

FII-National

Financial Statements

December 31, 2017
(With Comparative Totals for 2016)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
FII-National
Oakland, California

We have audited the accompanying financial statements of FII-National (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows 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 of the 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 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 financial statements.

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 FII-National as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited FII-National's 2016 financial statements, and our report dated July 17, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

April 11, 2018

FII-National
Statement of Financial Position
December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,528,253	\$ 1,599,236
Contributions and grants receivable	1,685,922	4,352,001
Prepaid expenses	18,072	8,649
Total current assets	5,232,247	5,959,886
Noncurrent assets		
Contributions and grants receivable, net of current portion	2,084,566	-
Other accounts receivable	100,991	121,628
Deposits	20,447	10,602
Total noncurrent assets	2,206,004	132,230
Total assets	\$ 7,438,251	\$ 6,092,116
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 60,908	\$ 90,399
Accrued salaries and other	83,081	72,334
Note payable	-	100,000
Total current liabilities	143,989	262,733
Net assets		
Unrestricted	96,893	(30,837)
Temporarily restricted	7,197,369	5,860,220
Total net assets	7,294,262	5,829,383
Total liabilities and net assets	\$ 7,438,251	\$ 6,092,116

The accompanying notes are an integral part of these financial statements.

FII-National
Statement of Activities
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues and support				
Foundation contributions	\$ 174,240	\$ 6,023,500	\$ 6,197,740	\$ 3,245,691
Individual/stock contributions	565,332	85,570	650,902	286,663
Earned revenue	661,860	-	661,860	299,008
Other revenue	10,767	-	10,767	664
Net assets released from restriction	<u>4,771,921</u>	<u>(4,771,921)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>6,184,120</u>	<u>1,337,149</u>	<u>7,521,269</u>	<u>3,832,026</u>
Functional expenses				
Program services	<u>4,902,385</u>	<u>-</u>	<u>4,902,385</u>	<u>3,571,488</u>
Support services				
Management and general	593,336	-	593,336	495,715
Fundraising	<u>560,669</u>	<u>-</u>	<u>560,669</u>	<u>731,416</u>
Total support services	<u>1,154,005</u>	<u>-</u>	<u>1,154,005</u>	<u>1,227,131</u>
Total functional expenses	<u>6,056,390</u>	<u>-</u>	<u>6,056,390</u>	<u>4,798,619</u>
Change in net assets	127,730	1,337,149	1,464,879	(966,593)
Net assets, beginning of year	<u>(30,837)</u>	<u>5,860,220</u>	<u>5,829,383</u>	<u>6,795,976</u>
Net assets, end of year	<u>\$ 96,893</u>	<u>\$ 7,197,369</u>	<u>\$ 7,294,262</u>	<u>\$ 5,829,383</u>

The accompanying notes are an integral part of these financial statements.

FII-National
Statement of Functional Expenses
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Program Services	Support Services		Total Support Services	2017 Total	2016 Total
		Management and General	Fundraising			
Personnel expenses						
Salaries and wages	\$ 1,343,348	\$ 411,250	\$ 307,291	\$ 718,541	\$ 2,061,889	\$ 1,646,931
Employee benefits	214,143	65,557	48,985	114,542	328,685	323,304
Total personnel expenses	<u>1,557,491</u>	<u>476,807</u>	<u>356,276</u>	<u>833,083</u>	<u>2,390,574</u>	<u>1,970,235</u>
Contract labor	630,639	-	117,321	117,321	747,960	743,691
Rent	95,212	29,148	21,780	50,928	146,140	135,906
Office expense	41,973	12,849	9,601	22,450	64,423	58,024
Legal and professional fees	56,221	17,211	12,860	30,071	86,292	39,192
Dues and fees	45,404	13,900	10,386	24,286	69,690	39,154
Meals, travel, and conferences	141,835	43,421	32,445	75,866	217,701	123,426
Direct to families	<u>2,333,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,333,610</u>	<u>1,688,991</u>
	<u>\$ 4,902,385</u>	<u>\$ 593,336</u>	<u>\$ 560,669</u>	<u>\$ 1,154,005</u>	<u>\$ 6,056,390</u>	<u>\$ 4,798,619</u>

The accompanying notes are an integral part of these financial statements.

FII-National
Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 1,464,879	\$ (966,593)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Changes in operating assets and liabilities		
Contributions and grants receivable	581,513	464,332
Prepaid expenses	(9,423)	(2,769)
Other accounts receivable	20,637	(37,717)
Deposits	(9,845)	-
Accounts payable	(29,491)	58,775
Accrued salaries and other	10,747	70,305
Accrued interest	-	153
Net cash provided by (used in) operating activities	<u>2,029,017</u>	<u>(413,514)</u>
Cash flows from financing activities		
Proceeds from note payable	-	40,000
Principal payments on note payable	(100,000)	-
Net cash provided by (used in) financing activities	<u>(100,000)</u>	<u>40,000</u>
Net increase (decrease) in cash and cash equivalents	1,929,017	(373,514)
Cash and cash equivalents, beginning of year	<u>1,599,236</u>	<u>1,972,750</u>
Cash and cash equivalents, end of year	<u>\$ 3,528,253</u>	<u>\$ 1,599,236</u>

Supplemental disclosure of cash flow information

Cash paid during the year in interest	\$ 898	\$ 2,446
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The accompanying notes are an integral part of these financial statements.

FII-National
Notes to Financial Statements
December 31, 2017

1. NATURE OF OPERATIONS

FII-National (the "Organization") was incorporated as a non-profit public benefit corporation in the State of California on September 26, 2006. It is a national organization that trusts and invests directly in low-income families so they can work individually and collectively to achieve prosperity. The Organization does this by providing its participating families with the infrastructure, technology platform and support to strengthen social networks, access resources, and support each other in achieving social and economic mobility. The Organization's goal is to change the narrative about low-income families in the country.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization's financial statements have been prepared on the accrual basis of accounting.

- *Unrestricted net assets* - net assets not subject to donor-imposed restrictions that are used to support the programs, as well as general and administrative functions of the Organization.
- *Temporarily restricted net assets* - net assets subject to donor-imposed restrictions that may or will be met by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. There were no permanently restricted net assets at December 31, 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment income and gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and cash equivalents

For the purposes of the statements of cash flows, the Organization considers all money market funds and highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents.

FII-National
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization characterizes the fair value of financial instruments measured at fair value on a recurring basis, based on the priority of the inputs used to value the instruments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurements of the instruments. Financial instruments measured at fair value on a recurring basis in the statement of financial position are categorized based on the inputs to valuation techniques.

At December 31, 2017, the Organization did not have any assets or liabilities subject to measurement at fair value on a recurring basis.

Contributions and promises to give

Contributions received and promises to give are reported as unrestricted, temporarily restricted, or permanently restricted, depending on donor restrictions.

Contributions including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, which is when conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are considered contributions receivable and are recorded at fair value by discounting at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is not provided based upon management's judgment including such factors as prior collection history, type of contributions, and current aging of the promises to give.

Donated materials and equipment are recorded as contributions based on the estimated fair value at the date the contribution is made. Donated services are recorded as contributions at their estimated fair value only in those instances in which they enhance non-financial assets or the Organization would have acquired such services if they had not been donated, require special skills, and are provided by individuals with those skills. The Organization did not receive any such services in 2017.

Income tax status

The Organization is a qualified organization exempt from Federal income and California franchise taxes under the provisions of Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and taxation code, respectively.

FII-National
Notes to Financial Statements
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

The Organization has evaluated its current tax positions and has concluded that as of December 31, 2017, the Organization does not have any significant tax positions for which a reserve would be necessary.

Functional expense allocation

Expenses are charged to programs and supporting services on the basis of the Organization's estimates. Management and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. 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 December 31, 2016, from which the summarized information was derived.

Credit risk

Cash and cash equivalents maintained by the Organization are normally in excess of the federally insured limits. The Organization mitigates this risk by placing cash and cash equivalents with high credit quality institutions

Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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. Actual results could differ from those estimates. Uses of estimates include, but are not limited to, accounting for allocation of operating expenses.

Subsequent events

The Organization has evaluated subsequent events through April 11, 2018, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

FII-National
Notes to Financial Statements
December 31, 2017

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Unconditional promises to give, which are not expected to be collected until after the year promised, are reflected in the accompanying financial statements as contributions and grants receivable and revenue in the appropriate net asset category.

Contributions and grants receivable consist of the following:

Amounts due in less than one year	\$ 1,685,922
Amounts due in one to four years	<u>2,084,566</u>
	<u>\$ 3,770,488</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Implied time restriction	\$ 3,222,723
Cincinnati	2,172,084
California	570,147
Detroit	535,645
Albuquerque	456,250
New Orleans	165,702
Immigrant Family Defense Fund	<u>74,818</u>
	<u>\$ 7,197,369</u>

Temporarily restricted net assets released from restriction during the year were as follows:

Implied time restriction	\$ 2,470,599
California	779,853
Detroit	470,023
Boston	362,292
Cincinnati	322,916
Albuquerque	156,250
New Orleans	124,167
Immigrant Family Defense Fund	60,752
A4 Program	<u>25,069</u>
	<u>\$ 4,771,921</u>

FII-National
Notes to Financial Statements
December 31, 2017

5. RETIREMENT PLANS

The Organization has a 401(k) Qualified Retirement Plan (the "Plan") covering all employees after attainment of specific periods of service and minimum age requirements. The Plan includes an employer match of employee contributions of up to 2% of a participant's gross monthly earnings. During the year ended December 31, 2017, the Organization contributed \$17,473 to the Plan.

In addition, employees have the option of contributing a percentage of their salary as allowable by law to a tax-sheltered annuity trust ("TSA"). If an employee needs to use the funds invested into the TSA, the employee has the option of initiating a loan against the account provided that the need for such loan meets certain conditions. Loans are subject to review by the Organization.

6. OPERATING LEASES

The Organization leases office space in Boston, Oakland, San Francisco, Detroit, and Albuquerque under non-cancelable operating leases.

The scheduled minimum lease payments under these leases are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 106,482
2019	66,122
2020	<u>18,200</u>
	<u>\$ 190,804</u>

Rent expense amounted to \$146,140 for the year ended December 31, 2017.

7. CONCENTRATIONS

The Organization had three donors that comprised 78% of total contributions and grants receivable and three donors that comprised 64% of total contribution revenue at December 31, 2017.