FRIENDS ASSOCIATION FOR CHILDREN AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

PILC &
MOSELEY, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Friends Association for Children and Subsidiary
Richmond, Virginia

We have audited the accompanying consolidated financial statements of Friends Association for Children and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

4312 Grove Avenue • Richmond, VA 23221 • Phone: 804-918-8490 • Fax: 804-918-8499

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Friends Association for Children and Subsidiary as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financials

The consolidated financial statements as of June 30, 2017, were audited by other auditors whose report dated October 5, 2017, expressed an unmodified opinion on those statements.

Pike & Morley, LLC

Richmond, Virginia
January 10, 2019

FINANCIAL STATEMENTS

FRIENDS ASSOCIATION FOR CHILDREN AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 2018

With Comparative Amounts as of June 30, 2017

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	$ 207,359	$ 205,044
Contributions receivable	120,006	352,784
Accounts receivable, net of allowance of $37,549 in 2018 and $30,000 in 2017	149,727	89,033
Other assets	29,241	26,154
Total current assets	506,333	673,015
Non-current assets		
Investments	29,242	25,575
Property, equipment and improvements, net of accumulated depreciation	2,264,501	2,247,411
Total non-current assets	2,293,743	2,272,986
Total assets	$ 2,800,076	$ 2,946,001
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 26,381	$ 31,367
Accrued expenses and withholdings	83,901	78,673
Note payable related party	55,000	75,000
Current portion of long-term debt	15,487	16,752
Total current liabilities	180,769	201,792
Non-current Liabilities		
Accrued retirement expenses	42,644	49,195
Long-term debt	144,994	158,399
Long-term debt related party	210,000	210,000
Total non-current liabilities	397,638	417,594
Total liabilities	578,407	619,386
Net assets		
Unrestricted		
Unrestricted	(370,932)	(587,586)
Board designated-equipment	89,499	89,499
Property and equipment	2,146,824	2,247,411
Total unrestricted net assets	1,865,391	1,749,324
Temporarily restricted	356,278	577,291
Total net assets	2,221,669	2,326,615
Total liabilities and net assets	$ 2,800,076	$ 2,946,001

See accompanying notes.

FRIENDS ASSOCIATION FOR CHILDREN AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended June 30, 2018

With Comparative Amounts as of June 30, 2017

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
PUBLIC SUPPORT AND REVENUE				
Contributions	$ -	$ 563,157	$ 563,157	$ 769,942
United Way allocations	-	195,333	195,333	200,000
In-kind contributions	80,330	-	80,330	79,771
Governmental grants	464,107	-	464,107	471,251
Program service fees	681,613	-	681,613	660,175
Investment income	4,384	-	4,384	5,009
Total public support and revenue	1,230,434	758,490	1,988,924	2,186,148
NET ASSETS RELEASED FROM RESTRICTIONS	979,503	(979,503)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	2,209,937	(221,013)	1,988,924	2,186,148
EXPENDITURES				
Program services	1,744,130	-	1,744,130	1,751,608
Supporting Servives				
Development	159,681	-	159,681	142,961
General and administrative	190,059	-	190,059	187,449
Total supporting services	349,740	-	349,740	330,410
Total expenditures	2,093,870	-	2,093,870	2,082,018
CHANGE IN NET ASSETS	116,067	(221,013)	(104,946)	104,130
NET ASSETS, BEGINNING OF YEAR	1,749,324	577,291	2,326,615	2,222,485
NET ASSETS, END OF YEAR	$ 1,865,391	$ 356,278	$ 2,221,669	$ 2,326,615

See accompanying notes.

FRIENDS ASSOCIATION FOR CHILDREN AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year ended June 30, 2018

With Comparative Amounts as of June 30, 2017

	Program Services					Support Services				
	Youth Enrichment	Infant, Toddler, Preschool	School Age	Family Support Service	Total	Development	Management and General	Total	2018 Total	2017 Total
Salaries	$ 41,925	$ 720,707	$ 163,301	$ 89,014	$ 1,014,947	$ 111,097	$ 121,848	$ 232,945	$ 1,247,892	$ 1,219,356
Employee benefits	7,633	112,060	24,667	13,312	157,672	14,359	17,029	31,388	189,060	166,937
Payroll taxes	3,245	54,360	11,202	6,603	75,410	8,414	9,017	17,431	92,841	111,624
Total Personnel Expenses	52,803	887,127	199,170	108,929	1,248,029	133,870	147,894	281,764	1,529,793	1,497,917
Professional fees and contract expense	323	13,066	3,262	772	17,423	15,075	6,300	21,375	38,798	32,883
Interest expense	-	7,083	788	-	7,871	-	9,700	9,700	17,571	18,232
Supplies and food	1,002	129,161	18,478	1,358	149,999	1,380	2,681	4,061	154,060	156,992
Telephone	372	6,071	2,473	722	9,638	243	463	706	10,344	9,914
Postage	21	134	62	102	319	343	109	452	771	1,315
Occupancy	3,881	70,754	16,975	4,579	96,189	2,287	6,764	9,051	105,240	98,576
Repairs, maintenance, insurance	3,032	66,602	15,123	3,345	88,102	2,388	5,002	7,390	95,492	114,227
Vehicles	1,201	9,991	30,156	824	42,172	65	-	65	42,237	36,084
Conferences and annual meetings	154	2,879	574	242	3,849	416	667	1,083	4,932	3,650
Printing and public relations	-	83	31	31	145	128	956	1,084	1,229	2,689
Organization dues	161	1,354	269	89	1,873	146	338	484	2,357	1,645
Depeciation	-	70,972	-	-	70,972	3,340	9,185	12,525	83,497	84,559
Bad debt expense	-	6,401	1,148	-	7,549	-	-	-	7,549	23,335
Total Expenses	$ 62,950	$ 1,271,678	$ 288,509	$ 120,993	$ 1,744,130	$ 159,681	$ 190,059	$ 349,740	$ 2,093,870	$ 2,082,018

See accompanying notes.

FRIENDS ASSOCIATION FOR CHILDREN AND SUBSIDIARY

Consolidated Statement of Cash Flows

June 30, 2018

With Comparative Amounts as of June 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (104,946)**	$ 104,130
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**83,497**	84,559
Unrealized gain on investments	**(3,133)**	(3,025)
Loan forgiveness in contributions - related parties	**(20,000)**	(20,000)
Changes in assets and liabilities:		
Contributions receivable	**232,778**	(15,401)
Accounts receivable	**(60,694)**	45,668
Other assets	**(3,087)**	4,207
Accounts payable	**(4,986)**	(673)
Accrued expenses	**5,228**	(43,933)
Accrued retirement expenses	**(6,551)**	(4,148)
Net cash provided by operating activities	**118,106**	151,384
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(100,587)**	(4,223)
Purchase of investments	**(534)**	(849)
Net cash used in investing activities	**(101,121)**	(5,072)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable - related parties	**-**	24,000
Payments on debt - related parties	**-**	(24,000)
Principal repayment on long-term debt	**(14,670)**	(13,069)
Net cash used in financing activities	**(14,670)**	(13,069)
Net increase in cash and cash equivalents	**2,315**	133,243
CASH AND CASH EQUIVALENTS		
Beginning	**205,044**	71,801
Ending	**$ 207,359**	$ 205,044

See acompanying notes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Friends Association for Children (the Association) is an accredited, not-for-profit child welfare corporation organized under the laws of the Commonwealth of Virginia. The Association's primary activity is providing child care services. Its mission is to provide human resource services that assist Richmond area families and children in acquiring the skills, knowledge and capacity needed to achieve stability in a society of high-performance expectations, changing technology and interrelated cultures. The Association is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The accounting system is maintained, and financial reports are prepared in accordance with the accrual basis of accounting. Under generally accepted accounting principles, the Association 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. These classifications are based on the existence or absence of restrictions. Accordingly, net assets of the Association and changes therein are classified as follows:

- **Unrestricted net assets** – Net assets that are not subject to stipulations and are available for the general activities of the Association.
- **Temporarily restricted net assets** – Net assets subject to stipulations that will be met either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.
- **Permanently restricted net assets** – Net assets subject to stipulations that they be maintained permanently by the Association, and only the income is available as unrestricted or temporarily restricted, as per endowment or donor agreements. The Association had no permanently restricted net assets at June 30, 2018.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted.

Principles of Consolidation

The consolidated financial statements include assets and liabilities of Friends East End Day Care, LLC, a wholly owned entity. All significant intercompany accounts have been eliminated.

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purpose of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The Association also considers all money market accounts to be cash and cash equivalents. The Association, at times, may have balances in excess of the federally insured limits.

Property and Equipment

Property and equipment used in operations is reported at cost or the current estimated value at the date of the gift, if donated, for all items valued or expended over $500, as capitalized items. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Building and leasehold improvements	39
Furniture, fixtures and equipment	5-15

Expenditures for ordinary maintenance and repairs have been charged to expense as incurred.

Income taxes

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code of the Internal Revenue Service. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Association has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2018. Fiscal years ending on or after June 30, 2015 remain subject to examination by federal and state tax authorities.

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Association provides for losses on accounts receivable using the allowance method. The allowance method is based on experiences, third-party contracts, and other circumstances which may affect the ability of parents to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Association's policy to charge off uncollectible accounts when management determines the receivable will not be collected.

Contributions receivable

Contributions receivable, which include unconditional promises to give, are recognized as public support and revenue in the period in which they apply for fair value. United Way and other pledges are recorded as unconditional promises to give and temporarily restricted net assets in the period that notification is received. Contributions collectible more than a year in the future are recorded at discounted present value. A promise to give is written or oral agreement to contribute cash or other assets; however, to be recognized there must be sufficient evidence in the form of verifiable documentation indicating that a promise was made and received.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their face values in the statement of financial position. Unrealized and realized gains and losses are included in the change in net assets.

Reclassification

Certain amounts in the prior year consolidated financial statements may have been reclassified for comparative purpose to conform with the presentation in the current year consolidated financial statements.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain cost have been allocated among the programs and supporting services benefitted.

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, concluded:

In-Kind Support

In-kind support is recognized for professional services if those services create or enhance long-lived fixed assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying consolidated financial statements as in-kind support are offset by like amounts included in expenses or assets.

NOTE 2. CONTRIBUTIONS RECEIVABLE:

Contributions receivable of $120,006 are all due within one year.

NOTE 3. INVESTMENTS:

The Association maintains an investment in a mutual fund. This investment had a market value of $29,242 and a cost of $13,938 as of June 30, 2018.

NOTE 4. PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property and equipment consisted of the following at June 30, 2018:

Land	$ 271,732
Building	2,329,781
Leasehold improvements	510,830
Furnishings and equipment	501,692
Vehicles	144,007
	3,758,042
Less accumulated depreciation	1,493,541
	$ 2,264,501

Depreciation expense amounted to $83,497 for 2018.

NOTE 5. ENDOWMENT FUND

Friends Association for Children has an agreement with the Community Foundation Serving Richmond and Central Virginia (TCF) which designates $93,697 as an irrevocable and permanent endowment with the Foundation for Friends Association for Children Endowment (endowment). Under the terms of the agreement, variance power was granted to TCF, including power for TCF's board of Governors to modify any restrictions or conditions on the distribution of the funds for any specified charitable purpose or to specified organization, if in their sole judgement, such restrictions or conditions become incapable of fulfillment.

(Continued)

NOTE 5. ENDOWMENT FUND, concluded:

Endowment spendable income shall be determined each year to be not more than 4% of the Fund's balance at the prior calendar year end. In addition to the aforementioned spendable income, upon a vote of 75% of all members of Friends Association for Children Board of Directors, and not more than once in any five year period, up to 10% of the prior calendar year's ending fund balance may be requested for capital and emergency purposes. Any spendable income not requested by the Friends Association for Children Board of Directors within a given calendar year will be added to the Fund's principle balance. The balance of this fund is not included in the financial statements of Friends Association for Children and totaled $143,289 as of June 30, 2018.

NOTE 6. NOTES PAYABLE - RELATED PARTIES

The Association has an unsecured note payable dated March 10, 2015, from a related party (board of trustees member) with a balance of $55,000, which bears no interest, due March 30, 2018. The original loan amount was $95,000. If the borrower has not paid the full amount of the loan when due, the lender may charge interest at 10% annually. The Association accrued a total of $10,400 imputed interest expense at an annual rate of 2% as of June 30, 2018, related to this interest free note.

The Association has an unsecured credit line promissory note from a related party (board of trustees member) in an amount of up to $350,000. The note balance as of June 30, 2018 was $210,000. The note balance accrues interest at 4% per annum, payable annually on or before December 15 each year. The balance of the note is due and payable June 30, 2027. No principle payments were made during 2018. Total interest expense was $8,400 for the year ended June 30, 2018. The lender forgave $20,000 of principal during the year which is recorded as contribution revenue in the statement of activities. The loan is considered a non-current liability.

NOTE 7. LONG-TERM DEBT

Friends East End Day Care, LLC assumed a deed of trust note payable to a bank which was modified February 23, 2017 in the amount of $180,178. The note bears interest at 4.6% with a monthly payment of $1,878 principal and interest for 59 months, and all remaining principle and interest due on February 7, 2022. The note balance at June 30, 2018 was $160,481.

(Continued)

NOTE 7. LONG-TERM DEBT, concluded:

The following long term principal payments are due as follows:

Year	Amount
2019	$ 15,487
2020	16,215
2021	16,976
2022	111,803
	$ 160,481

Total interest paid on the above debt was $7,871.

NOTE 8. RETIREMENT PLAN

The Association has adopted a 401(k) Plan which is a Salary Deferral Plan. The Association has elected, at its discretion, to match employee deferrals up to a maximum of 4% of compensation based on length of service. The Association's matching contributions was $20,019 for the year ended June 30, 2018.

NOTE 9. POST RETIREMENT BENEFITS LIABILITY

The Association agreed to continue health insurance coverage for John C. Purnell, Jr. (the former Executive Director) and his spouse during his retirement. The Association has accrued a liability based upon the estimated life expectancy for both individuals and has assumed an annual increase in the cost of health insurance. The present value of the liability has been determined using a 2% discount rate. The total liability as of June 30, 2018 totaled $47,972. The current portion is $5,328 and is included in accrued expenses in the statement of financial position.

NOTE 10. IN-KIND SUPPORT

The Association receives various types of in-kind support, including facilities, materials, and professional service. For the year ended June 30, 2018, the Association received $75,000 in donated rent.

NOTE 11. FACILITIES

The Association's Friends Family Center facility is owned by the Richmond Redevelopment and Housing Authority (RRHA). The Association's contract with RRHA does not require any payment for the use of the facility, however the RRHA is to be reimbursed for the operating expenses relative to the facility including the cost of utilities, janitorial and maintenance services and insurance. The contract does not contain an expiration date as long as the Association continues with the intended use of the facility. The total amount of donated facilities use for the year was $75,000 and is included in the statement of activities.

The Robert L. Taylor Childcare Center is being leased from Friends East End Day Care, LLC (a wholly owned entity). No lease payments are required but the Association pays all expenses including debt service.

NOTE 12. SUBSEQUENT EVENTS

In preparing these financial statements, the Association evaluated events and transactions for potential recognition or disclosure through January 10, 2019 the date the financial statements were available to be issued.

NOTE 13. FAIR VALUE MEASUREMENTS

The Organization adopted FASB ASC 850, formerly SFAS No.157 "Fair Value Measurements" to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. This standard clarifies that the fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The levels of the fair value hierarchy, based on these three types of inputs are as follow:

Level 1- Valuation is based on quoted prices in active markets for identical assets and liabilities.
Level 2- Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in les active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable date in the market.
Level 3-Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

All investments and liabilities were measured for fair value by level one valuation, because they generally provide the most reliable evidence of fair value.

NOTE 14. TEMPORARY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30:

United Way annual allocation, time restricted	$ 47,667
Grants, purpose restricted	308,611
Total temporarily restricted net assets	$ 356,278

NOTE 15. CONCENTRATION ON CREDIT RISK

The Association maintains cash and cash equivalents in several financial institutions, the deposits in each of which are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). At times, there may be amounts uninsured within these accounts. The Association has not experienced losses within these accounts. There were no uninsured balances at June 30, 2018.

The Association's unsecured receivables are due from pledges, United Way Services, and state agencies for grant or fee reimbursements. Therefore, its ability to collect is affected by the financial condition of the debtor.