FRIENDS OF THE CHILDREN - BOSTON, INC.

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WALSH & CO.

ACCOUNTANTS & CONSULTANTS

Board of Directors
Friends of the Children – Boston, Inc.
555 Amory Street
Jamaica Plain, MA 02130

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Friends of the Children - Boston, Inc. (a non-profit corporation), which comprise the statement of financial position as of August 31, 2013 and the related statements of activities and changes in net assets, cash flows and functional expenses for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 - Boston, Inc. as of August 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Friends of the Children-Boston, Inc. were audited by other auditors whose report dated January 28, 2013, expressed an unmodified opinion on those statements.

December 20, 2013

FRIENDS OF THE CHILDREN - BOSTON, INC.

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2013 AND 2012

ASSETS

	2013	2012
Current Assets:		
Cash and cash equivalents	$ 194,714	$ 14,122
Accounts receivable	202	536
Grants receivable		22,510
Prepaid expenses	13,004	7,489
Total Current Assets	207,920	44,657
Property and Equipment, net	1,162	3,089
Other Assets:		
Deposits	5,730	5,774
Total Assets	$ 214,812	$ 53,520

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities:		
Accounts payable	$ 6,122	$ 2,223
Accrued expenses	25,184	16,359
Total Current Liabilities	31,306	18,582
Net Assets:		
Unrestricted	178,384	34,018
Temporarily restricted	5,122	920
Total Net Assets	183,506	34,938
Total Liabilities and Net Assets	$ 214,812	$ 53,520

See accompanying notes.

FRIENDS OF THE CHILDREN - BOSTON, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED AUGUST 31, 2013

	2013 Unrestricted	2013 Temporarily Restricted	2013 Total	2012 Unrestricted	2012 Temporarily Restricted	2012 Total
Operating Revenues:						
Special events	$ 280,726		$ 280,726	$ 282,276		$ 282,276
Grants and contributions	863,142	$ 21,000	884,142	655,009	$ 5,000	660,009
In-kind donations	48,044		48,044	53,525		53,525
Interest income	96		96	79		79
Gain/loss on sale	(2,521)		(2,521)			
Net assets released from restrictions	16,798	(16,798)		4,080	(4,080)	
Total Operating Revenues	1,206,285	4,202	1,210,487	994,969	920	995,889
Operating Expenses:						
Program services	798,632		798,632	773,037		773,037
General and administrative	86,244		86,244	85,512		85,512
Fundraising	177,043		177,043	162,864		162,864
Total Operating Expenses	1,061,919		1,061,919	1,021,413		1,021,413
Changes in Net Assets from Operating						
Changes in Net Assets	144,366	4,202	148,568	(26,444)	920	(25,524)
Net Assets, beginning of year	34,018	920	34,938	60,462		60,462
Net Assets, end of year	$ 178,384	$ 5,122	$ 183,506	$ 34,018	$ 920	$ 34,938

See accompanying notes.

FRIENDS OF THE CHILDREN - BOSTON, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 148,568	$ (25, 524)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,927	2,325
Accounts receivable	334	(536)
Grants receivable	22,510	(1,260)
Prepaid expenses	(5,515)	5,730
Deposit	44	500
Accounts payable	3,899	537
Accrued expenses	8,825	10,213
Net cash provided by (used in) operating activities	180,592	(8,015)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment		(1,967)
Net cash provided by investing activities		(1,967)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	180,592	(9,982)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,122	24,104
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 194,714	$ 14,122

See accompanying notes.

FRIENDS OF THE CHILDREN - BOSTON, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED AUGUST 31, 2013 AND 2012

	2013				2012			
	Program Services	Administrative	Fundraising	Total	Program Services	Administrative	Fundraising	Total
Payroll	$ 466,287	$ 57,799	$ 88,465	$ 612,551	$ 446,898	$ 60,098	$ 87,722	$ 594,718
Consulting	7,540			7,540				
Payroll taxes and fringe benefits	107,267	14,976	22,533	144,776	102,810	11,226	16,604	130,640
Occupancy and maintenance	62,798	5,525	11,253	79,576	53,898	6,607	3,307	63,812
Internships	16,260			16,260	31,392			31,392
Insurance	7,661	977	887	9,525	7,174	875	441	8,490
In-Kind expense	48,044			48,044	53,275		250	53,525
Depreciation	1,372	348	207	1,927	1,495	436	394	2,325
Evaluation expense	5,345			5,345	2,284			2,284
Archiever expense	20,637		47	20,684	7,075		729	7,804
Fundraising			32,591	32,591			35,383	35,383
Minor equipment	10,403	420	592	11,415	1,235			1,235
Miscellaneous		515	2,005	2,520	3,276		3,748	7,024
Office	8,248	2,373	5,126	15,747	7,284	1,016	2,793	11,093
Utilities	3,076	206	475	3,757	7,377	899	454	8,730
Credit card fees		64	4,082	4,146	62	1,217	2,378	3,657
Professional fees	31,538	2,810	8,165	42,513	45,619	3,138	4,423	53,180
Training & travel	2,156	231	615	3,002	1,883		4,238	6,121
Total Operating Expenses	$ 798,632	$ 86,244	$ 177,043	$ 1,061,919	$ 773,037	$ 85,512	$ 162,864	$ 1,021,413

See accompanying notes.

1. SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

Nature of Activities

Friends of the Children - Boston, Inc. (the "Organization") is a non-profit corporation formed in Massachusetts in 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.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) for financial statements of not-for-profit organizations. Under the ASC, the Agency 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.

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its unrestricted net assets into the following categories:

- Operating – consists of amounts relating to programs and other operating activities, which bear no external restrictions and are currently available for operations.
- Property and Equipment – reflect amounts expended and resources available for property and equipment, net of related debt.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those amounts received with donor restrictions which have not yet been expended for their designated program purposes. Temporarily restricted net assets for programs as of August 31, 2013 is $5,122.

Permanently Restricted Net Assets

Permanently restricted net assets consist of funds which are restricted by donors against any expenditures of principal. Income generated by the permanently restricted assets is available for use in operations. No permanently restricted assets were received or held during 2013 and 2012 and accordingly, these financial statements do not reflect any activity related to this class of net assets for 2013 and 2012.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers the funds in the checking account and money market fund to be cash equivalents.

Accounts Receivable

Receivables are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off as of year-end all balances that are uncollectible. Based on management's assessment of the credit history with donors having outstanding balances and current relationships with them, it has concluded losses on balances outstanding at year-end, if any, will be immaterial.

Property and Equipment

Property and equipment are carried at cost. Donated property and equipment are recorded at their fair market value. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the various assets as follows:

Equipment and furniture	3 – 5 years
Leasehold improvements	3 – 5 years

Expenditures in excess of $5,000 for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Support and Revenue

Certain contract revenue and grants may provide revenues over a period which extends into the following fiscal year. In those cases, revenues are recognized on a pro-rata basis or matched to services provided. When revenues are received before the service has been performed, the revenues are deferred.

Special Events

Special events revenue is shown at gross amounts in the accompanying statements of activities for the years ended August 31, 2013 and 2012. Net special events revenues are as follows:

	2013	2012
Revenues	$ 297,482	$ 300,050
Less: Direct expenses	16,756	17,774
	$ 280,726	$ 282,276

Contributions

Contributions received are recorded at fair market value as unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Income Taxes

The Organization is exempt from Federal income taxes under Internal Revenue Code Section (501)(c) (3) and therefore has made no provision for Federal income taxes. The Organization has no unrelated business income. The Organization's tax return, form 990, for the years ending 2010, 2011, 2012 and 2013 are subject to examination by the IRS, generally for three years after they are filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and in the statements of functional expenses. Accordingly, expenses directly related to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Donated Services and Materials

The Organization receives significant donations of services and materials which are recognized in these financial statements. The following donations were received and recorded for the years ended August 31:

	2013	2012
Mentoring services	$ 48,044	$ 53,525

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 presentation.

Advertising

Advertising costs are expensed as incurred.

2 . PROPERTY AND EQUIPMENT

Property and equipment at August 31 consisted of the following:

	2013	2012
Office equipment	$ 19,157	$ 19,157
Leasehold improvements	1,250	1,250
Total	20,407	20,407
Less: accumulated depreciation	19,245	17,318
Property and Equipment – net	$ 1,162	$ 3,089

Depreciation expense for the years ended August 31, 2013 and 2012 was $1,927 and $2,325, respectively.+

3. PENSION PLANS

The Organization established a Simplified Employee Pension (SEP) which covers all full time employees with more than three months of service. The Organization matches employee contributions to a maximum of 2% of an employee's salary per year. The Organization contributed $3,079 and $0 to the plan during the years ended August 31, 2013 and 2012, respectively.

4. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in one financial institution. At August 31, 2013, the Organization had no balances exceeding the FDIC insurance limit.

5. FACILITY LEASE

In September 2012, the Organization entered into a six year lease agreement for 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 lease are as follows for the years ended August 31:

2014	$ 68,760
2015	72,262
2016	72,580
2017	76,082
2018	76,400
2019	6,366
	$ 372,450

Rent expense for the years ended August 31, 2013 and 2012 was $79,576 and $63,812, respectively.

6. RELATED PARTY REVENUES

Revenues include approximately $489,708 of contributions received from Board members. The contributions represent 40% of total operating revenues for the year ended August 31, 2013.

7. FAIR VALUE MEASUREMENT

The Organization reports under the Fair Value Measurements pronouncements of the FASB Accounting Standards Codification, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation include:

- Quoted prices for similar assets or liabilities in active markets;
- Prices for identical or similar assets or liabilities in active markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs at the closing price reported on the active market on which the individual securities are traded.

Following is a description of the valuation methodologies used for assets measured at fair value. There has been no change in the methodology used at August 31, 2013 and 2012.

Cash and cash equivalents: Valued at acquisition cost.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, with the fair value hierarchy, the Organization's assets at fair value.

	Assets at fair value as of August 31, 2013 (In thousands)			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 195			$ 195

	Assets at fair value as of August 31, 2012 (In thousands)			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 14			$ 14

Valuation and Income Recognition

The Organization's cash and cash equivalents and investments as of June 30, 2013 and 2012 are stated at fair value.

The aggregate of the fair value amounts presented above do not necessarily represent the underlying value of the Organization.

8. SUBSEQUENT EVENTS

The Organization's management have evaluated all subsequent events through December 20, 2013, the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the financial statements.