

Friends of the Children - Boston, Inc.

Financial Statements

Years Ended August 31, 2008 and 2007

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FIRST NEEDHAM PLACE
250 FIRST AVENUE · SUITE 101
NEEDHAM · MA · 02494-2805
WEB WWW.LKNSCPA.COM
EMAIL LKNS@LKNSCPA.COM
TELEFAX 781.453.8778
TELEPHONE 781.453.8700

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Independent Auditors' Report

To the Board of Directors
Friends of the Children - Boston, Inc.
Boston, Massachusetts

We have audited the accompanying statements of financial position of Friends of the Children - Boston, Inc. (a Massachusetts non profit organization) as of August 31, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from Friends of the Children - Boston, Inc.'s 2007 financial statements and, in our report dated November 27, 2007, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of the Children - Boston, Inc. as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



November 17, 2008

Friends of the Children - Boston, Inc.
Statements of Financial Position
August 31,

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 90,721	\$ 138,765
Due from employees	3,116	3,002
Pledge receivable	50,000	-
Grants receivable	50,000	62,186
Prepaid expenses	13,784	11,926
Total Current Assets	207,621	215,879
Property, Equipment and Improvements		
Office equipment	12,875	8,991
Leasehold improvements	1,250	1,250
Total	14,125	10,241
Accumulated depreciation	(7,959)	(2,970)
Net Property, Equipment and Improvements	6,166	7,271
Other Assets		
Deposits	3,544	2,150
Total Assets	\$ 217,331	\$ 225,300

	2008	2007
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 2,792	\$ 7,617
Accrued expenses	14,269	9,123
Total Current Liabilities	17,061	16,740
Commitments and Contingencies (Notes E, H and J)		
Net Assets		
Unrestricted	131,433	129,734
Temporarily restricted	68,837	78,826
Total Net Assets	200,270	208,560
Total Liabilities and Net Assets	\$ 217,331	\$ 225,300

See accompanying notes.

Friends of the Children - Boston, Inc.
Statements of Activities
Year Ended August 31, 2008
(With Comparative Totals for the Year Ended August 31, 2007)

	2008		2007	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Support				
Grants and contributions	\$ 474,006	\$ 69,668	\$ 543,674	\$ 475,454
In-kind donations	29,254	-	29,254	10,802
Special events	183,099	-	183,099	180,943
Interest income	2,113	-	2,113	1,557
Net assets released from restrictions	79,657	(79,657)	-	-
Total Support	768,129	(9,989)	758,140	668,756
Expenses				
Program expenses:				
Mentoring activities	573,685	-	573,685	470,408
Technology development	51,180	-	51,180	-
General and administrative	48,722	-	48,722	48,981
Fundraising	92,843	-	92,843	63,002
Total Expenses	766,430	-	766,430	582,391
Change in Net Assets	1,699	(9,989)	(8,290)	86,365
Net Assets, Beginning of Year	129,734	78,826	208,560	122,195
Net Assets, End of Year	\$ 131,433	\$ 68,837	\$ 200,270	\$ 208,560

See accompanying notes.

Friends of the Children - Boston, Inc.
Statement of Functional Expenses
Year Ended August 31, 2008
(With Comparative Totals for the Year Ended August 31, 2007)

	2008						2007	
	<u>Mentoring</u>	<u>Technology Development</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
Salaries and related expenses	\$ 443,910	\$ -	\$ 443,910	\$ 7,635	\$ 63,854	\$ 71,489	\$ 515,399	\$ 389,374
Depreciation	-	-	-	4,989	-	4,989	4,989	1,682
Development expense	-	37,174	37,174	-	-	-	37,174	-
Food donations	5,265	-	5,265	-	-	-	5,265	-
Insurance - general	8,878	-	8,878	434	1,302	1,736	10,614	8,617
Mentoring activities	47,936	-	47,936	407	-	407	48,343	41,299
Occupancy & maintenance	28,289	-	28,289	2,284	5,174	7,458	35,747	20,425
Office expenses	798	2,226	3,024	2,327	64	2,391	5,415	6,379
Printing & publications	770	-	770	-	1,849	1,849	2,619	4,900
Professional services	-	-	-	23,273	3,518	26,791	26,791	40,552
Program evaluation	-	11,735	11,735	-	-	-	11,735	-
Special events expense	122	-	122	-	12,020	12,020	12,142	23,784
Telephone, postage & supplies	13,815	-	13,815	2,773	2,491	5,264	19,079	18,740
Training & recruitment	3,718	-	3,718	4,003	291	4,294	8,012	4,946
Travel & meetings	15,943	45	15,988	336	1,498	1,834	17,822	19,193
Unallocated payments to national affiliate	-	-	-	-	-	-	-	2,500
Utilities	4,241	-	4,241	261	782	1,043	5,284	-
Total expenses	\$ 573,685	\$ 51,180	\$ 624,865	\$ 48,722	\$ 92,843	\$ 141,565	\$ 766,430	\$ 582,391

See accompanying notes.

Friends of the Children - Boston, Inc.
Statements of Cash Flows
Years Ended August 31,

	2008	2007
Operating Activities		
Change in net assets	\$ (8,290)	\$ 86,365
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation	4,989	1,682
Discount on long-term grant receivable	-	1,729
Increase (decrease) in cash from:		
Accounts receivable	(114)	(3,002)
Grants receivable	(37,814)	(45,000)
Prepaid expenses	426	(4,191)
Prepaid rent	(2,285)	30
Deposits	(1,394)	(2,150)
Accounts payable	(4,825)	325
Accrued expenses	5,147	5,951
Net Cash Operating Activities	(44,160)	41,739
Investing Activities		
Purchase of equipment	(3,884)	(4,973)
Net Cash Investing Activities	(3,884)	(4,973)
Net Increase (Decrease) in Cash and Cash Equivalents	(48,044)	36,766
Cash and cash equivalents, beginning of year	138,765	101,999
Cash and Cash Equivalents, End of Year	\$ 90,721	\$ 138,765

See accompanying notes.

Friends of the Children - Boston, Inc.
Notes to Financial Statements
August 31, 2008 and 2007

A. Description of Organization

Friends of the Children - Boston, Inc. (the "Organization") is a non-profit organization that was formed August 9, 2004. The Organization's mission is to help Boston's most vulnerable and challenged children escape the cycles of poverty, violence and neglect to become contributing members of their community by pairing school age children with mentors who provide consistent caring and teach positive values.

B. Summary of Significant Accounting Policies

1. Basis of presentation - Financial statement presentation follows Statement of Financial Accounting Standards (SFAS) Number 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS Number 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.
2. Cash and cash equivalents - For purposes of financial statement presentation, the Organization considers all highly liquid instruments with a maturity of three months or less to be cash equivalents.
3. Property, equipment, improvements and depreciation - Property, equipment and improvements are stated at cost if purchased, and at fair value if donated, and are depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives used for computing depreciation are from 3 to 5 years. Depreciation expense for the years ended August 31, 2008 and 2007 was \$4,989 and \$1,682, respectively. Contributed property and equipment is recorded at fair value at the date of donation. If the donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.
4. Accounting for contributions - All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence and nature of any restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporary or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
5. Contributed goods and services - The value of contributed services recorded in the 2008 and 2007 financial statements are \$1,050 and \$1,500, respectively. Items donated for the Organization's mentoring activities have been recorded at their fair market values, which totaled \$28,204 and \$9,302, during fiscal years 2008 and 2007, respectively.

Friends of the Children - Boston, Inc.
Notes to Financial Statements
August 31, 2008 and 2007

B. Summary of Significant Accounting Policies (continued)

6. Promises to give - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution support. Conditional promises to give are not included as support until the conditions are substantially met.
7. Functional expenses - The costs of providing the Organization's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs using various allocation methods.
8. Tax-exempt status - The Organization has received notification from the Internal Revenue Service that it qualifies as a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state and local taxes under Massachusetts General Laws, Section 180. Accordingly, no provision for income tax is required.
9. Use of estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Significant estimates used in preparing these financial statements include those assumed in the valuation of the donated goods and services received by the Organization during the years ended August 31, 2008 and 2007.

C. Grant Receivable, Net

Included in the grant receivable is the following unconditional promise to give:

Due in less than one year	\$	100,000
Due in one to five years		-
Total grant receivable, gross		100,000
Less discounts		(977)
 Total grant receivable, net	 \$	 <u>99,023</u>

Amounts due are discounted at rates ranging from .61% to 3.36%. The Organization has determined that an allowance for uncollectible amounts is not necessary.

Friends of the Children - Boston, Inc.
Notes to Financial Statements
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D. Donated Services and Goods

The Organization receives donations of goods and professional services. These goods and services include supplies, sporting event tickets and accounting services. The estimated fair value of the donated goods and services for the years ended August 31, 2008 and 2007 were \$29,254 and \$10,802, respectively, and are reported in the accompanying financial statements at the date of receipt as unrestricted support and the following expenses:

	<u>2008</u>	<u>2007</u>
Mentoring activities	\$ 28,204	\$ 9,302
Professional services	<u>1,050</u>	<u>1,500</u>
	<u>\$ 29,254</u>	<u>\$ 10,802</u>

E. Commitments

The Organization leases office space in Boston, Massachusetts expiring in August 2012. Total rent expense for the years ended August 31, 2008 and 2007 was \$35,747 and \$20,425, respectively.

Minimum future lease payments under the operating lease are as follows for the years ended August 31:

2009	\$	36,537
2010		36,537
2011		36,537
2012		<u>36,537</u>
	\$	<u>146,148</u>

F. Pension Plan

The Organization maintains a simplified employee pension plan qualified under the Internal Revenue Code covering all salaried employees. The Organization matches employee contributions to a maximum of 2% of an employee's salary per year. For the years ended August 31, 2008 and 2007 the Organization contributed \$5,329 and \$2,292 to the plan, respectively.

G. Prior Year Information

The financial statements include certain prior year summarized comparative totals in the statements of activities and functional expenses. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2007, from which the summarized totals were derived.

Friends of the Children - Boston, Inc.
Notes to Financial Statements
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H. Concentrations and Related Parties

Contributions - For the year ended August 31, 2008, the Organization received contribution support totaling approximately \$282,700 (40%) from two donors. For the year ended August 31, 2007, the Organization received contribution support totaling approximately \$320,000 (53%) from one donor.

Uninsured cash balances - From time to time, the Organization's cash balances at financial institutions exceed the amount insured by the federal government. The Federal Deposit Insurance Corporation (FDIC) guarantees accounts up to \$100,000. At August 31, 2008, there were no amounts uninsured. At August 31, 2007, the Organization had approximately \$43,000 in excess of FDIC insured limits. The Organization maintains substantially all of its cash and cash equivalents with one financial institution that management believes to be of high credit quality.

I. Restrictions on Net Assets and Amounts Released from Restrictions

Temporarily restricted net assets are available for the following purposes at August 31,:

	<u>2008</u>	<u>2007</u>
Locker Buddy program	\$ -	\$ 16,640
Las Amigas girls program	-	5,000
Restricted for new technology	44,662	-
Grant restricted as to time	<u>24,175</u>	<u>57,186</u>
Total temporarily restricted net assets	\$ <u>68,837</u>	\$ <u>78,826</u>

Total net assets released from restrictions during the years ended August 31, were as follows:

	<u>2008</u>	<u>2007</u>
Locker Buddy program	\$ 16,640	\$ 935
Massachusetts Service Alliance program	5,000	40,000
Volunteer grant competition program	1,000	-
New technology program	14,006	-
Grant restricted as to time	<u>43,011</u>	<u>9,281</u>
Net assets released from restrictions	\$ <u>79,657</u>	\$ <u>50,216</u>

J. National Affiliation

The Organization has entered into an agreement with Friends of the Children, Inc. ("National") which expires in April 2008. Under the agreement, the Organization is required to pay National \$16,000 per year in exchange for program, technical, administrative and other types of support. The agreement requires the Organization to use and follow certain program materials and standards established by National.

J. National Affiliation (continued)

The Organization is negotiating a reduced fee for the fiscal year ended August 31, 2008 based on a reduction in the support services it received from National. The Organization has accrued \$2,500 which is its estimate of the most likely fee it will ultimately pay for the year. The actual final settlement of the 2008 fee could be different.

K. Reclassification

Certain items in the 2008 financial statements have been reclassified to conform to current year presentation. There was no change in previously reported net income or changes in retained earnings as a result of these reclassifications.