

Friends of the Children - Boston, Inc.

Financial Statements

Years Ended August 31, 2011 and 2010

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Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-12

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 nonprofit organization) ("the Organization") as of August 31, 2011 and 2010, 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.

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 audits 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, 2011 and 2010, 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.

Katz, Nannis + Solomon, P.C.

January 9, 2012

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

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 24,104	\$ 126,528
Grants receivable	21,250	48,799
Prepaid expenses	13,219	15,461
Total Current Assets	58,573	190,788
Property, Equipment and Improvements		
Office equipment	17,189	14,570
Leasehold improvements	1,250	1,250
Total	18,439	15,820
Accumulated depreciation	(14,992)	(13,550)
Net Property, Equipment and Improvements	3,447	2,270
Other Assets		
Deposits	6,274	6,274
Total Assets	\$ 68,294	\$ 199,332

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,686	\$ 10,644
Accrued expenses	6,146	11,483
Total Current Liabilities	7,832	22,127
Commitments and Contingencies (Note F)	-	-
Net Assets		
Unrestricted	60,462	174,270
Temporarily restricted	-	2,935
Total Net Assets	60,462	177,205
Total Liabilities and Net Assets	\$ 68,294	\$ 199,332

See accompanying notes.

Friends of the Children - Boston, Inc.
Statements of Activities
Year Ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Grants and contributions	\$ 678,520	\$ -	\$ 678,520
In-kind donations	46,375	-	46,375
Special events	264,881	-	264,881
Interest income	106	-	106
Net assets released from restrictions	2,935	(2,935)	-
Total Support	992,817	(2,935)	989,882
Expenses			
Program expenses:			
Mentoring activities	843,703	-	843,703
General and administrative	81,206	-	81,206
Fundraising	181,716	-	181,716
Total Expenses	1,106,625	-	1,106,625
Change in Net Assets	(113,808)	(2,935)	(116,743)
Net Assets, Beginning of Year	174,270	2,935	177,205
Net Assets, End of Year	\$ 60,462	\$ -	\$ 60,462

See accompanying notes.

Friends of the Children - Boston, Inc.
Statements of Activities
Year Ended August 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Grants and contributions	\$ 877,234	\$ 32,500	\$ 909,734
In-kind donations	40,160	-	40,160
Special events	283,035	-	283,035
Interest income	224	-	224
Net assets released from restrictions	29,565	(29,565)	-
Total Support	1,230,218	2,935	1,233,153
Expenses			
Program expenses:			
Mentoring activities	869,139	-	869,139
General and administrative	50,672	-	50,672
Fundraising	218,646	-	218,646
Total Expenses	1,138,457	-	1,138,457
Change in Net Assets	91,761	2,935	94,696
Net Assets, Beginning of Year	82,509	-	82,509
Net Assets, End of Year	\$ 174,270	\$ 2,935	\$ 177,205

See accompanying notes.

Friends of the Children - Boston, Inc.

Statement of Functional Expenses

Year Ended August 31, 2011

	<u>Mentoring</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total Expenses</u>
Salaries & related expenses	\$ 613,895	\$ 613,895	\$ 64,709	\$ 101,273	\$ 165,982	\$ 779,877
Depreciation	-	-	-	1,442	1,442	1,442
Development expense	171	171	-	48,087	48,087	48,258
Insurance - general	10,955	10,955	666	1,999	2,665	13,620
Mentoring activities	56,910	56,910	-	644	644	57,554
Occupancy & maintenance	57,440	57,440	5,113	6,372	11,485	68,925
Office expenses	7,993	7,993	657	4,739	5,396	13,389
Professional services	24,865	24,865	6,737	9,238	15,975	40,840
Telephone, postage & supplies	24,062	24,062	512	4,074	4,586	28,648
Training & recruitment	37,868	37,868	1,462	-	1,462	39,330
Travel & meetings	564	564	-	2,549	2,549	3,113
Utilities	8,980	8,980	1,350	1,299	2,649	11,629
Total Expenses	\$ 843,703	\$ 843,703	\$ 81,206	\$ 181,716	\$ 262,922	\$ 1,106,625

See accompanying notes.

Friends of the Children - Boston, Inc.
Statement of Functional Expenses
Year Ended August 31, 2010

	<u>Mentoring</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total Expenses</u>
Salaries & related expenses	\$ 660,575	\$ 660,575	\$ 25,752	\$ 98,633	\$ 124,385	\$ 784,960
Depreciation	-	-	-	1,732	1,732	1,732
Development expense	3,710	3,710	-	80,370	80,370	84,080
Insurance - general	14,753	14,753	283	848	1,131	15,884
Mentoring activities	36,858	36,858	-	174	174	37,032
Occupancy & maintenance	55,634	55,634	2,085	6,256	8,341	63,975
Office expenses	4,098	4,098	1,285	1,421	2,706	6,804
Professional services	20,791	20,791	17,387	3,656	21,043	41,834
Telephone, postage & supplies	32,753	32,753	1,241	4,757	5,998	38,751
Training & recruitment	24,424	24,424	-	13,710	13,710	38,134
Travel & meetings	2,468	2,468	23	5,691	5,714	8,182
Utilities	13,075	13,075	2,616	1,398	4,014	17,089
Total Expenses	\$ 869,139	\$ 869,139	\$ 50,672	\$ 218,646	\$ 269,318	\$ 1,138,457

See accompanying notes.

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

	2011	2010
Operating Activities		
Change in net assets	\$ (116,743)	\$ 94,696
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation	1,442	1,732
Increase (decrease) in cash from:		
Grants receivable	27,549	(7,712)
Prepaid expenses	2,242	(1,343)
Accounts payable	(8,958)	(1,026)
Accrued expenses	(5,337)	(12,054)
Net Cash Operating Activities	(99,805)	74,293
Investing Activities		
Purchase of equipment	(2,619)	(1,695)
Net Cash Investing Activities	(2,619)	(1,695)
Net Increase (Decrease) in Cash and Cash Equivalents	(102,424)	72,598
Cash and cash equivalents, beginning of year	126,528	53,930
Cash and Cash Equivalents, End of Year	\$ 24,104	\$ 126,528

See accompanying notes.

A. Description of Organization

Friends of the Children - Boston, Inc. (the "Organization") is a nonprofit 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 generally accepted accounting principles (GAAP) in the United States of America. Under GAAP, 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 three to five years. Depreciation expense for the years ended August 31, 2011 and 2010 was \$1,442 and \$1,732, 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 2011 and 2010 financial statements are \$500 and \$7,500, respectively. Items donated for the Organization's mentoring activities or fundraising events have been recorded at their fair market values which totaled \$46,375 and \$32,660, during fiscal years 2011 and 2010, respectively.

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.

The Organization utilizes the direct write-off method in recognizing bad debts, whereby accounts receivable are written off in the period they become uncollectible. Accounts receivable have been adjusted for all known uncollectible accounts.

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. 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, 2011 and 2010.

10. Subsequent events - The Organization has evaluated all subsequent events through January 9, 2012 the date the financial statements were available to be issued.

C. Grants Receivable

Included in grants receivable are the following unconditional promises to give:

	<u>2011</u>	<u>2010</u>
Due in less than one year	\$ 21,250	\$ 48,799
Due in one to five years	-	-
Total grants receivable, gross	\$ <u>21,250</u>	\$ <u>48,799</u>

The Organization has determined that an allowance for uncollectible amounts is not necessary.

Friends of the Children - Boston, Inc.
Notes to Financial Statements
August 31, 2011 and 2010

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, 2011 and 2010 were \$46,375 and \$40,160, respectively, and are reported in the accompanying financial statements at the date of receipt as unrestricted support and the following expenses:

	<u>2011</u>	<u>2010</u>
Mentoring activities	\$ 46,375	\$ 32,660
Professional services	<u>-</u>	<u>7,500</u>
	\$ <u>46,375</u>	\$ <u>40,160</u>

E. Line of Credit

The Organization has a \$50,000 interest only revolving line of credit agreement payable on demand, subject to annual renewal as of August 1, 2011 (currently in process), bearing interest at prime plus 2% (5.25% and 5.25% at August 31, 2011 and 2010, respectively), secured by all the assets of the Organization. No amounts were borrowed on this line of credit as of August 31, 2011 and 2010.

F. Commitments

The Organization leases office space on Amory Street in Boston, Massachusetts expiring in August 2012. Total rent expense for the years ended August 31, 2011 and 2010 was \$68,925 and \$63,975, respectively. The Organization entered into a new five year lease agreement for office space on Dudley Street in Boston, Massachusetts effective October 15, 2008 with two five year options to renew.

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

2012	\$	63,942
2013		31,185
2014		<u>5,250</u>
	\$	<u>100,377</u>

Friends of the Children - Boston, Inc.
Notes to Financial Statements
August 31, 2011 and 2010

G. 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, 2011 and 2010 the Organization contributed \$1,650 and \$3,060 to the plan, respectively.

H. Concentrations and Related Parties

1. Contributions - For the year ended August 31, 2011, the Organization received contribution support totaling approximately \$279,000 (34%) from four donors. One donor accounted for all grants receivable for the year ended August 31, 2011. For the year ended August 31, 2010, the Organization received contribution support totaling approximately \$376,000 (30%) from three donors. One donor accounted for all grants receivable for the year ended August 31, 2010.
2. 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) provides an unlimited guarantee for non-interest bearing accounts, and a \$250,000 guarantee for interest bearing accounts, at commercial banks. At August 31, 2011 and 2010, there were no amounts uninsured. 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 contributions for business consulting purposes at year end August 31, 2011 is \$0.

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

	<u>2011</u>	<u>2010</u>
New technology program	\$ -	\$ 27,500
Grant restricted as to time	-	-
Grant restricted for consulting	<u>2,935</u>	<u>2,065</u>
Net assets released from restrictions	\$ <u>2,935</u>	\$ <u>29,565</u>

J. Income Taxes

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 federal or state income taxes has been provided for the accompanying financial statements. Contributions to the Organization are tax deductible.

Management has analyzed the Organization's tax provisions taken for all open federal tax years (2007-2010) and has concluded that no provision for uncertain tax positions is required in the Organization's financial statements.