
**FR1ENDS of the
CH1LDREN**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2022

and

Consolidating and Supplementary Financial Information

with

Independent Auditors' Report

and

Single Audit Reports

FRIENDS OF THE CHILDREN

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8
Consolidating and Supplementary Financial Information	
Consolidating Schedule of Financial Position	27
Consolidating Schedule of Activities	28
Schedules of Financial Position - National	29
Schedule of Activities - National	30
Schedules of Cash Flows - National	31
Single Audit Reports	
Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	33
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	36
Schedule of Findings and Questioned Costs	39
Summary Schedule of Prior Audit Findings	41

Independent Auditors' Report

The Board of Directors
Friends of the Children

Opinion

We have audited the accompanying consolidated financial statements of Friends of the Children and its consolidated affiliates (Friends of the Children - Portland and Youth Resources, Inc.), which comprise the consolidated statement of financial position as of August 31, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Friends of the Children and its consolidated affiliates as of August 31, 2022, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Friends of the Children and its consolidated affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of the consolidated affiliates were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Consolidated 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends of the Children and its consolidated affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Friends of the Children and its consolidated affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends of the Children and its consolidated affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and supplementary financial information on pages 27 through 31 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on page 32, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. All supplementary information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Friends of the Children's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2023, on our consideration of Friends of the Children's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Friends of the Children's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Friends of the Children's internal control over financial reporting and compliance.

Hallman, Stewart & Schmiot, P.C.

Lake Oswego, Oregon
January 24, 2023

FRIENDS OF THE CHILDREN
Consolidated Statement of Financial Position

August 31, 2022 <i>(With Comparative Amounts for 2021)</i>	2022	2021
ASSETS		
Cash and cash equivalents	\$ 34,405,187	\$ 9,218,034
Investments <i>(Notes 4 and 18)</i>	7,944,619	8,683,348
Receivables - net <i>(Note 5)</i>	4,909,836	3,736,507
Employee retention credit receivable <i>(Note 11)</i>	1,830,960	-
Prepaid expenses	144,451	166,729
Beneficial interest in assets held by Friends of the Children - Portland Foundation <i>(Notes 16 and 18)</i>	147,435	165,479
Property and equipment - net <i>(Note 7)</i>	3,922,333	4,067,128
Restricted cash	1,000	500
Total assets	<u>\$ 53,305,821</u>	<u>\$ 26,037,725</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,097,203	\$ 612,298
Grants and contributions payable	3,242,430	1,074,509
Due to Friends of the Children - Southwest Washington <i>(Note 14)</i>	-	2,626
Refundable advances	225,200	663,333
Total liabilities	4,564,833	2,352,766
Commitments <i>(Notes 10 and 17)</i>		
Net assets:		
Without donor restrictions:		
Net investment in property and equipment	3,922,333	4,067,128
Board designated <i>(Note 9)</i>	18,708,831	-
Undesignated	11,109,646	6,711,386
Total without donor restrictions	33,740,810	10,778,514
With donor restrictions <i>(Notes 8 and 19)</i>	15,000,178	12,906,445
Total net assets	<u>48,740,988</u>	<u>23,684,959</u>
Total liabilities and net assets	<u>\$ 53,305,821</u>	<u>\$ 26,037,725</u>

The accompanying notes are an integral part of the consolidated financial statements.

FRIENDS OF THE CHILDREN
Consolidated Statement of Activities

Year Ended August 31, 2022 (With Comparative Totals for 2021)

	Without Donor Restrictions			With Donor	Total	
	Undesignated	Designated	Total	Restrictions	2022	2021
Public support and revenue:						
Contributions	\$ 29,380,411	\$ -	\$ 29,380,411	\$ 6,757,365	\$ 36,137,776	\$ 12,113,900
Grants and contracts	2,775,532	-	2,775,532	-	2,775,532	2,973,782
Special events - net (Note 12)	1,643,146	-	1,643,146	138,135	1,781,281	1,625,307
Loss on uncollectible contributions receivable	(139,747)	-	(139,747)	-	(139,747)	(21,041)
Donated nonfinancial assets (Note 13)	482,515	-	482,515	-	482,515	529,755
Chapter affiliation fees	542,595	-	542,595	-	542,595	385,300
Chapter support revenue	1,373,342	-	1,373,342	-	1,373,342	1,134,378
Paycheck Protection Program proceeds (Note 11)	-	-	-	-	-	2,574,466
Employee retention credit revenue (Note 11)	1,830,960	-	1,830,960	-	1,830,960	
Gain on disposal of assets	-	-	-	-	-	239,089
Other revenue	8,228	-	8,228	-	8,228	23,853
Board designation of funds (Note 9)	(18,708,831)	18,708,831	-	-	-	
Net assets released from restrictions (Note 8)	3,844,994	-	3,844,994	(3,844,994)	-	-
Total public support and revenue	23,033,145	18,708,831	41,741,976	3,050,506	44,792,482	21,578,789
Expenses:						
Program services:						
Affiliate services	10,873,544	-	10,873,544	-	10,873,544	7,834,449
Friends - Portland	5,095,000	-	5,095,000	-	5,095,000	5,390,691
Total program services	15,968,544	-	15,968,544	-	15,968,544	13,225,140
Administrative	1,715,799	-	1,715,799	-	1,715,799	1,445,119
Fundraising	1,154,093	-	1,154,093	-	1,154,093	1,078,761
Total expenses	18,838,436	-	18,838,436	-	18,838,436	15,749,020
Increase in net assets before investment activity	4,194,709	18,708,831	22,903,540	3,050,506	25,954,046	5,829,769
Investment activity:						
Net investment return (loss)	58,756	-	58,756	(938,729)	(879,973)	1,428,806
Net increase (decrease) in beneficial interest in assets held by Friends of the Children - Portland Foundation	-	-	-	(18,044)	(18,044)	23,084
Net investment activity	58,756	-	58,756	(956,773)	(898,017)	1,451,890
Transfer to Friends of the Children - Portland Foundation (Note 16)	-	-	-	-	-	(337,568)
Increase in net assets	4,253,465	18,708,831	22,962,296	2,093,733	25,056,029	6,944,091
Net assets, beginning of year	10,778,514	-	10,778,514	12,906,445	23,684,959	16,740,868
Net assets, end of year	\$ 15,031,979	\$ 18,708,831	\$ 33,740,810	\$ 15,000,178	\$ 48,740,988	\$ 23,684,959

The accompanying notes are an integral part of the consolidated financial statements.

FRIENDS OF THE CHILDREN

Consolidated Statement of Functional Expenses

Year Ended August 31, 2022 *(With Comparative Totals for 2021)*

	Program Services			Supporting Services			Total	
	Affiliate Services	Friends - Portland	Total	Administrative	Fundraising	Total	2022	2021
Salaries and related expenses:								
Salaries and wages	\$ 2,962,120	\$ 3,142,149	\$ 6,104,269	\$ 843,860	\$ 619,274	\$ 1,463,134	\$ 7,567,403	\$ 7,029,399
Payroll taxes and benefits	551,565	779,060	1,330,625	180,257	108,736	288,993	1,619,618	1,590,914
Total salaries and related expenses	3,513,685	3,921,209	7,434,894	1,024,117	728,010	1,752,127	9,187,021	8,620,313
Chapter grants	6,304,897	39,875	6,344,772	-	-	-	6,344,772	4,425,052
Children's activities	-	152,324	152,324	-	-	-	152,324	153,913
Friend transportation	-	138,514	138,514	-	-	-	138,514	84,409
Friend communication	-	21,825	21,825	-	-	-	21,825	25,279
Scholarships	-	3,680	3,680	-	-	-	3,680	68,135
In-kind gifts for children and families	-	133,800	133,800	-	-	-	133,800	196,561
Travel and meetings	104,355	11,885	116,240	84,264	9,148	93,412	209,652	38,900
Community awareness	29,775	2,139	31,914	14,227	18,192	32,419	64,333	67,719
Staff development	-	61,413	61,413	48,600	44,833	93,433	154,846	91,324
Professional fees	507,070	42,525	549,595	409,191	187,833	597,024	1,146,619	691,242
Donated advertising <i>(Note 20)</i>	210,385	-	210,385	-	6,507	6,507	216,892	290,181
Repairs and maintenance	-	117,340	117,340	13,407	11,871	25,278	142,618	93,764
Supplies	13,003	13,701	26,704	5,639	3,408	9,047	35,751	38,708
Payroll and banking fees	13,767	8,181	21,948	19,833	17,591	37,424	59,372	61,197
Business insurance	15,031	35,373	50,404	5,609	3,750	9,359	59,763	54,147
Utilities	4,488	45,569	50,057	4,341	3,728	8,069	58,126	53,180
Information technology	109,264	146,945	256,209	62,822	73,708	136,530	392,739	392,192
Postage and printing	6,493	2,746	9,239	3,676	29,653	33,329	42,568	37,678
Depreciation	39,481	195,956	235,437	19,848	15,861	35,709	271,146	265,126
Miscellaneous	1,850	-	1,850	225	-	225	2,075	-
Total expenses	\$ 10,873,544	\$ 5,095,000	\$ 15,968,544	\$ 1,715,799	\$ 1,154,093	\$ 2,869,892	\$ 18,838,436	\$ 15,749,020

The accompanying notes are an integral part of the consolidated financial statements.

FRIENDS OF THE CHILDREN
Consolidated Statement of Cash Flows

Year Ended August 31, 2022 (With Comparative Totals for 2021)	2022	2021
Cash flows from operating activities:		
Increase in net assets	\$ 25,056,029	\$ 6,944,091
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions to permanent endowment	(200,500)	(119,965)
Depreciation	271,146	265,126
Loss (gain) on investments	1,083,000	(1,360,731)
Net decrease (increase) in beneficial interest in assets held by Friends of the Children - Portland Foundation	18,044	(23,084)
Loss on equipment disposal	-	(239,088)
Paycheck Protection Program loan forgiveness	-	(2,111,946)
Changes in:		
Receivables	(1,173,329)	(1,339,162)
Employee retention credit receivable	(1,830,960)	-
Prepaid expenses	22,278	17,640
Accounts payable and accrued liabilities	484,905	(28,211)
Grants and contributions payable	2,167,921	540,199
Refundable advances	(438,133)	346,666
Due to Friends of the Children - SW Washington	(2,626)	(1,123,331)
Net cash provided by operating activities	25,457,775	1,768,204
Cash flows from investing activities:		
Proceeds from sales of investments	2,035,925	4,591,225
Purchases of investments	(2,286,213)	(4,397,671)
Purchases of property and equipment	(126,351)	(40,476)
Proceeds from sale of property and equipment	-	337,568
Issuance of note receivable	(106,604)	-
Payments received on notes receivable	12,621	56,924
Net cash provided (used) by investing activities	(470,622)	547,570
Cash flows from financing activities:		
Contributions to permanent endowment	200,500	119,965
Proceeds from Paycheck Protection Program loan	-	1,075,065
Net cash provided by financing activities	200,500	1,195,030
Net increase in cash and cash equivalents	25,187,653	3,510,804
Cash and cash equivalents and restricted cash, beginning of year	9,218,534	5,707,730
Cash and cash equivalents and restricted cash, end of year	\$ 34,406,187	\$ 9,218,534
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 34,405,187	\$ 9,218,034
Restricted cash	1,000	500
	\$ 34,406,187	\$ 9,218,534

The accompanying notes are an integral part of the consolidated financial statements.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - Friends of the Children is the only program in the nation that provides, full-time professional salaried mentors (called Friends) to youth facing the greatest challenges for 12 years or more starting as early as age 4. The objectives of the national organization are to sustain and grow existing Friends of the Children chapters, expand and build new chapters, and enhance Friends' brand, awareness, position, and influence. The national organization also provides research and evaluation, training, program quality monitoring, data collection & analysis, and operational support.

Summary of Significant Accounting Policies - The significant accounting policies followed by the organization are described below to enhance the usefulness of the consolidated financial statements to the reader.

Principles of Consolidation - The consolidated financial statements include the accounts of Friends of the Children (Friends - National), Friends of the Children - Portland (Friends - Portland), and Youth Resources, Inc. (collectively, the Organizations). Consolidated financial statements are required because Friends - National has a controlling financial interest in Friends - Portland and Youth Resources, Inc. is a wholly controlled subsidiary of Friends - Portland. All significant intercompany balances and transactions have been eliminated.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organizations and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organizations and/or the passage of time. These donor restrictions are temporary in nature. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Organizations to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation 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 net assets released from restrictions.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the consolidated financial statements for, among other things, the calculation of depreciation expense, the determination of any required allowance for uncollectible receivables, and the functional allocation of certain expenses.

Cash and Cash Equivalents - The Organizations consider all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Restricted Cash - Restricted cash consists of amounts held by Friends - Portland for donor restricted endowment funds totaling \$1,000 at August 31, 2022.

Investments - Investments are carried at fair value. Net investment activity, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments as well as interest and dividend income, is reported in the consolidated statement of activities.

Beneficial Interest in Assets Held by Friends of the Children - Portland Foundation (the Foundation) - Friends - Portland has an interest in assets invested by the Foundation. At August 31, 2022, assets totaled \$147,435 (*Note 16*).

Receivables - Accounts receivable are recorded as related revenues are recognized. Pledges receivable are recognized when unconditionally promised by a donor. An allowance for uncollectible receivables is recorded based on management's assessment of the specific amounts outstanding. Management will write off any balance that remains after it has exhausted all reasonable collection efforts.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value at date of donation. Depreciation of furniture, equipment, and vehicles is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years. Depreciation of buildings and improvements is calculated using the straight-line method over estimated useful lives ranging from 20 to 40 years.

Chapter Affiliation Fee Revenue Recognition - Friends - National chapter affiliation fees are based on specific agreements with the chapters. Services provided to chapters include general leadership support, database management, new chapter start-up fees, training and other services related to supporting chapter management. The performance obligations are satisfied over the fiscal year and revenue is recognized accordingly. Fees are paid in full by chapters annually and no further performance obligation existed at the end of the year.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Chapter Support Revenue Recognition - Friends - National provides services including development consulting, grant writing and other administrative services to chapters. Revenue is recognized at the time services are provided, which is when the performance obligations are satisfied.

Contribution Recognition - The Organizations recognize contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. At August 31, 2022, the Organizations had conditional contributions outstanding of \$45,000 conditioned on meeting certain matching goals. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

The Organizations consider all contributions available for unrestricted use unless explicit donor stipulations specify how the funds must be used. When a donor restriction expires - that is, when a stipulated time restriction ends or purpose restriction is accomplished - net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

The Organizations report gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organizations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grants and Contracts Income - The Organizations' grant and contract income includes amounts derived from federal and local government grants which are considered conditional contributions and which are conditioned upon barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as revenue when the related barrier has been satisfied. At August 31, 2022, the Organizations had remaining available award balances of approximately \$2,112,000, which have not yet been reflected in the consolidated financial statements. These award balances will be recognized as revenue when the related barriers are satisfied.

Support for Friends - Portland from the Foundation (*Note 16*) of \$268,432 and \$158,828 for the years ended August 31, 2022 and 2021, respectively, is discretionary each year and approved by the Foundation's Board of Directors.

Conditional grants whose conditions are satisfied in the same reporting period in which the funding is received are reported as an increase in net assets without donor restrictions.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Donated Nonfinancial Assets and Services - The Organizations receive donated services and donated goods and other supplies.

Supplies and other goods used in operations - Typically, donated gift cards, event tickets, and supplies are used in program operations. These goods are valued at a good-faith estimate of fair value by the donor. During the years presented, these goods are reflected as donations without donor restrictions with related expenses allocated to the program function in the accompanying consolidated statement of functional expenses. Donated auction items are valued at the selling price received at the auction.

Contributed services - The Organizations receive contributed services from unpaid volunteers who assist in a range of fundraising and program activities. The values of such services have not been recognized in the consolidated statement of activities, since they do not meet the recognition criteria set forth in GAAP. Significant services received that create or enhance a non-financial asset or require specialized skills that the Organizations would have purchased if not donated are recognized in the consolidated statement of activities. The value of such services for the year ended August 31, 2022, totaled \$330,741 and consisted of advertising and professional fees valued at rates typically charged by the donors.

Income Tax Status - Income taxes are not provided for in the consolidated financial statements because each organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. None of the organizations are classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions, and provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe the Organizations have any uncertain tax positions. The Organizations files informational returns. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return. There are currently no tax examinations in progress for any periods. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. The consolidated statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Expenses are allocated based on estimates of time and effort attributable to each function.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

Advertising - The Organizations charge to expense all advertising costs as they are incurred. Advertising expense for the year ended August 31, 2022, was \$216,892 (*Notes 13 and 20*) (all in-kind expense).

New Accounting Pronouncements - Effective September 1, 2021, the Organizations have adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Fair Value Measurement Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires more detailed presentation and disclosure for contributions of goods and services. The Organizations have adopted the provisions of ASU 2020-07 on a retrospective basis. Total support and net assets were unaffected by adopting this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU, among other things, will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right of use asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for the Organizations on September 1, 2022. Management is evaluating the potential impact of this ASU on the consolidated financial statements.

Summarized Financial Information for 2021 - The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended August 31, 2021, from which the summarized information was derived.

Major Contribution - The Organizations' increase in net assets for the year ended August 31, 2022 and related increase in cash and cash equivalents balance at August 31, 2022 compared to August 31, 2021 relates, in large part, to a one-time, non-repeatable gift of approximately \$22.7 million to the consolidated organization during July 2022.

Subsequent Events - Management has evaluated subsequent events through January 24, 2023, the date the consolidated financial statements were available to be issued.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Program and Supporting Services

Program Services:

Affiliate Services - The Organizations provide a variety of services to help sustain and grow existing chapters, including grant awards, technical assistance and training in areas such as child assessment, planning, administration, fundraising, and Board development. Friends of the Children chapters and affiliates located in the following geographic areas in 2022:

Chapters

Austin, TX	Klamath Basin, OR	Rapid City, SD
Billings, MT	Lane County, OR	Salt Lake City, UT
Boston, MA	Los Angeles, CA	San Francisco, CA
Central Oregon	Missoula, MT	Seattle, WA
Chicago, IL	New York, NY	SW Washington, WA
Colorado Springs, CO	Phoenix, AZ	Tacoma, WA
Detroit, MI	Portland, OR	Tampa Bay, FL
Fargo-Moorhead, ND/MN		

Affiliates

Charlotte, NC

Friends - Portland - Program activities include the cost of day-to-day activities with children facing the greatest challenges in the Portland, Oregon, metropolitan area, sustaining the children's relationships with adult role models, and helping them become productive members of the community.

Total Friends - Portland expenses, prior to the effect of eliminating entries, during the year ended August 31, 2022, were \$5,139,300 for program expenses, \$1,098,034 for administrative expenses, and \$914,439 for fundraising expenses.

Supporting Services:

Administrative - Administrative activities include business management, recordkeeping, budgeting, public relations, financing, and related administrative activities. These services provide the necessary developmental, organizational, and management support for the effective operation of the programs.

Fundraising - Fundraising activities include conducting fundraising campaigns, preparing and distributing fundraising materials, and other activities aimed at the solicitation of contributions from individuals, businesses, and foundations.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

3. Liquidity and Availability of Financial Resources

The Organizations' financial assets available for general expenditure within one year of the consolidated statement of financial position date consist of the following at August 31, 2022:

Cash and cash equivalents	\$ 34,405,187
Receivables due in less than one year	2,824,067
Employee retention credit receivable	1,830,960
Investments	7,944,619
Beneficial interest in assets held by Friends of the Children - Portland Foundation	<u>147,435</u>
	47,152,268
Less amounts not available to be used for operations within one year:	
Net assets with temporary donor restrictions to be met in over one year	(3,698,852)
Board designated net assets	(18,708,831)
Principal portion of endowment	<u>(6,894,394)</u>
	<u>\$ 17,850,191</u>

As part of the Organizations' liquidity management, management has a practice to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

4. Investments

Investments included the following at August 31:

	2022	2021
Equity securities	\$ 4,612,749	\$ 5,502,822
Fixed income securities	1,857,126	2,253,124
Money market funds	607,196	276,594
Real estate income fund	730,489	607,732
Note receivable (<i>Note 6</i>)	<u>137,059</u>	<u>43,076</u>
	<u>\$ 7,944,619</u>	<u>\$ 8,683,348</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Receivables

Receivables consisted of the following at August 31:

	2022	2021
Pledges due within one year	\$ 2,168,442	\$ 1,537,920
Grants and contracts receivable	440,546	253,583
Receivable from Friends of the Children - Portland Foundation [^]	83,846	51,706
Chapter support receivable	103,540	91,627
Other receivables	<u>27,693</u>	<u>16,100</u>
Receivables due in less than one year	2,824,067	1,950,936
Pledges due in one to five years	2,333,333	1,913,000
Discount to present value	(245,095)	(118,801)
Allowance for doubtful accounts	<u>(2,469)</u>	<u>(8,628)</u>
Net receivables	<u>\$ 4,909,836</u>	<u>\$ 3,736,507</u>

[^] Related party.

Discounts to present value are calculated using rates ranging from 4 to 6.25 percent.

6. Note Receivable

During 2019, Friends - National loaned \$100,000 to a chapter out of its unexpended endowment earnings (*Note 19*). The note called for quarterly payments of \$14,286, including interest of 3 percent per annum, in principal plus any accrued interest beginning April 1, 2020, with the final payment due October 1, 2021.

During 2020, the agreement was amended to stipulate that principal payments plus any accrued interest would begin October 1, 2020, with the final payment due April 1, 2022. During 2022, the agreement was further amended to provide an additional \$106,604 be loaned to the chapter with principal payments plus any accrued interest to begin in July 2022, with the final payment due January 1, 2025. Friends - National recognized interest income totaling \$3,629 under this note during the year ended August 31, 2022.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

7. Property and Equipment

	2022	2021
Computer equipment and software	\$ 485,861	\$ 468,476
Office equipment and furniture	293,578	294,906
Vehicles	88,901	88,901
Buildings and improvements	4,948,351	4,880,352
Construction in progress	15,279	-
Land	<u>100,000</u>	<u>100,000</u>
	5,931,970	5,832,635
Less accumulated depreciation and amortization	<u>(2,009,637)</u>	<u>(1,765,507)</u>
Net property and equipment	<u>\$ 3,922,333</u>	<u>\$ 4,067,128</u>

During 2014 Friends - Portland entered into a 49 year ground lease, with an option to extend for 5 consecutive terms of 10 years each, with the City of Gresham for \$1 per year for use of certain land to operate a facility included above in building and improvements.

8. Net Assets with Donor Restrictions

At August 31, 2022, net assets with donor restrictions were available for the following purposes:

Scholarships	\$ 60,492
Chapter assistance	226,000
National IT Director	5,288
Program and technology enhancements	795,850
Program salaries	90,352
Family engagement	11,258
Technology education	10,334
Expansion to rural and tribal communities	2,019,765
Other program support	51,141
Future periods	4,202,907
Unexpended endowment earnings (<i>Note 19</i>)	632,397
Endowment principal (<i>Note 19</i>)	<u>6,894,394</u>
	<u>\$ 15,000,178</u>

During the year ended August 31, 2022, net assets of \$3,844,994 were released from restrictions due to specific actions of the Organizations and/or the passage of time.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

9. Board Designated Net Assets

The Board of Directors of the Organizations have designated net assets of \$18,708,831 as of August 31, 2022. The Board of Friends of the Children - Portland has designated \$8,675,000 for the purpose of supporting the mission of Friends - Portland through employee salaries, infrastructure investments, and future needs of the organization for transformational change. An additional \$33,831 is designated for the Duncan's Woods Summer Camp scholarship. The Board of Friends of the Children has designated \$5,000,000 to establish a Chapter Impact Fund to be used to support the Network over time through gifts, grants, challenge matches, etc. The Board of Friends of the Children also designated \$5,000,000 to establish a National Impact Fund that will be used to support salaries, infrastructure, and future needs.

10. Retirement Plans

Friends - Portland has a retirement plan pursuant to IRC Section 401(k), in which employees 18 years of age and older are eligible to participate starting the first day of their first full month after their hire date. Friends - Portland also has a retirement plan under IRC Section 403(b) for certain eligible employees. Contributions to both plans are discretionary.

Friends - National instituted a Safe Harbor 401(k) Plan in January 2018, for all eligible employees. Under the terms of the Plan, Friends - National will contribute 4 percent of employee compensation to the Plan on an annual basis.

Employer retirement expense totaled \$195,853 and \$255,783 for the years ended August 31, 2022 and 2021, respectively.

11. Government Funding in Response to COVID-19

In April 2020, Friends - Portland secured a \$1,036,881 loan from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136 "The CARES Act"). The Paycheck Protection Program (PPP) provides for full or partial loan forgiveness if loan proceeds are used for qualifying expenses and certain other conditions are satisfied. During the year ended August 31, 2021, Friends - Portland obtained full forgiveness for the loan and the balance has therefore been recognized within support and revenue in the consolidated statement of activities.

In January 2021, Friends - Portland received a second PPP draw totaling \$1,075,065. At August 31, 2021, Friends - Portland had met the criteria for forgiveness and received acknowledgement of such subsequent to August 31, 2021, therefore this amount has also been recognized within support and revenue in the consolidated statement of activities.

In February 2021, Friends - National received a second PPP draw totaling \$462,520. During the year ended August 31, 2021, Friends - National obtained full forgiveness for the loan and the balance has therefore been recognized within support and revenue in the consolidated statement of activities.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

11. Government Funding in Response to COVID-19 - Continued

The CARES Act also provided fully refundable tax credits (known as the employee retention credit, or ERC) against the employer share of federal payroll taxes for employers who meet certain criteria. Subsequent legislation has expanded the eligibility criteria and availability of the ERC through September 30, 2021.

The Organizations have analogized to guidance provided by the Account Standards Codification 958-605: *Not-for-Profit Entities - Revenue Recognition*. As such, ERC totaling \$1,830,960 were recognized as revenue when the qualifying expenses were incurred and related claims were filed and are included as a component of public support and revenue in the accompanying consolidated statement of activities. As of August 31, 2022, the full amount has not been received and is recorded as an employee retention credit receivable on the consolidated statement of financial position.

12. Special Events

Net proceeds from special events for the years ended August 31, were as follows:

	2022	2021
Gross proceeds from special events	\$ 1,997,514	\$ 1,759,278
Less direct costs of special events	<u>(216,233)</u>	<u>(133,971)</u>
Net proceeds from special events	<u><u>\$ 1,781,281</u></u>	<u><u>\$ 1,625,307</u></u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

13. Donated Nonfinancial Assets

The Organizations received the following nonfinancial assets, including services, during the years ended August 30:

	2022	2021
Auction items	\$ 64,736	\$ 95,996
Goods	76,456	79,205
Supplies	<u>10,582</u>	<u>8,540</u>
	151,774	183,741
Advertising	216,892	290,181
Program services	13,327	21,465
Legal services	6,472	10,043
IT services	57,437	-
Other professional services	<u>36,613</u>	<u>24,325</u>
	<u>\$ 482,515</u>	<u>\$ 529,755</u>

Friends of the Children - Portland receives items to be sold at its fundraising auction. Donated auction items are valued at the gross selling price received during the auction.

All remaining donated assets and services were utilized in the Organizations' program and supporting services activities. There were no donor-imposed restrictions associated with the donated assets or services.

14. Friends of the Children - Southwest Washington

During 2020, the level of funding needed to support a separate chapter to operate in Southwest Washington was reached. The new chapter is Friends of the Children - Southwest Washington (Friends - SWWA). During 2020, Friends - Portland determined that restricted contributions previously received (and included in net assets with donor restrictions) of \$439,787 for work in SW Washington had been received. This amount was transferred to Friends - SWWA during 2020. Furthermore, Friends - Portland determined any new amounts received for SW Washington would be accounted for as agency transactions and not reflected on Friends - Portland's consolidated statement of activities. At August 31, 2022, all remaining funds have been transferred to Friends - SWWA.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

15. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organizations to concentrations of risk consist primarily of cash and cash equivalents, investments, and receivables. The Organizations typically maintain balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation (FDIC) limits. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such changes could materially affect account balances and the amounts reported in the consolidated statement of financial position. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2022, approximately 89 percent of gross contributions receivable was due from three donors, and for the year ended August 31, 2022, 63 percent of contribution revenue was provided by one donor.

16. Friends of the Children - Portland Foundation

In 2004, the Foundation was established to ensure the long-term sustainability of the Friends - Portland program. The Foundation was organized to be exempt from income tax under Section 501(c)(3) of the IRC and similar state provisions. The Foundation raises private donations, manages investments, and manages a scholarship program for Friends - Portland. Although the Foundation is organized as a support organization for Friends - Portland, there is not a controlling financial interest sufficient to require consolidated financial statements.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

16. Friends of the Children - Portland Foundation - Continued

Summarized unaudited financial information for the Foundation as of and for the years ended August 31, is as follows:

	2022	2021
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 892,264	\$ 519,656
Contribution receivable	50,000	25,000
<i>Investments:</i>		
Investments - general	5,603,802	7,078,994
Investments held on behalf of Friends of the Children - Portland and Youth Resources, Inc.	<u>147,435</u>	<u>165,479</u>
<i>Total assets</i>	<u><u>\$ 6,693,501</u></u>	<u><u>\$ 7,789,129</u></u>
<i>Liabilities and net assets:</i>		
Due to Friends of the Children - Portland	\$ 83,846	\$ 51,706
Funds held on behalf of Friends of the Children - Portland	147,435	165,479
Net assets without donor restrictions	<u>6,462,220</u>	<u>7,571,944</u>
<i>Total liabilities and net assets without donor restrictions</i>	<u><u>\$ 6,693,501</u></u>	<u><u>\$ 7,789,129</u></u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

16. Friends of the Children - Portland Foundation - Continued

	2022	2021
Activities:		
<i>Support, revenue, and other increases</i>		
<i>in net assets:</i>		
Contributions	\$ 50,000	\$ 25,357
Transfer from Friends of the Children - Portland	-	337,568
Net investment return (loss)	<u>(810,602)</u>	<u>1,222,520</u>
<i>Total support, revenue, and other increases (decreases) in net assets</i>	(760,602)	1,585,445
<i>Expenses:</i>		
Contribution to Friends of the Children - Portland	268,432	158,828
Outside services	66,153	43,042
Professional fees	11,236	9,895
Insurance expense	<u>3,301</u>	<u>3,076</u>
<i>Total expenses</i>	<u>349,122</u>	<u>214,841</u>
<i>Increase (decrease) in net assets without donor restrictions</i>	<u><u>\$ (1,109,724)</u></u>	<u><u>\$ 1,370,604</u></u>

17. Lease Commitments

The Organizations have entered into various leases and service contracts expiring through September 2025. Lease expense for the year ended August 31, 2022, was \$4,931. Minimum payments remaining under the non-cancelable operating leases are as follows at August 31, 2022:

Years Ending August 31,	Amount
2023	\$ 69,210
2024	3,984
2025	3,984
2026	<u>332</u>
	<u><u>\$ 77,510</u></u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

18. Fair Value Measurements

GAAP establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1:* Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments that would generally be included in Level 1 include listed securities.
- Level 2:* Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. Investments generally included in this category include corporate bonds and loans.
- Level 3:* Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, and hedge funds.

Fair values of equity securities, mutual funds, and money market funds have all been determined by reference to quoted prices in active markets as provided by the investment custodian.

Fair values of non-government and foreign fixed income securities have been provided by the investment custodian based on pricing for debt instruments with like characteristics, including interest rate, term, and fair values.

Fair value of beneficial interest in assets held by the Foundation is measured by reference to quoted prices as provided by the Foundation's investment broker.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

18. Fair Value Measurements - Continued

The Organization's assets are measured at fair value on a recurring basis including how fair value was determined as of August 31, 2022:

	Level 1	Level 2	Total
Equity securities:			
Common stock:			
Materials	\$ 113,411	\$ -	\$ 113,411
Industrials	282,490	-	282,490
Telecommunication services	228,148	-	228,148
Consumer discretionary	336,045	-	336,045
Consumer staples	95,230	-	95,230
Energy	133,888	-	133,888
Financials	428,205	-	428,205
Health care	367,844	-	367,844
Information technology	626,180	-	626,180
Utilities	63,891	-	63,891
Real estate	26,421	-	26,421
Equity mutual funds:			
Small cap	127,026	-	127,026
Mid cap	890,075	-	890,075
Large cap	324,556	-	324,556
International	569,339	-	569,339
Total equity securities	4,612,749	-	4,612,749
Fixed income securities:			
Nongovernment obligations	-	385,570	385,570
Foreign obligations	-	47,362	47,362
Corporate and government funds	1,278,896	-	1,278,896
Treasury and federal agencies	145,298	-	145,298
Total fixed income securities	1,424,194	432,932	1,857,126
Real estate income fund	730,489	-	730,489
Money market funds	607,196	-	607,196
Beneficial interest in assets held by Friends of the Children - Portland Foundation	138,589	8,846	147,435
	<u>\$ 7,513,217</u>	<u>\$ 441,778</u>	<u>\$ 7,954,995</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

19. Endowment Funds

Financial accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law

The Board of the Organizations have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organizations classify as original principal: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of accumulated earnings is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organizations in a manner consistent with the standard of prudence prescribed by UPMIFA.

Investment Strategy and Spending Policy

The Fast Friends Scholarship provides funding for scholarships for students who have completed the Friends - Portland program and are continuing their education in a traditional four-year college, community college, or a trade or vocational school. A portion of the endowment assets are held with the Foundation and are subject to the Foundation's investment policies. A formal spending policy has not been established.

Friends - National's permanent endowment was established to provide funding for continued operations of Friends - National. The primary objective of the Friends - National investment policy for endowments is capital preservation as adjusted to reflect the rate of inflation. To accomplish Friends - National's objective, the assets are invested in a mixture of equity securities, fixed income securities, and money market and cash funds.

The spending policy calculates the amount of money annually distributed to Friends - National for operating expenses. The current spending policy distributes quarterly payments that are equal to 1.25 percent of the net asset value of the funds at the measurement value. The measurement value is determined to be the average of the net asset value on the last 10 business days of the third quarter ending on May 31st of the preceding fiscal year.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

19. Endowment Funds - Continued

The Organizations' endowment funds are composed entirely of funds arising from donor restrictions. Endowment net assets are held in the following assets as of August 31, 2022:

	Accumulated Investment Earnings	Original Principal	Total
Friends - Portland:			
Beneficial interest in assets held by Friends of the Children - Portland Foundation	\$ 81,828	\$ 52,024	\$ 133,852
Included in restricted cash	-	1,000	1,000
Friends - National program operations:			
Included in investments	475,236	6,841,370	7,316,606
Note receivable	135,825	-	135,825
	<u>\$ 692,889</u>	<u>\$ 6,894,394</u>	<u>\$ 7,587,283</u>

Changes in endowment net assets for the year ended August 31, 2022, are as follows:

	Accumulated Investment Earnings	Original Principal	Total
Endowment net assets, beginning of year	\$ 1,650,842	\$ 6,693,894	\$ 8,344,736
Net investment return	(956,772)	-	(956,772)
Contributions	-	200,500	200,500
Net distributions	(1,181)	-	(1,181)
Endowment net assets, end of year	<u>\$ 692,889</u>	<u>\$ 6,894,394</u>	<u>\$ 7,587,283</u>

20. Joint Costs of Activities that Include Fundraising

Friends - National received donated billboard advertising for National Foster Care month and National Mentoring month in multiple locations across the country. The billboards include a reference to the Friends website, which provides guidance on foster care and mentoring, brings awareness to foster care and mentoring programs, and includes an opportunity to donate. These costs total \$216,892 and have been allocated \$210,385 to affiliate services and \$6,507 to fundraising in the accompanying consolidated statement of functional expenses.

FRIENDS OF THE CHILDREN

Consolidating and Supplementary Financial Information

FRIENDS OF THE CHILDREN

Consolidating Schedule of Financial Position

August 31, 2022

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 24,960,536	\$ 9,444,651	\$ -	\$ 34,405,187
Investments	7,944,619	-	-	7,944,619
Receivables - net	3,891,172	1,065,708	(47,044)	4,909,836
Employee retention credit receivable	-	1,830,960	-	1,830,960
Prepaid expenses	46,115	98,336	-	144,451
Beneficial interest in assets held by Friends of the Children - Portland Foundation	-	147,435	-	147,435
Property and equipment - net	77,145	3,845,188	-	3,922,333
Restricted cash	-	1,000	-	1,000
Total assets	\$ 36,919,587	\$ 16,433,278	\$ (47,044)	\$ 53,305,821
Liabilities:				
Accounts payable and accrued liabilities	\$ 674,001	\$ 470,246	\$ (47,044)	\$ 1,097,203
Grants and contributions payable	3,242,430	-	-	3,242,430
Refundable advances	225,200	-	-	225,200
Total liabilities	4,141,631	470,246	(47,044)	4,564,833
Net assets:				
Without donor restrictions	18,500,578	15,240,232	-	33,740,810
With donor restrictions	14,277,378	722,800	-	15,000,178
Total net assets	32,777,956	15,963,032	-	48,740,988
Total liabilities and net assets	\$ 36,919,587	\$ 16,433,278	\$ (47,044)	\$ 53,305,821

FRIENDS OF THE CHILDREN
Consolidating Schedule of Activities

Year Ended August 31, 2022

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Public support and revenue:				
Contributions	\$ 26,145,735	\$ 10,035,874	\$ (43,833)	\$ 36,137,776
Grants and contracts	1,354,876	1,546,074	(125,418)	2,775,532
Special events - net	-	1,781,281	-	1,781,281
Loss on uncollectible contributions receivable	-	(139,747)	-	(139,747)
Donated nonfinancial assets	216,892	265,623	-	482,515
Chapter affiliation fees	586,895	-	(44,300)	542,595
Chapter support revenue	1,375,752	-	(2,410)	1,373,342
Rental income	-	36,000	(36,000)	-
Employee retention credit revenue	-	1,830,960	-	1,830,960
Other revenue	6,228	2,000	-	8,228
Total public support and revenue	29,686,378	15,358,065	(251,961)	44,792,482
Expenses:				
Program services:				
Affiliate services	11,074,401	-	(200,857)	10,873,544
Friends - Portland	-	5,139,300	(44,300)	5,095,000
Total program services	11,074,401	5,139,300	(245,157)	15,968,544
Administrative	621,074	1,098,034	(3,309)	1,715,799
Fundraising	243,149	914,439	(3,495)	1,154,093
Total expenses	11,938,624	7,151,773	(251,961)	18,838,436
Increase in net assets before investment activity	17,747,754	8,206,292	-	25,954,046
Investment activity:				
Net investment return (loss)	(881,119)	1,146	-	(879,973)
Net decrease in beneficial interest in assets held by Friends of the Children - Portland Foundation	-	(18,044)	-	(18,044)
Net investment activity	(881,119)	(16,898)	-	(898,017)
Increase in net assets	16,866,635	8,189,394	-	25,056,029
Net assets, beginning of year	15,911,321	7,773,638	-	23,684,959
Net assets, end of year	\$ 32,777,956	\$ 15,963,032	\$ -	\$ 48,740,988

FRIENDS OF THE CHILDREN - NATIONAL

Schedules of Financial Position - National

August 31,	2022	2021
Assets:		
Cash and cash equivalents	\$ 24,960,536	\$ 6,546,173
Investments	7,944,619	8,683,348
Receivables - net	3,891,172	2,477,919
Prepaid expenses	46,115	24,928
Property and equipment - net	<u>77,145</u>	<u>119,996</u>
Total assets	<u>\$ 36,919,587</u>	<u>\$ 17,852,364</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 674,001	\$ 203,201
Grants and contributions payable	3,242,430	1,074,509
Refundable advances	<u>225,200</u>	<u>663,333</u>
Total liabilities	4,141,631	1,941,043
Net assets:		
Without donor restrictions		
Board designated	10,000,000	-
Undesignated	8,500,578	4,102,973
With donor restrictions	<u>14,277,378</u>	<u>11,808,348</u>
Total net assets	<u>32,777,956</u>	<u>15,911,321</u>
Total liabilities and net assets	<u>\$ 36,919,587</u>	<u>\$ 17,852,364</u>

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Activities - National

Year Ended August 31, 2022 *(With Comparative Totals for 2021)*

	Without Donor Restrictions			With Donor Restrictions	Total	
	Undesignated	Designated	Total		2022	2021
Public support and revenue:						
Contributions	\$ 19,829,169	\$ -	\$ 19,829,169	\$ 6,316,566	\$ 26,145,735	\$ 8,759,072
Grants and contracts	1,354,876	-	1,354,876	-	1,354,876	1,730,308
Donated nonfinancial assets	216,892	-	216,892	-	216,892	290,181
Chapter affiliation fees	586,895	-	586,895	-	586,895	431,300
Chapter support revenue	1,375,752	-	1,375,752	-	1,375,752	1,137,878
Paycheck Protection Program proceeds	-	-	-	-	-	462,520
Loss on disposal of assets	-	-	-	-	-	(695)
Other revenue	6,228	-	6,228	-	6,228	-
Board designation of funds	(10,000,000)	10,000,000	-	-	-	-
Net assets released from restrictions	2,908,807	-	2,908,807	(2,908,807)	-	-
Total public support and revenue	16,278,619	10,000,000	26,278,619	3,407,759	29,686,378	12,810,564
Expenses:						
Program services	11,074,401	-	11,074,401	-	11,074,401	8,042,595
Administrative	621,074	-	621,074	-	621,074	404,493
Fundraising	243,149	-	243,149	-	243,149	191,957
Total expenses	11,938,624	-	11,938,624	-	11,938,624	8,639,045
Increase in net assets before investment activity	4,339,995	10,000,000	14,339,995	3,407,759	17,747,754	4,171,519
Net investment return (loss)	57,610	-	57,610	(938,729)	(881,119)	1,419,672
Increase in net assets	4,397,605	10,000,000	14,397,605	2,469,030	16,866,635	5,591,191
Net assets, beginning of year	4,102,973	-	4,102,973	11,808,348	15,911,321	10,320,130
Net assets, end of year	\$ 8,500,578	\$ 10,000,000	\$ 18,500,578	\$ 14,277,378	\$ 32,777,956	\$ 15,911,321

FRIENDS OF THE CHILDREN - NATIONAL

Single Audit Reports

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2022

Federal Grantor/Program	Federal Assistance Listing Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Justice:			
Office of Juvenile Justice and Delinquency Prevention:			
Direct program:			
Juvenile Mentoring Program	16.726	<u>\$ 1,050,422</u>	<u>\$ 1,354,876</u>
Total U.S. Department of Justice and Expenditures of Federal Awards		<u>\$ 1,050,422</u>	<u>\$ 1,354,876</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

FRIENDS OF THE CHILDREN - NATIONAL

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes all federal grant activity of Friends of the Children - National and is presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in the SEFA is presented in accordance with the requirements of Title 2 of U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Because the SEFA presents only a selected portion of the operations of Friends of the Children - National, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Friends of the Children - National.

2. Expenditures

Expenditures reported on the SEFA are recognized following the cost principles in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Friends of the Children - National has elected to use the 10 percent de minimis indirect cost rate.

**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Consolidated Financial Statements Performed in Accordance
with *Government Auditing Standards***

The Board of Directors
Friends of the Children - National

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Friends of the Children (Friends - National), Friends of the Children - Portland (Friends - Portland), and Youth Resources, Inc., which comprise the consolidated statement of financial position as of August 31, 2022, 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, and have issued our report thereon dated January 24, 2023. The financial statements of Friends - Portland and Youth Resources, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with Friends - Portland and Youth Resources, Inc.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Friends - National's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Friends - National's internal control. Accordingly, we do not express an opinion on the effectiveness of Friends - National's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Friends - National's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting - Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Friends - National's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Friends - National's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Friends - National's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
January 24, 2023

**Independent Auditors' Report on Compliance for Each
Major Federal Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

The Board of Directors
Friends of the Children - National

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Friends of the Children - National's (Friends - National) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Friends - National's major federal program for the year ended August 31, 2022. Friends - National's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Friends - National complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on its major federal program for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance Section of our report.

We are required to be independent of Friends - National and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for Friends - National's major federal program. Our audit does not provide a legal determination of Friends - National's compliance with the compliance requirements referred to above.

Responsibility of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Friends - National's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Friends - National's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Friends - National's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Friends - National's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Friends - National's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Friends - National's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Herman, Stewart & Schmitz, P.C.

Lake Oswego, Oregon
January 24, 2023

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Findings and Questioned Costs

Year Ended August 31, 2022

Section 1 - Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to consolidated financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of Major Program

Assistance Listing Number

Name of Federal Program or Cluster

16.726

Juvenile Mentoring Program

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Findings and Questioned Costs - Continued

Year Ended August 31, 2022

Section 2 - Consolidated Financial Statement Findings

There were no current year consolidated financial statement findings.

Section 3 - Federal Award Findings and Questioned Costs

There were no current year federal award findings or questioned costs.

FRIENDS OF THE CHILDREN - NATIONAL

Summary Schedule of Prior Audit Findings

Year Ended August 31, 2022

No findings were reported in the prior year.