

**Friends of the Children - Boston, Inc.**

*Financial Statements*

*Years Ended August 31, 2012 and 2011*

**Friends of the Children - Boston, Inc.**  
*Financial Statements*  
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*Contents*

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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 nonprofit organization) ("the Organization") as of August 31, 2012 and 2011, 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, 2012 and 2011, 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 28, 2013

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 14,122	\$ 24,104
Accounts receivable	536	-
Grants receivable	22,510	21,250
Prepaid expenses	7,489	13,219
<b>Total Current Assets</b>	<b>44,657</b>	<b>58,573</b>
<b>Property, Equipment and Improvements</b>		
Office equipment	19,157	17,189
Leasehold improvements	1,250	1,250
Total	20,407	18,439
Accumulated depreciation	(17,318)	(14,992)
<b>Net Property, Equipment and Improvements</b>	<b>3,089</b>	<b>3,447</b>
<b>Other Assets</b>		
Deposits	5,774	6,274
<b>Total Assets</b>	<b>\$ 53,520</b>	<b>\$ 68,294</b>

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

	2012	2011
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,223	\$ 1,686
Accrued expenses	16,359	6,146
<b>Total Current Liabilities</b>	18,582	7,832
<b>Commitments and Contingencies (Note F)</b>	-	-
<b>Net Assets</b>		
Unrestricted	34,018	60,462
Temporarily restricted	920	-
<b>Total Net Assets</b>	34,938	60,462
<b>Total Liabilities and Net Assets</b>	\$ 53,520	\$ 68,294

*See accompanying notes.*

**Friends of the Children - Boston, Inc.**  
*Statements of Activities*  
*Year Ended August 31, 2012*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support</b>			
<b>Revenue from Special Events</b>			
Special events	\$ 300,050	\$ -	\$ 300,050
Less: costs of direct benefits to donors	(17,774)	-	(17,774)
<b>Net Revenue from Special Events</b>	<b>282,276</b>	<b>-</b>	<b>282,276</b>
<b>Other Support</b>			
Grants and contributions	655,008	5,000	660,008
In-kind donations	53,525	-	53,525
Interest income	79	-	79
Net assets released from restrictions	4,080	(4,080)	-
<b>Total Other Support</b>	<b>712,692</b>	<b>920</b>	<b>713,612</b>
<b>Total Support</b>	<b>994,968</b>	<b>920</b>	<b>995,888</b>
<b>Expenses</b>			
Mentoring activities	773,036	-	773,036
General and administrative	85,513	-	85,513
Fundraising	162,863	-	162,863
<b>Total Expenses</b>	<b>1,021,412</b>	<b>-</b>	<b>1,021,412</b>
<b>Change in Net Assets</b>	<b>(26,444)</b>	<b>920</b>	<b>(25,524)</b>
<b>Net Assets, Beginning of Year</b>	<b>60,462</b>	<b>-</b>	<b>60,462</b>
<b>Net Assets, End of Year</b>	<b>\$ 34,018</b>	<b>\$ 920</b>	<b>\$ 34,938</b>

*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>
<b>Support</b>			
<b>Revenue from Special Events</b>			
Special events	\$ 264,881	\$ -	\$ 264,881
Less: costs of direct benefits to donors	(17,996)	-	(17,996)
<b>Net Revenue from Special Events</b>	<b>246,885</b>	<b>-</b>	<b>246,885</b>
<b>Other Support</b>			
Grants and contributions	678,520	-	678,520
In-kind donations	46,375	-	46,375
Interest income	106	-	106
Net assets released from restrictions	2,935	(2,935)	-
<b>Total Other Support</b>	<b>727,936</b>	<b>(2,935)</b>	<b>725,001</b>
<b>Total Support</b>	<b>974,821</b>	<b>(2,935)</b>	<b>971,886</b>
<b>Expenses</b>			
Mentoring activities	843,703	-	843,703
General and administrative	81,206	-	81,206
Fundraising	163,720	-	163,720
<b>Total Expenses</b>	<b>1,088,629</b>	<b>-</b>	<b>1,088,629</b>
<b>Change in Net Assets</b>	<b>(113,808)</b>	<b>(2,935)</b>	<b>(116,743)</b>
<b>Net Assets, Beginning of Year</b>	<b>174,270</b>	<b>2,935</b>	<b>177,205</b>
<b>Net Assets, End of Year</b>	<b>\$ 60,462</b>	<b>\$ -</b>	<b>\$ 60,462</b>

*See accompanying notes.*

**Friends of the Children - Boston, Inc.**  
**Statements of Functional Expenses**  
**Year Ended August 31, 2012**

	<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	\$ 549,440	\$ 549,440	\$ 71,447	\$ 104,115	\$ 175,562	\$ 725,002
In-kind expense	53,275	53,275	-	250	250	53,525
Depreciation	1,495	1,495	436	394	830	2,325
Development expense	2,284	2,284	-	36,480	36,480	38,764
Insurance - general	7,174	7,174	875	441	1,316	8,490
Mentoring activities	23,011	23,011	-	151	151	23,162
Occupancy & maintenance	53,898	53,898	6,607	3,307	9,914	63,812
Office expenses	1,571	1,571	1,217	5,466	6,683	8,254
Professional services	43,966	43,966	2,804	4,107	6,911	50,877
Telephone, postage & supplies	22,622	22,622	1,228	2,731	3,959	26,581
Training & recruitment	6,652	6,652	-	-	-	6,652
Travel & meetings	271	271	-	4,967	4,967	5,238
Utilities	7,377	7,377	899	454	1,353	8,730
<b>Total Expenses</b>	<b>\$ 773,036</b>	<b>\$ 773,036</b>	<b>\$ 85,513</b>	<b>\$ 162,863</b>	<b>\$ 248,376</b>	<b>\$ 1,021,412</b>

*See accompanying notes.*



**Friends of the Children - Boston, Inc.**  
**Statements 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
In-kind expense	46,375	46,375	-	-	-	46,375
Depreciation	-	-	-	1,442	1,442	1,442
Development expense	171	171	-	30,091	30,091	30,262
Insurance - general	10,955	10,955	666	1,999	2,665	13,620
Mentoring activities	10,535	10,535	-	644	644	11,179
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
<b>Total Expenses</b>	<b>\$ 843,703</b>	<b>\$ 843,703</b>	<b>\$ 81,206</b>	<b>\$ 163,720</b>	<b>\$ 244,926</b>	<b>\$ 1,088,629</b>

*See accompanying notes.*

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

	2012	2011
<b>Operating Activities</b>		
Change in net assets	\$ (25,524)	\$ (116,743)
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation	2,325	1,442
Increase (decrease) in cash from:		
Accounts receivable	(536)	-
Grants receivable	(1,260)	27,549
Prepaid expenses	5,730	2,242
Deposit	500	-
Accounts payable	537	(8,958)
Accrued expenses	10,213	(5,337)
<b>Net Cash Operating Activities</b>	<b>(8,015)</b>	<b>(99,805)</b>
<b>Investing Activities</b>		
Purchase of equipment	(1,967)	(2,619)
<b>Net Cash Investing Activities</b>	<b>(1,967)</b>	<b>(2,619)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(9,982)</b>	<b>(102,424)</b>
Cash and cash equivalents, beginning of year	24,104	126,528
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 14,122</b>	<b>\$ 24,104</b>

*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, 2012 and 2011 was \$2,325 and \$1,442, 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 2012 and 2011 financial statements are \$0 and \$500, respectively. Items donated for the Organization's mentoring activities or fundraising events have been recorded at their fair market values which totaled \$58,259 and \$46,375, during fiscal years 2012 and 2011, 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, 2012 and 2011.

10. Subsequent events - The Organization has evaluated all subsequent events through January 28, 2013 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>2012</u>	<u>2011</u>
Due in less than one year	\$ 22,510	\$ 21,250
Due in one to five years	-	-
Total grants receivable, gross	\$ <u>22,510</u>	\$ <u>21,250</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, 2012 and 2011*

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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, 2012 and 2011 were \$58,259 and \$46,375, respectively, and are reported in the accompanying financial statements at the date of receipt as unrestricted support and the following expenses:

	<u>2012</u>	<u>2011</u>
Mentoring activities	\$ 53,525	\$ 45,875
Professional services	<u>-</u>	<u>500</u>
	\$ <u>58,259</u>	\$ <u>46,375</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 March 30, 2013, bearing interest at prime plus 2% (5.25% at August 31, 2012 and 2011), secured by all the assets of the Organization. No amounts were borrowed on this line of credit as of August 31, 2012 and 2011.

**F. Commitments and Contingencies**

The Organization leases office space on Amory Street in Boston, Massachusetts which expired in August 2012, and was extended for one month. Total rent expense for the years ended August 31, 2012 and 2011 was \$63,812 and \$68,925, respectively. The lease at Dudley Street was cancelled early with no fee. In September 2012 the Organization entered into a six year lease agreement for additional office space on Amory Street in Boston, Massachusetts effective October 1, 2012 with one six year option to renew. The agreement calls for accelerated rents.

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

2013	\$	69,576
2014		72,580
2015		72,580
2016		72,580
2017		72,580
Thereafter		<u>78,628</u>
Total	\$	<u>438,524</u>

**Friends of the Children - Boston, Inc.**  
*Notes to Financial Statements*  
*August 31, 2012 and 2011*

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**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, 2012 and 2011 the Organization contributed \$0 and \$1,650 to the plan, respectively.

**H. Concentrations and Related Parties**

1. Contributions - For the year ended August 31, 2012, the Organization received contribution support totaling approximately \$280,000 (34%) from four donors. One donor accounted for all grants receivable for the year ended August 31, 2012. 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.
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, 2012 and 2011, 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 purposes of remodeling the teen center at year end August 31, 2012 is \$920. There were no restricted net assets at year end August 31, 2011.

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

	<u>2012</u>	<u>2011</u>
Grant restricted to remodel the center	\$ 4,080	\$ -
Grant restricted for consulting	<u>-</u>	<u>2,935</u>
Net assets released from restrictions	\$ <u>4,080</u>	\$ <u>2,935</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 (2008-2011) and has concluded that no provision for uncertain tax positions is required in the Organization's financial statements.

**K. Reclassification**

Certain reclassifications have been made to the August 31, 2011 financial statements in order for them to conform to the August 31, 2012 presentation. These reclassifications have no effect on previously reported net income.