



CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2023

and

Consolidating Information

with

Independent Auditors' Report

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	9
Consolidating Information	
Consolidating Schedule of Financial Position	28
Consolidating Schedule of Activities	29

Independent Auditors' Report

The Board of Directors
Friends of the Children - Portland

Opinion

We have audited the accompanying consolidated financial statements of Friends of the Children-Portland and Youth Resources, Inc. (the Organizations), which comprise the consolidated statement of financial position as of August 31, 2023, 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 - Portland and Youth Resources, Inc. as of August 31, 2023, and the changes in its consolidated net assets and its 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. 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 - Portland and Youth Resources, Inc. 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.

Change in Accounting Principle

As discussed in *Note 2* to the financial statements, the Organizations have adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 doubts about Friends of the Children - Portland and Youth Resources, Inc.'s 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 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 financial statements.

In performing an audit in accordance with generally accepted 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 including examining, on a test basis, evidence regarding the amounts and disclosures in the 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 - Portland and Youth Resources, Inc.'s 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 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 - Portland and Youth Resources, Inc.'s 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.

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 information on pages 28 and 29 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. Such 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 the Organization's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 24, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Herman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
January 18, 2024

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2023 (With Comparative Amounts for 2022)	2023	2022
ASSETS		
Cash and cash equivalents	\$ 6,088,633	\$ 9,444,651
Receivables, net (Notes 5 and 15)	823,128	1,065,708
Employee retention credit receivable (Note 11)	665,129	1,830,960
Prepaid expenses	184,565	98,336
Beneficial interest in assets held by Friends of the Children - Portland Foundation (Notes 14, 17, and 18)	125,849	147,435
Investments (Note 17)	2,874,247	-
Right of use asset (Note 9)	7,803	-
Property and equipment, net (Note 6)	3,761,232	3,845,188
Restricted cash	-	1,000
Total assets	\$ 14,530,586	\$ 16,433,278
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 535,090	\$ 470,246
Operating lease liability (Note 9)	8,193	-
Refundable advances	174,724	-
Total liabilities	718,007	470,246
Net assets:		
Without donor restrictions:		
Net investment in property and equipment	3,761,232	3,845,188
Board designated	6,379,584	8,708,831
Undesignated	3,011,911	2,686,213
Total net assets without donor restrictions	13,152,727	15,240,232
Net assets with donor restrictions (Notes 7 and 18)	659,852	722,800
Total net assets	13,812,579	15,963,032
Total liabilities and net assets	\$ 14,530,586	\$ 16,433,278

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Activities

Year Ended August 31, 2023 (With Comparative Amounts for 2022)

	Without Donor Restrictions			With Donor Restrictions	Total	
	Undesignated	Designated	Total		2023	2022
Public support and revenue:						
Contributions	\$ 1,779,590	\$ -	\$ 1,779,590	\$ 542,862	\$ 2,322,452	\$ 10,035,874
Grant income	1,771,985	-	1,771,985	4,249	1,776,234	1,546,074
Special events, net (Note 12)	1,979,547	-	1,979,547	7,750	1,987,297	1,781,281
Employee retention credit revenue (Note 11)	-	-	-	-	-	1,830,960
Loss on uncollectible contributions receivable	-	-	-	-	-	(139,747)
Donated non-financial assets and services (Note 13)	270,834	-	270,834	-	270,834	265,623
Rental income (Note 15)	28,800	-	28,800	-	28,800	36,000
Other revenue	3,584	-	3,584	-	3,584	2,000
Loss on disposal of property	(742)	-	(742)	-	(742)	-
Released from designation or restriction (Note 7)	3,037,430	(2,412,708)	624,722	(624,722)	-	-
Net public support and revenue	8,871,028	(2,412,708)	6,458,320	(69,861)	6,388,459	15,358,065
Expenses:						
Program services	6,526,526	-	6,526,526	-	6,526,526	5,139,300
Administrative	1,118,647	-	1,118,647	-	1,118,647	1,098,034
Development	1,005,222	-	1,005,222	-	1,005,222	914,439
Total expenses	8,650,395	-	8,650,395	-	8,650,395	7,151,773
Change in net assets before investment activity	220,633	(2,412,708)	(2,192,075)	(69,861)	(2,261,936)	8,206,292
Investment activity:						
Investment income	21,108	83,461	104,569	-	104,569	1,146
Change in interest in assets held by Friends - Portland Foundation	-	-	-	6,914	6,914	(18,044)
Net investment activity	21,108	83,461	104,569	6,914	111,483	(16,898)
Change in net assets	241,741	(2,329,247)	(2,087,506)	(62,947)	(2,150,453)	8,189,394
Net assets, beginning of year	6,531,401	8,708,831	15,240,232	722,800	15,963,032	7,773,638
Net assets, end of year	\$ 6,773,142	\$ 6,379,584	\$ 13,152,726	\$ 659,853	\$ 13,812,579	\$ 15,963,032

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Functional Expenses

Year Ended August 31, 2023 (With Comparative Amounts for 2022)

	Program Services	Administrative	Development	Total	
				2023	2022
Salaries and wages	\$ 4,056,321	\$ 634,800	\$ 655,888	\$ 5,347,009	\$ 4,200,168
Payroll taxes and benefits	923,212	131,228	111,027	1,165,467	984,645
Children's activities	212,249	-	-	212,249	152,324
Friend transportation	172,883	-	-	172,883	138,514
Friend communication	23,600	-	-	23,600	21,825
Scholarships	40,264	-	-	40,264	3,680
Grants	-	-	-	-	39,875
Donated gifts for children and families	169,184	-	-	169,184	133,800
Travel and meetings	11,935	11,885	1,942	25,762	20,788
Outreach and donor development	9,561	1,990	6,370	17,921	9,103
Staff development	64,980	46,023	8,982	119,985	154,846
Repairs and maintenance	126,285	12,725	10,596	149,606	142,618
Supplies	23,686	6,598	4,227	34,511	19,004
Payroll and banking fees	10,966	3,910	8,625	23,501	27,324
Business Insurance	35,654	3,817	3,523	42,994	42,110
Utilities	55,075	4,970	4,588	64,633	53,014
Information technology	178,904	52,131	69,526	300,561	258,499
Professional fees	188,826	191,470	64,039	444,335	446,414
Chapter affiliation fees	44,925	-	-	44,925	44,300
Postage and printing	2,215	823	27,888	30,926	32,747
Bad debt expense	-	-	12,977	12,977	-
Depreciation	175,801	16,277	15,024	207,102	226,175
	\$ 6,526,526	\$ 1,118,647	\$ 1,005,222	\$ 8,650,395	\$ 7,151,773

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Cash Flows

Year Ended August 31, 2023 <i>(With Comparative Amounts for 2022)</i>	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (2,150,453)	\$ 8,189,394
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	(500)	(500)
Depreciation	207,102	226,175
Change in interest in assets held by Friends - Portland Foundation	(6,914)	18,044
Net change in operating right of use asset and liability	390	-
Loss on disposal of property	742	-
Net change in:		
Receivables	242,580	197,218
Employee retention credit receivable	1,165,831	(1,830,960)
Prepaid expenses	(86,229)	43,465
Accounts payable and accrued liabilities	64,844	56,811
Refundable advances	174,724	-
Due to Friends of the Children - Southwest Washington	-	(2,626)
Net cash provided (used) by operating activities	(387,883)	6,897,021
Cash flows from investing activities:		
Purchase of property and equipment	(123,888)	(124,231)
Purchase of investments	(2,845,747)	-
Net cash used by investing activities	(2,969,635)	(124,231)
Cash flows from financing activities:		
Proceeds from contributions to permanent endowment	500	500
Net cash provided by financing activities	500	500
Net increase (decrease) in cash and cash equivalents and restricted cash (carried forward)	(3,357,018)	6,773,290

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Cash Flows - Continued

Year Ended August 31, 2023 <i>(With Comparative Amounts for 2022)</i>	2023	2022
Net increase (decrease) in cash and cash equivalents and restricted cash (brought forward)	\$ (3,357,018)	\$ 6,773,290
Cash and cash equivalents and restricted cash, beginning of year	9,445,651	2,672,361
Cash and cash equivalents and restricted cash, end of year	\$ 6,088,633	\$ 9,445,651
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 6,088,633	\$ 9,444,651
Restricted cash	-	1,000
	\$ 6,088,633	\$ 9,445,651

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements

1. Nature of Activities

Friends of the Children - Portland (Friends - Portland) commits to standing alongside our community's youth as they work to overcome barriers to their success. Each child receives 1:1 support and guidance from a salaried, professional mentor (called a Friend), from kindergarten through high school graduation - 12½ years, no matter what. Friends work collaboratively with high-priority youth and their caregivers to set and achieve individualized goals, as well as advocate for them in the school, child welfare, healthcare, and other systems that impact them.

Youth in the Friends program face considerable challenges, including placement in the foster care system, under-resourced neighborhood schools, homelessness, hunger, and disparities in access to, and quality of, health care. Despite these barriers, program youth enter adulthood with a strong foundation for continuing achievement: 83 percent graduate high school or earn a GED; 93 percent avoid the juvenile justice system; and 98 percent avoid teen parenting.

Youth Resources, Inc. provides a safe, positive space in which children involved in the Friends - Portland program can play and participate in educational and social programs.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by Friends - Portland and its wholly controlled subsidiary, Youth Resources, Inc. (collectively the Organizations) 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 the Organizations. All inter-company balances and transactions have been eliminated in consolidation.

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.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

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 donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions (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.

Basis of Accounting - The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, gains and other support, 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, determination of any required allowance for potentially uncollectible receivables, and 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. There was no restricted cash at August 31, 2023.

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 statement of activities.

Beneficial Interest in Assets Held by Friends of the Children - Portland Foundation (the Foundation) - Friends - Portland has an interest in certain assets invested by the Foundation (*Note 14*). At August 31, 2023, the balance of this beneficial interest was \$125,849.

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.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

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.

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. Receipts of conditional contributions prior to satisfaction of the related conditions are recorded as refundable advances on the statement of financial position. At August 31, 2023, the Organizations had an outstanding conditional grant of \$78,000 which will be recorded when matching contributions are raised. 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.

Grant income - The Organizations' grant income includes amounts derived from Friends of the Children - National (Friends - National) and a local government grant 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 Organization has satisfied the related barrier. At August 31, 2023, the Organization had remaining available award balances on local government grants of approximately \$2,027,000. These award balances will be recognized as revenue when the related barriers are satisfied.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Support from Friends of the Children - Portland Foundation (*Note 14*) of \$173,694 and \$268,432 for the years ended August 31, 2023 and 2022, respectively, is discretionary each year and approved by the Foundation 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.

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

Supplies and other goods used in operations - Typically gift cards, auction items, 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.

Contributed services - The Organizations receive contributed services from a small number of 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, 2023, totaled \$94,095 and consisted of professional fees valued at rates typically charged by the donors.

Functional Allocation of Expenses - The cost of providing the various programs and other activities of the Organizations have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated to more than one program or supporting service function include the following:

- Salaries and related costs are allocated based on time and effort.
- Occupancy costs, including depreciation, as well as information technology, supplies, and all-staff training, are allocated based on headcount.

Major Contribution - Friends - Portland's contributions for the year ended August 31, 2022 included a one-time, non-repeatable gift of \$7.7 million.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Income Tax Status - Income taxes are not provided for in the consolidated financial statements since the Organizations are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar state provisions. The Organizations are not classified as private foundations.

GAAP prescribes a recognition threshold and measurement process for uncertain tax positions and also 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 file 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.

Summarized Financial Information for 2022 - 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, 2022, from which the summarized information was derived.

Adoption of New Accounting Standard - Effective September 1, 2022, the Organizations adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires a lessee to record a right-of-use (ROU) asset and a lease liability for all leases with an initial term greater than 12 months. Leases are classified as either financing or operating, with classifications affecting the recognition, measurement, and presentation of expenses and cash flows.

Upon adoption of the new guidance, the Organizations elected to apply several practical expedients, including: (1) not reassessing existing contracts to determine whether they are or contain a lease; (2) not reassessing existing leases to determine whether they are an operating or financing lease; and (3) not reassessing any initial direct costs for existing leases.

The Organizations adopted ASU 2016-02 using the modified retrospective approach, which resulted in the recognition of an operating ROU asset(s) of \$11,699 (net of 3 months of free rent) and associated operating lease liability of \$12,284 as of September 1, 2022.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

3. Program and Supporting Services

Program Services - Program activities include costs of day-to-day activities with high-priority youth, sustaining the children's relationships with adult role models, and helping them become productive members of the community.

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

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

4. Liquidity and Availability of Resources

The Organizations' financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, consist of the following at August 31:

	2023	2022
Cash and cash equivalents and restricted cash	\$ 6,088,633	\$ 9,445,651
Receivables due within one year	1,348,757	2,868,941
Investments	2,874,247	-
Beneficial interest in assets held by Friends of the Children - Portland Foundation	125,849	147,435
	10,437,486	12,462,027
Less amounts not available to be used for operations within one year:		
Net assets with temporary donor restrictions	139,500	587,948
Board designated net assets	5,237,731	8,708,831
Principal portion of endowment	53,524	53,024
	<u>\$ 5,006,731</u>	<u>\$ 3,112,224</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.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Receivables

Receivables consisted of the following at August 31:

	2023	2022
Pledges due within one year	\$ 446,430	\$ 518,442
Grants receivable	183,151	392,984
Receivable from Friends of the Children - Portland Foundation	200	83,846
Receivable from Friends of the Children - National	61,823	15,016
Other receivables	<u>25,448</u>	<u>27,693</u>
Receivables due in less than one year	717,052	1,037,981
Pledges due in one to five years	139,500	33,333
Discount to present value (6.25 percent rate used)	(17,979)	(3,137)
Allowance for doubtful accounts	<u>(15,445)</u>	<u>(2,469)</u>
Net receivables	<u>\$ 823,128</u>	<u>\$ 1,065,708</u>

^These are related parties.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

6. Property and Equipment

A summary of property and equipment at August 31 is as follows:

	2023	2022
Computer equipment	\$ 358,925	\$ 415,034
Office equipment and furniture	278,702	281,503
Vehicles	149,684	88,901
Building and improvements	4,766,553	4,776,091
Construction in progress	1,248	15,279
Land	100,000	100,000
	<hr/> 5,655,112	<hr/> 5,676,808
Less: accumulated depreciation	<hr/> (1,893,880)	<hr/> (1,831,620)
Net property and equipment	<hr/> <u>\$ 3,761,232</u>	<hr/> <u>\$ 3,845,188</u>

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. The lease commenced during 2014.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

7. Net Assets with Donor Restrictions

Net assets with donor restrictions at August 31, 2023, are available for the following purposes:

Scholarships (<i>Note 18</i>)	\$	68,478
Technology education		15,742
Other program support		64,168
Restricted for future periods		457,940
Endowment principal (<i>Note 18</i>)		53,524
		<hr/>
	\$	659,852
		<hr/>

During the year ended August 31, 2023, the Organizations released \$684,223 of net assets from donor restrictions due to the incurrence of expenses in satisfaction of the restricted purposes, or by the occurrence of other events stipulated by the donors.

8. Board Designated Net Assets

Friends - Portland held board designated net assets of \$6,379,584 and \$8,708,831 as of August 31, 2023, and 2022, respectively. The August 31, 2023, balance is comprised of two separate pools; the Impact Fund (\$6,277,714) for general operating use pending board approval, and the Duncan's Woods Fund (\$101,870) for summer camp scholarships.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

9. Leases

The Organizations determine if an arrangement is a lease or a service contract at inception. A contract is determined to be or contain a lease if the contract conveys the right to control the use of an identified asset in exchange for consideration. When an arrangement is a lease, the Organizations determine whether it is an operating or a finance lease.

Leases result in recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term. Lease liabilities represent the obligation to make lease payments, measured on a discounted basis. At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability, adjusted for any direct costs, prepaid or deferred rent, and lease incentives. The Organizations have elected not to separate components from non-lease components, and to apply the short-term lease exception, which does not require the capitalization of leases with a term of 12 months or less. Short-term leases are recognized as expense on a straight-line basis over the term of the lease. Variable lease payments, if any, are recognized as expense in the period in which the obligation for payment is incurred. The Organizations consider any options to extend or terminate a lease when determining the lease term, and only options that the Organizations believe are reasonably certain to be exercised are included in the measurement of the ROU assets and lease liabilities.

Friends - Portland leases its equipment under operating leases with 5 year initial terms. Some leases may include renewal options which can extend the lease term. The exercise of these renewal options are generally at the discretion of the Friends - Portland, and only lease options that Friends - Portland believes are reasonably certain to be exercised are included in the measurement of the lease assets and liabilities. The lease agreements do not include any residual value guarantees or restrictive covenants. Friends - Portland has elected to use the risk-free rate of return as the discount rate as neither the rate implicit in the lease nor Friends - Portland's incremental borrowing rate are readily available.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

9. Leases - Continued

The following summarizes the line items in the statement of financial position which include amounts for operating leases at August 31, 2023:

Operating right-of-use assets	\$ 7,803
Operating lease liabilities	\$ 8,193

Lease expense was composed of the following at August 31, 2023:

Operating lease expense	\$ 3,984
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The following summarizes the cash flow information related to operating leases for the year ended August 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities for operating leases included in operating cash flows	\$ 3,984
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 11,699

Weighted average lease term and discount rate were as follows at August 31, 2023:

Weighted-average remaining lease term (in years) for operating leases	2.1
Weighted-average discount rate for operating leases	0.65%

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

9. Leases - Continued

The maturities of operating lease liabilities were as follows at August 31, 2023:

Years Ending August 31,	Amount
2024	\$ 3,984
2025	3,984
2026	332
	<hr/> 8,300
Less present value discount	<hr/> (107)
Operating lease liabilities	<hr/> \$ 8,193

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. Employer retirement expense totaled \$108,260 and \$79,122 for the years ended August 31, 2023 and 2022, respectively.

11. Government Funding in Response to COVID-19

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted in response to the COVID-19 pandemic. This act, among other things, provides 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 December 30, 2021.

The Organization has analogized to guidance provided by the Account Standards Codification 958-605: *Not-for-Profit Entities - Revenue Recognition*. As such, ERC totaling \$1,830,960 was 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. As of August 31, 2023, \$665,129 of the ERC had not yet been received and is recorded as an employee retention credit receivable on the consolidated statement of financial position.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

12. Special Events

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

	2023	2022
Gross proceeds from events	\$ 2,227,669	\$ 1,997,514
Less direct costs of events	(240,372)	(216,233)
	<u>\$ 1,987,297</u>	<u>\$ 1,781,281</u>

13. Donated Nonfinancial Assets and Services

Friends - Portland received the following nonfinancial assets and services during the years ended August 31:

	2023	2022
Auction items	\$ 118,019	\$ 64,736
Goods	43,847	76,456
Supplies	14,873	10,582
	<u>176,739</u>	<u>151,774</u>
Program services	26,663	13,327
Legal services	32,410	6,472
IT services	33,505	57,437
Other professional services	1,517	36,613
	<u>\$ 270,834</u>	<u>\$ 265,623</u>

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

All remaining donated assets and services were utilized by Friends - Portland's program and supporting services. There were no donor-imposed restrictions associated with the donated assets or services.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

14. Friends of the Children - Portland Foundation

Friends of the Children - Portland Foundation (the Foundation) was established to ensure the long-term sustainability of the Friends - Portland program. A discretionary transfer of assets is made at year end from Friends - Portland to the Foundation based on a vote by the Board of Directors. Grants from the Foundation to Friends - Portland help to support annual operations. The Foundation raises private donations and manages investments for Friends - Portland, but remains a separate 501(c)(3) organization that does not have a controlling financial interest sufficient to require consolidated financial statements.

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

	2023	2022
Financial position:		
Assets :		
Cash and cash equivalents	\$ 297,625	\$ 892,264
Contributions receivable	50,000	50,000
Investments:		
Investments - general	6,201,067	5,603,802
Investments held on behalf of Friends of the Children - Portland and Youth Resources, Inc.	125,849	147,435
Total assets	<u>\$ 6,674,541</u>	<u>\$ 6,693,501</u>
Liabilities and net assets :		
Due to Friends of the Children - Portland	\$ 200	\$ 83,846
Funds held on behalf of Friends of the Children - Portland	125,849	147,435
Net assets without donor restrictions	<u>6,548,492</u>	<u>6,462,220</u>
Total liabilities and net assets without donor restrictions	<u>\$ 6,674,541</u>	<u>\$ 6,693,501</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

14. Friends of the Children - Portland Foundation - Continued

	2023	2022
Activities:		
Support, revenue, and other changes in net assets:		
Contributions	\$ 51,744	\$ 50,000
Net investment return (loss)	311,091	(810,602)
	<u>362,835</u>	<u>(760,602)</u>
Total public support, revenue, and other changes in net assets	362,835	(760,602)
Expenses :		
Contributions to Friends of the Children - Portland	173,694	268,432
Outside services	85,186	66,153
Professional fees	12,314	11,236
Insurance expense	5,367	3,301
	<u>276,561</u>	<u>349,122</u>
Total expenses	276,561	349,122
Increase (decrease) in net assets without donor restrictions	<u>\$ 86,274</u>	<u>\$ (1,109,724)</u>

15. Transactions with Friends of the Children - National

Friends - National provides Friends of the Children chapters with training, program quality monitoring, data warehousing, operational support, and employee sharing from time to time.

For the year ended August 31, 2023, Friends - National provided Friends - Portland with grant income of \$456,026 and contributions of \$6,000. Friends - Portland also paid chapter affiliation fees of \$23,500, database fees of \$21,425, and grant writing and reporting service fees of \$34,709. At August 31, 2023, there was \$61,823 included in receivables from Friends - National.

During 2022, Friends - Portland signed a memorandum of understanding (MOU) with Friends - National which included a rental agreement expiring May 31, 2024. Total rent Friends - National paid Friends - Portland during 2023 was \$28,800. The future amount to be received from Friends - National under the MOU is \$24,000 for the year ending August 31, 2024.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

16. Financial Instruments with Concentrations of Risk and Concentrations

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 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, 2023, 42 percent of gross receivables was due from three donors.

17. 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.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

17. Fair Value Measurements - Continued

Friends - Portland's assets measured at fair value on a recurring basis along with how fair value was determined, for the year ended August 31, 2023, are as follows:

	Level 1	Level 2	Total
Investments			
Fixed income securities:			
U.S. Government obligations	\$ 2,357,721	\$ -	\$ 2,357,721
Corporate bonds	-	516,526	516,526
Total investments	2,357,721	516,526	2,874,247
Beneficial interest in assets held by Friends of the Children - Portland Foundation	102,405	23,444	125,849
	<u>\$ 2,460,126</u>	<u>\$ 539,970</u>	<u>\$ 3,000,096</u>

Fair value of fixed income securities is measured by reference to quoted prices as provided by the Organizations' investment broker.

18. 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 Directors of Friends - Portland has 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, Friends - Portland classifies as permanently restricted net assets: (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 Friends - Portland in a manner consistent with the standard of prudence prescribed by UPMIFA.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

18. Endowment Funds - Continued

Investment Strategy and Spending Policy

The endowment fund 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. The endowment assets are invested with the Foundation and are subject to the Foundation's investment policies. A formal spending policy has not been established.

Endowment net assets restricted by donors for the endowments are composed of the following types of funds and assets as of August 31, 2023:

	Accumulated Earnings	Original Principal	Total
Beneficial interest in assets held by Friends of the Children - Portland Foundation	<u>\$ 68,478</u>	<u>\$ 53,524</u>	<u>\$ 122,002</u>

Changes in endowment net assets for the year ended August 31, 2023, are as follows:

	Accumulated Earnings	Original Principal	Total
Endowment net assets, beginning of year	\$ 81,828	\$ 53,024	\$ 134,852
Contributions	-	500	500
Net distributions	(20,264)	-	(20,264)
Net investment return of funds held at Friends of the Children - Portland Foundation	<u>6,914</u>	<u>-</u>	<u>6,914</u>
Endowment net assets, end of year	<u>\$ 68,478</u>	<u>\$ 53,524</u>	<u>\$ 122,002</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

19. Subsequent Events

Management has evaluated subsequent events through January 18, 2024, the date the financial statements were available for issue.

During the year ended August 31, 2023, the Boards of Directors of Friends - Portland and Youth Resources, Inc. voted to initiate a process whereby the governance structure of Youth Resources, Inc. would be modified such that the corporate membership of Youth Resources, Inc. will be 50 percent Friends - Portland and 50 percent Friends - National. As of August 31, 2023 this process had not been completed.

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Information

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Financial Position

August 31, 2023

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 5,939,921	\$ 148,712	\$ -	\$ 6,088,633
Receivables, net	823,128	-	-	823,128
Employee retention credit receivable	665,129	-	-	665,129
Prepaid expenses	183,528	1,037	-	184,565
Beneficial interest in assets held by Friends of the Children - Portland Foundation	125,849	-	-	125,849
Investments (Note 17)	2,874,247	-	-	2,874,247
Operating right of use asset	7,803	-	-	7,803
Property and equipment, net	3,269,685	491,547	-	3,761,232
Total assets	\$ 13,889,290	\$ 641,296	\$ -	\$ 14,530,586
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 529,493	\$ 5,597	\$ -	\$ 535,090
Operating lease liability	8,193	-	-	8,193
Refundable advance	174,724	-	-	174,724
Total liabilities	712,410	5,597	-	718,007
Net assets:				
Without donor restrictions	12,517,028	635,699	-	13,152,727
With donor restrictions	659,852	-	-	659,852
Total net assets	13,176,880	635,699	-	13,812,579
Total liabilities and net assets	\$ 13,889,290	\$ 641,296	\$ -	\$ 14,530,586

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2023

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 2,322,452	\$ -	\$ -	\$ 2,322,452
Grant income	1,776,234	-	-	1,776,234
Special events, net	1,987,297	-	-	1,987,297
Donated non-financial assets and services	270,834	-	-	270,834
Other revenue	3,584	-	-	3,584
Loss on disposal of property	(742)	-	-	(742)
Rental income	28,800	180,000	(180,000)	28,800
Total public support and revenue	6,388,459	180,000	(180,000)	6,388,459
Expenses:				
Program services:				
Salaries and related expenses	4,979,533	-	-	4,979,533
Children's expenses	1,360,411	125,099	(135,000)	1,350,510
Friends' expenses	196,483	-	-	196,483
Total program services	6,536,427	125,099	(135,000)	6,526,526
Administrative	1,115,843	26,204	(23,400)	1,118,647
Development	1,006,279	20,543	(21,600)	1,005,222
Total expenses	8,658,549	171,846	(180,000)	8,650,395
Change in net assets before investment activity	(2,270,090)	8,154	-	(2,261,936)
Investment activity:				
Investment income	104,360	209	-	104,569
Net change in beneficial interest in assets held by Friends of the Children - Portland Foundation	6,914	-	-	6,914
Net investment activity	111,274	209	-	111,483
Change in net assets	(2,158,816)	8,363	-	(2,150,453)
Net assets, beginning of year	15,335,696	627,336	-	15,963,032
Net assets, end of year	\$ 13,176,880	\$ 635,699	\$ -	\$ 13,812,579