152)
Net Cash from Investing Activities	(11,824)	(28,152)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	(225,000)	-
Repayment of line of credit	225,000	-
Net Cash from Financing Activities	-	-
Net Change in Cash and Cash Equivalents	(341,474)	144,683
CASH AND CASH EQUIVALENTS		
Beginning of year	693,469	548,786
End of year	\$ 351,995	\$ 693,469
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	\$ 2,135	\$ -

Friends of the Children NY

Notes to Financial Statements
August 31, 2016 and 2015

1. Organization

Friends of the Children NY, (the "Organization"), is a non-profit organization formed in July 2000. The purpose of the Organization is to provide the most vulnerable and challenged children of New York a loving, caring, and sustained relationship with an adult role model who teaches positive values and has attainable expectations for each child in order that they become a healthy, productive member of society. The major sources of funding for the Organization are contributions from private foundations and corporations.

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered to be a private foundation within the meaning of Section 509 (a) of the Internal Revenue Code. Similar exemptions apply at the state and local level.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which 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 and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Some of the more significant estimates required to be made by management include allowance for doubtful accounts and depreciation expense.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less at the time of purchase.

Property and Equipment

Equipment and leasehold improvements are recorded at cost. Improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets as follows:

	<u>Estimated Life</u>
Leasehold improvements	5 years
Office equipment	3 years
Furniture and fixtures	3 years
Other fixed assets	3 years

Friends of the Children NY

Notes to Financial Statements
August 31, 2016 and 2015

2. Summary of Significant Accounting Policies (*continued*)

Allowance for Doubtful Accounts

The Organization evaluates the collectability of its pledges and grants receivable based on a combination of factors. Where the Organization is aware of an inability to meet their financial obligation, the Organization specifically reserves for the potential bad debt to reduce the net recognized receivable to the amount it reasonably believes will be collected.

Children's Activity Advances

Children's activity advances are advances that are given to mentors at the beginning of their employment for monthly expenses related to mentoring activities. At the end of the mentors' employment, any advance unaccounted for is withheld from their final paycheck. This practice has changed for the year ended August 31, 2016 and all outstanding balances have been written off.

Net Assets

Unrestricted net assets are those funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions. Contributions of securities are recorded at fair market value on the date of the gift. The Organization's policy is to report as unrestricted support, contributions with donor imposed restrictions when these restrictions are met in the same year that the contribution is received.

A number of volunteers have made significant contributions of their time in support of the Organization's activities. Although donated services are an essential part of the agency's activities, they do not meet the criteria to be reflected in the accompanying financial statements.

Functional Expenses

The costs of the programs and supporting services have been summarized on a functional basis. Expenses that can be directly identified with a program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated using bases determined by management to be reasonable.

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Notes to Financial Statements
August 31, 2016 and 2015

2. Summary of Significant Accounting Policies *(continued)*

Pledges

The Organization discounts unconditional pledges expected to be collected in more than one year using a risk adjusted rate of interest. The discount is amortized over the term of the pledge and is recorded within contribution income.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the Organization has no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to August 31, 2013.

Rent Expense

Minimum rent expense is recorded over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Organization recognizes the related rent expense on a straight-line basis and records the difference between the rental expense recognized and the amounts payable as deferred rent.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is February 10, 2017.

3. Pledges and Grants Receivable

Unconditional promises to give that are due in the following year were \$640,361 and \$125,000, as of August 31, 2016 and 2015.

4. Property and Equipment

At August 31, 2016 and 2015, property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Leashold improvements	\$ 111,660	\$ 111,660
Office equipment	32,050	20,226
Furniture and fixtures	25,584	25,584
Other fixed assets	<u>2,572</u>	<u>2,572</u>
	171,866	160,042
Less accumulated depreciation	<u>(119,274)</u>	<u>(92,644)</u>
	<u>\$ 52,592</u>	<u>\$ 67,398</u>

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Notes to Financial Statements August 31, 2016 and 2015

5. Line of Credit

In June 2015, the Organization renewed its working capital Line of Credit Agreement in the amount of \$150,000. In November 2016, the line of credit was increased to \$250,000. Any outstanding balance is due upon maturity, which is one year from the renewal date. Monthly payments of interest are due on any outstanding principal. The interest rate is the Wall Street Journal Prime Rate plus 2%. As of August 31, 2016 and 2015, there were no outstanding balances. Interest expense for the year ended August 31, 2016 was \$2,135. There was no interest expense for the year ended August 31, 2015.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the periods after August 31 as follows:

	<u>2016</u>	<u>2015</u>
Support of mentors	\$ 297,453	\$ 212,639
Support of early intervention program	62,500	75,000
Capital improvements and expansion	-	145,833
General operations and internships	<u>402,500</u>	<u>-</u>
	<u>\$ 762,453</u>	<u>\$ 433,472</u>

Net assets that were released from donor restrictions during the years ended August 31 as follows:

	<u>2016</u>	<u>2015</u>
Support of mentors	\$ 407,380	\$ 52,778
Support of early intervention program	87,500	47,500
Capital improvements and expansion	10,000	-
General operations and internships	<u>476,491</u>	<u>258,333</u>
	<u>\$ 981,371</u>	<u>\$ 358,611</u>

7. Lease Commitment

In August 2011 the Organization entered into a 5-year lease agreement for space in Manhattan; in October 2015 this lease was extended to August 31, 2018. In August 2013 the Organization entered into a 5-year lease agreement for space in the Bronx. Total rent expense for the years ended August 31, 2016 and 2015 was \$108,901 and \$105,560.

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**Notes to Financial Statements
August 31, 2016 and 2015**

7. Lease Commitment (continued)

The annual lease commitment, through the end of the leases, for years ending August 31, is as follows:

2017	\$ 118,814
2018	<u>121,030</u>
	<u>\$ 239,844</u>

8. Pension

The Organization offers its employees the opportunity to participate, by salary reduction, in a 401(K) Plan. The plan covers all employees who meet particular service requirements. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Organization's contributions to the plan are discretionary and are determined by the Board of Directors. The Organization made no contributions in 2016 and 2015.

9. Special Events

Special events include the spring Gala and the fall Bowl-A-Thon and are reported net of direct donor benefit expenses of \$121,757 and \$95,502 for the years ended August 31, 2016 and 2015.

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Friends of the Children NY

Supplemental Information
August 31, 2016 and 2015

Friends of the Children NY

Schedule of Functional Expenses
Year Ended August 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
PERSONNEL				
Salaries	\$ 1,274,325	\$95,276	\$148,785	\$ 1,518,386
Payroll taxes and related expenses	<u>316,317</u>	<u>23,227</u>	<u>42,695</u>	<u>382,239</u>
Total Personnel Costs	1,590,642	118,503	191,480	1,900,625
OTHER THAN PERSONNEL COSTS				
Occupancy	136,835	4,383	10,957	152,175
Consulting	5,500	-	7,000	12,500
Postage and office	30,097	36,197	12,427	78,721
Children's activities	130,637	-	-	130,637
Travel	4,432	-	-	4,432
Insurance	15,225	1,280	-	16,505
Staff development	21,304	992	772	23,068
Professional fees	16,829	5,395	-	22,224
Bank and payroll fees	46,182	-	-	46,182
Bad debts	-	7,300	-	7,300
Interest	-	2,135	-	2,135
Transaction fees	-	-	10,863	10,863
Depreciation	-	26,630	-	26,630
Total Expenses	<u>\$ 1,997,683</u>	<u>\$ 202,815</u>	<u>\$ 233,499</u>	<u>\$ 2,433,997</u>

Friends of the Children NY

Schedule of Functional Expenses
Year Ended August 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
PERSONNEL				
Salaries	\$ 1,071,633	\$ 72,308	\$ 130,205	\$ 1,274,146
Payroll taxes and related expenses	<u>213,573</u>	<u>12,798</u>	<u>30,805</u>	<u>257,176</u>
Total Personnel Costs	1,285,206	85,106	161,010	1,531,322
OTHER THAN PERSONNEL COSTS				
Occupancy	139,992	3,803	11,496	155,291
Consulting	-	30,640	-	30,640
Postage and office	34,519	24,148	11,446	70,113
Children's activities	134,554	-	-	134,554
Travel	15,731	-	-	15,731
Insurance	15,428	1,107	-	16,535
Staff development	19,096	-	12,845	31,941
Professional fees	14,375	1,070	-	15,445
Bank and payroll fees	12,498	-	-	12,498
Transaction fees	-	-	17,734	17,734
Depreciation	<u>-</u>	<u>29,477</u>	<u>-</u>	<u>29,477</u>
Total Expenses	<u>\$ 1,671,399</u>	<u>\$ 175,351</u>	<u>\$ 214,531</u>	<u>\$ 2,061,281</u>