
FR1ENDS of the
CH1LDREN
Portland

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2017

and

Consolidating Information

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - PORTLAND

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Independent Auditors' Report

The Board of Directors
Friends of the Children - Portland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *Friends of the Children - Portland* and *Youth Resources, Inc.*, which comprise the consolidated statement of financial position as of August 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *Friends of the Children - Portland and Youth Resources, Inc.* as of August 31, 2017, 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.

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 information on pages 18 and 19 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 *Friends of the Children - Portland and Youth Resources Inc.* 's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Heckman, Stewart & Schmiel, P.C.

Lake Oswego, Oregon
December 21, 2017

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

| August 31, 2017 <i>(With Comparative Amounts for 2016)</i> | 2017 | 2016 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,319,643 | 1,646,866 |
| Receivables - net <i>(Note 3)</i> | 828,176 | 1,085,672 |
| Prepaid expenses | 107,523 | 100,633 |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation (Notes 9, 11, and 12)</i> | 44,908 | 423,891 |
| Property and equipment - net <i>(Note 4)</i> | <u>4,255,344</u> | <u>4,390,895</u> |
| Total assets | <u>\$ 7,555,594</u> | <u>\$ 7,647,957</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 248,365 | \$ 297,204 |
| Deferred revenue | 32,600 | - |
| Funds due to <i>Friends of the Children - Portland Foundation (Note 9)</i> | <u>200,000</u> | <u>150,000</u> |
| Total liabilities | 480,965 | 447,204 |
| Commitments <i>(Notes 4 and 13)</i> | | |
| Net assets: | | |
| Unrestricted: | | |
| Net investment in property and equipment | 4,255,344 | 4,390,895 |
| Other undesignated | <u>2,218,218</u> | <u>1,942,705</u> |
| Total unrestricted | 6,473,562 | 6,333,600 |
| Temporarily restricted <i>(Note 5)</i> | 553,543 | 823,629 |
| Permanently restricted <i>(Notes 6 and 12)</i> | <u>47,524</u> | <u>43,524</u> |
| Total net assets | <u>7,074,629</u> | <u>7,200,753</u> |
| Total liabilities and net assets | <u>\$ 7,555,594</u> | <u>\$ 7,647,957</u> |

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Activities

Year Ended August 31, 2017 *(With Comparative Totals for 2016)*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
|--|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| | | | | 2017 | 2016 |
| Public support and revenue: | | | | | |
| Contributions | \$ 1,620,228 | \$ 173,561 | \$ 4,000 | \$ 1,797,789 | \$ 1,856,656 |
| Grants and contracts | 1,571,283 | - | - | 1,571,283 | 1,252,205 |
| Special events - net <i>(Note 8)</i> | 2,489,611 | 89,863 | - | 2,579,474 | 2,098,009 |
| In-kind contributions | 165,866 | - | - | 165,866 | 105,352 |
| Rental income | 17,600 | - | - | 17,600 | 15,663 |
| Miscellaneous income | 1,911 | - | - | 1,911 | 84 |
| Net assets released from restrictions <i>(Note 5)</i> | 536,823 | (536,823) | - | - | - |
| Total public support and revenue | 6,403,322 | (273,399) | 4,000 | 6,133,923 | 5,327,969 |
| Expenses: | | | | | |
| Program services | 4,376,347 | - | - | 4,376,347 | 4,192,954 |
| Administrative | 692,497 | - | - | 692,497 | 479,625 |
| Development | 720,979 | - | - | 720,979 | 674,212 |
| Total expenses | 5,789,823 | - | - | 5,789,823 | 5,346,791 |
| Increase (decrease) in net assets before investment activity | 613,499 | (273,399) | 4,000 | 344,100 | (18,822) |
| Investment activity: | | | | | |
| Interest income | 3,388 | - | - | 3,388 | 2,804 |
| Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation (Note 9)</i> | 23,075 | 3,313 | - | 26,388 | 18,978 |
| Net investment activity | 26,463 | 3,313 | - | 29,776 | 21,782 |
| Transfer to <i>Friends of the Children - Portland Foundation (Note 9)</i> | (500,000) | - | - | (500,000) | (150,000) |
| Increase (decrease) in net assets | 139,962 | (270,086) | 4,000 | (126,124) | (147,040) |
| Net assets, beginning of year | 6,333,600 | 823,629 | 43,524 | 7,200,753 | 7,347,793 |
| Net assets, end of year | \$ 6,473,562 | \$ 553,543 | \$ 47,524 | \$ 7,074,629 | \$ 7,200,753 |

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Functional Expenses

Year Ended August 31, 2017 *(With Comparative Totals for 2016)*

| | Program | | | Total | |
|--|---------------------|-------------------|-------------------|---------------------|---------------------|
| | Services | Administrative | Development | 2017 | 2016 |
| Salaries and related expenses: | | | | | |
| Salaries and wages | \$ 2,540,153 | \$ 506,916 | \$ 510,003 | \$ 3,557,072 | \$ 3,211,343 |
| Payroll taxes and benefits | 603,494 | 104,747 | 108,025 | 816,266 | 718,390 |
| Total salaries and related expenses | 3,143,647 | 611,663 | 618,028 | 4,373,338 | 3,929,733 |
| Children's activities | 204,698 | - | - | 204,698 | 178,379 |
| Friend transportation | 183,642 | - | - | 183,642 | 198,253 |
| Friends' activities | - | - | - | - | 29,440 |
| Friend communication | 29,910 | - | - | 29,910 | 29,545 |
| Scholarships | 32,582 | - | - | 32,582 | 24,759 |
| In-kind gifts for children and families | 157,071 | - | - | 157,071 | 101,880 |
| Travel and meetings | 13,408 | 3,428 | 6,660 | 23,496 | 28,471 |
| Community awareness | 4,680 | 631 | 1,907 | 7,218 | 16,324 |
| Staff development | 43,510 | 17,658 | 11,394 | 72,562 | 67,484 |
| Repairs and maintenance | 87,712 | 7,727 | 7,552 | 102,991 | 99,479 |
| Supplies | 10,677 | 2,220 | 2,519 | 15,416 | 17,322 |
| Payroll and banking fees | 16,899 | 2,975 | 17,723 | 37,597 | 31,724 |
| Business insurance | 38,831 | 6,275 | 6,160 | 51,266 | 49,427 |
| Utilities | 57,974 | 5,503 | 5,256 | 68,733 | 60,146 |
| Information technology | 124,000 | 19,815 | 19,228 | 163,043 | 169,098 |
| Professional fees | 3,671 | 3,156 | 2,903 | 9,730 | 69,933 |
| Chapter affiliation fees | 16,874 | 2,926 | 2,700 | 22,500 | 20,000 |
| Postage and printing | 12,621 | 1,944 | 12,879 | 27,444 | 33,766 |
| Depreciation | 193,940 | 6,576 | 6,070 | 206,586 | 191,628 |
| Total expenses | \$ 4,376,347 | \$ 692,497 | \$ 720,979 | \$ 5,789,823 | \$ 5,346,791 |

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Cash Flows

| Year Ended August 31, 2017 <i>(With Comparative Totals for 2016)</i> | 2017 | 2016 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (126,124) | \$ (147,040) |
| Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities: | | |
| Proceeds from contributions restricted for property acquisition | - | (52,577) |
| Proceeds from contributions to permanent endowment | (4,000) | (2,700) |
| Depreciation | 206,586 | 191,628 |
| Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | (26,388) | (18,978) |
| Transfer to <i>Friends of the Children - Portland Foundation</i> | 500,000 | 150,000 |
| Changes in: | | |
| Receivables | 137,321 | 60,666 |
| Prepaid expenses | (6,890) | 10,489 |
| Accounts payable and accrued liabilities | (48,839) | (529,624) |
| Deferred revenue | 32,600 | - |
| Funds due to <i>Friends of the Children - Portland Foundation</i> | 50,000 | 60,000 |
| Net cash provided (used) by operating activities | 714,266 | (278,136) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (71,035) | (358,955) |
| Transfer to <i>Friends of the Children - Portland Foundation</i> | (94,629) | (150,000) |
| Net cash used by investing activities | (165,664) | (508,955) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for property acquisition | 120,175 | 984,723 |
| Proceeds from contributions to permanent endowment | 4,000 | 2,700 |
| Net cash provided by financing activities | 124,175 | 987,423 |
| Net increase in cash and cash equivalents | 672,777 | 200,332 |
| Cash and cash equivalents, beginning of year | 1,646,866 | 1,446,534 |
| Cash and cash equivalents, end of year | \$ 2,319,643 | \$ 1,646,866 |
| Supplemental disclosure of noncash information: | | |
| Restricted cash used for property acquisition | \$ - | \$ 820,078 |

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

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 environment for children involved in the *Friends - Portland* program to go play and participate in educational and social programs.

Summary of Significant Accounting Policies - The significant accounting policies followed by the *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:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require they be maintained permanently by the Organizations. 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 unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor 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 - PORTLAND

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, 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.

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*. At August 31, 2017, the balance was \$44,908 (*Note 9*).

Receivables - Accounts receivable from exchange transactions are recognized as services are provided. An allowance for uncollectible contributions receivable 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.

Revenue Recognition - All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. For exchange transactions and conditional contributions, amounts received but not yet earned are recorded as deferred revenue.

Contribution Recognition - Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At August 31, 2017, the Organization had one outstanding conditional promise of \$25,000 requiring a wheelchair lift be installed in one of the facilities.

Public support includes \$536,176 and \$420,000 for the years ended August 31, 2017 and 2016, respectively, from the *Foundation* (*Note 9*).

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

Contribution Recognition - Continued - The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statement of activities as net assets released from restrictions.

The Organizations report gifts of furniture 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, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

In-Kind Contributions - 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, which the Organizations consider not practical to estimate, have not been recognized in the consolidated statement of activities. Significant services received that create or enhance a non-financial asset or require specialized skills 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, 2017, totaled \$17,982 and consisted of dental services for program youth. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and the contributions are an essential part of the Organizations' activities.

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.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

Summarized Financial Information for 2016 - 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, 2016, from which the summarized information was derived.

Reclassifications - Certain information in the 2016 financial statements has been reclassified for comparative purposes to conform to the 2017 presentation.

2. Program and Supporting Services

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

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 managerial support for the effective operation of the programs.

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

3. Receivables

Receivables consisted of the following at August 31:

| | 2017 | 2016 |
|--|-------------------|---------------------|
| Pledges due within one year | \$ 519,490 | \$ 620,795 |
| Contract receivable | 131,178 | 149,275 |
| Receivable from <i>Friends of the Children - Portland Foundation</i> ^ | 5,140 | 5,127 |
| Receivable from <i>Friends of the Children - National</i> ^ | 103,000 | 96,056 |
| Other receivables | <u>35,108</u> | <u>40,415</u> |
| Receivables due in less than one year | 793,916 | 911,668 |
| Pledges due in one to five years | 47,056 | 184,001 |
| Allowance for doubtful accounts | <u>(12,796)</u> | <u>(9,997)</u> |
| Net receivables | <u>\$ 828,176</u> | <u>\$ 1,085,672</u> |

Management has elected not to calculate any discount on pledges due beyond one year as such amounts would not be material to the consolidated financial statements.

^These are related parties.

4. Property and Equipment

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

| | 2017 | 2016 |
|--------------------------------|---------------------|---------------------|
| Computer equipment | \$ 432,079 | \$ 415,111 |
| Office equipment and furniture | 266,009 | 264,976 |
| Vehicles | 88,901 | 88,901 |
| Building and improvements | 4,444,282 | 4,391,247 |
| Land | <u>100,000</u> | <u>100,000</u> |
| | 5,331,271 | 5,260,235 |
| Less accumulated depreciation | <u>(1,075,927)</u> | <u>(869,340)</u> |
| Net property and equipment | <u>\$ 4,255,344</u> | <u>\$ 4,390,895</u> |

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

4. Property and Equipment - Continued

The Organization 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.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2017, are available for the following purposes:

| | |
|---|-------------------|
| Back to School | \$ 28,950 |
| Scholarships | 103,295 |
| Future periods | 300,219 |
| East County Building Operations | 116,995 |
| Unexpended endowment earnings (Note 12) | 4,084 |
| | <u>\$ 553,543</u> |

During the year ended August 31, 2017, net assets of \$536,823 were released from restrictions due to the specific actions of *Friends - Portland* and/or the passage of time.

6. Permanently Restricted Net Assets

Permanently restricted net assets consist of \$47,524 at August 31, 2017, for the Fast Friends Scholarship Fund.

7. Retirement Plans

Friends - Portland has a retirement plan pursuant to IRC Section 401(k), in which employees 18 years of age and older and with at least one month of service are eligible to participate. *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 \$71,251 and \$60,464 for the years ended August 31, 2017 and 2016, respectively.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

8. Special Events

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

| | 2017 | 2016 |
|-----------------------------|---------------------|---------------------|
| Gross proceeds from events | \$ 2,773,427 | \$ 2,310,160 |
| Less direct costs of events | <u>(193,953)</u> | <u>(212,151)</u> |
| | <u>\$ 2,579,474</u> | <u>\$ 2,098,009</u> |

9. Friends of the Children - Portland Foundation

In 2004, 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:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Financial position: | | |
| <i>Assets :</i> | | |
| Cash and cash equivalents | \$ 189,547 | \$ 291,443 |
| Due from <i>Friends of the Children - Portland</i> | 200,000 | 150,000 |
| Investments: | | |
| Equity securities | 3,879,629 | 3,776,295 |
| Fixed income securities | 1,625,559 | 1,656,760 |
| Alternative assets | 182,506 | 177,035 |
| Prepaid expenses | <u>-</u> | <u>1,435</u> |
| <i>Total assets</i> | <u>\$ 6,077,241</u> | <u>\$ 6,052,968</u> |
| <i>Liabilities and net assets :</i> | | |
| Due to <i>Friends of the Children - Portland</i> | \$ 5,140 | \$ 5,127 |
| Other liabilities | 67 | - |
| Funds held on behalf of <i>Friends of the Children - Portland</i> | 44,908 | 423,891 |
| Net assets: | | |
| Unrestricted net assets | <u>6,027,126</u> | <u>5,623,950</u> |
| <i>Total liabilities and net assets</i> | <u>\$ 6,077,241</u> | <u>\$ 6,052,968</u> |

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

9. Friends of the Children - Portland Foundation - Continued

| | 2017 | 2016 |
|---|--------------------------|---------------------------|
| Activities: | | |
| <i>Support, revenue, and other increases in net assets :</i> | | |
| Contributions | \$ 57,487 | \$ 32,968 |
| Interest and dividends | 124,485 | 133,040 |
| Gain on investments | 344,989 | 148,096 |
| Transfer from <i>Friends of the Children - Portland and Youth Resources, Inc.</i> | <u>500,000</u> | <u>150,000</u> |
| <i>Total support, revenue, and other increases in net assets</i> | 1,026,961 | 464,104 |
| <i>Expenses :</i> | | |
| Contributions to <i>Friends of the Children - Portland</i> | 536,176 | 420,000 |
| Outside services | 43,494 | 39,980 |
| Banking and investment fees | 31,977 | 31,488 |
| Marketing expenses | 368 | 388 |
| Professional fees | 11,517 | 9,515 |
| Miscellaneous expenses | <u>253</u> | <u>249</u> |
| <i>Total expenses</i> | <u>623,785</u> | <u>501,620</u> |
| <i>Increase (decrease) in net assets</i> | <u><u>\$ 403,176</u></u> | <u><u>\$ (37,516)</u></u> |

10. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organizations to concentrations of risk consist primarily of cash and cash equivalents and receivables. The Organizations typically maintain balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation limits. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2017, 24 percent of gross pledges was due from one donor.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

11. 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 - Portland's assets measured at fair value on a recurring basis along with how fair value was determined, for the year ended August 31, 2016, are as follows:

| | Level 1 | Level 2 | Total |
|---|------------------|-----------------|------------------|
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | <u>\$ 37,706</u> | <u>\$ 7,202</u> | <u>\$ 44,908</u> |

Fair value of equity securities and fixed income securities is measured by reference to quoted prices as provided by the *Foundation's* investment broker.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

12. Endowment Funds

GAAP require *Friends - Portland* to present its net assets and its revenue and gains based upon the existence or absence of donor imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted. 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). Accounting standards also provide for enhanced disclosure about endowment funds (both donor restricted endowment funds and quasi-endowment funds).

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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by *Friends - Portland* in a manner consistent with the standard of prudence prescribed by UPMIFA.

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. A portion of the endowment assets are held in *Friends - Portland's* cash accounts and the remaining is invested with the *Foundation* and are subject to the *Foundation's* investment policies. A formal spending policy has not been established.

Endowment net asset composition by type of fund as of August 31, 2017, is as follows:

| | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------|---------------------------|---------------------------|-----------|
| Fast Friends Scholarship Fund | \$ 4,084 | \$ 47,524 | \$ 51,608 |

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

12. Endowment Funds - Continued

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2017, are as follows:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------------|---------------------------|------------------|
| Fast Friends Scholarship net assets, beginning of year | \$ 771 | \$ 43,524 | \$ 44,295 |
| Contributions | - | 4,000 | 4,000 |
| Net investment return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i> | <u>3,313</u> | <u>-</u> | <u>3,313</u> |
| Fast Friends Scholarship net assets, end of year | <u>\$ 4,084</u> | <u>\$ 47,524</u> | <u>\$ 51,608</u> |

13. Lease Commitments

The Organizations lease office equipment under operating leases expiring through August 2020. Lease expense for the year ended August 31, 2017, was \$2,950. Future commitments due under the leases are as follows:

| Years Ending August 31, | Amount |
|----------------------------|-----------------|
| 2018 | \$ 2,746 |
| 2019 | 2,460 |
| 2020 | <u>2,460</u> |
| | <u>\$ 7,666</u> |

14. Subsequent Events

Management has evaluated subsequent events through December 21, 2017, the date the consolidated financial statements were available to be issued.

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Information

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Financial Position

August 31, 2017

| | Friends - Portland | Youth Resources, Inc. | Eliminations | Consolidated |
|---|----------------------------|--------------------------|---------------------------|----------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,107,757 | \$ 211,886 | \$ - | \$ 2,319,643 |
| Receivables - net | 827,676 | 10,508 | (10,008) | 828,176 |
| Prepaid expenses | 107,523 | - | - | 107,523 |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | 44,908 | - | - | 44,908 |
| Property and equipment - net | <u>3,570,554</u> | <u>684,790</u> | <u>-</u> | <u>4,255,344</u> |
| Total assets | <u>\$ 6,658,418</u> | <u>\$ 907,184</u> | <u>\$ (10,008)</u> | <u>\$ 7,555,594</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 255,678 | \$ 2,695 | \$ (10,008) | \$ 248,365 |
| Deferred revenue | 32,600 | - | - | 32,600 |
| Funds due to <i>Friends of the Children - Portland Foundation</i> | <u>200,000</u> | <u>-</u> | <u>-</u> | <u>200,000</u> |
| Total liabilities | 488,278 | 2,695 | (10,008) | 480,965 |
| Net assets: | | | | |
| Unrestricted | 5,569,073 | 904,489 | - | 6,473,562 |
| Temporarily restricted | 553,543 | - | - | 553,543 |
| Permanently restricted | <u>47,524</u> | <u>-</u> | <u>-</u> | <u>47,524</u> |
| Total net assets | <u>6,170,140</u> | <u>904,489</u> | <u>-</u> | <u>7,074,629</u> |
| Total liabilities and net assets | <u>\$ 6,658,418</u> | <u>\$ 907,184</u> | <u>\$ (10,008)</u> | <u>\$ 7,555,594</u> |

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2017

| | Friends - Portland | Youth Resources, Inc. | Eliminations | Total |
|---|-----------------------|--------------------------|------------------|---------------------|
| Public support and revenue: | | | | |
| Contributions | \$ 1,797,789 | \$ - | \$ - | \$ 1,797,789 |
| Grants and contracts | 1,571,283 | - | - | 1,571,283 |
| Special events - net | 2,579,474 | - | - | 2,579,474 |
| In-kind contributions | 165,866 | - | - | 165,866 |
| Rental income | 12,000 | 125,600 | (120,000) | 17,600 |
| Miscellaneous income | 1,911 | - | - | 1,911 |
| Total public support and revenue | 6,128,323 | 125,600 | (120,000) | 6,133,923 |
| Expenses: | | | | |
| Program services: | | | | |
| Salaries and related expenses | 3,143,647 | - | - | 3,143,647 |
| Children's expenses | 989,957 | 119,191 | (90,000) | 1,019,148 |
| Friends' expenses | 213,552 | - | - | 213,552 |
| Total program services | 4,347,156 | 119,191 | (90,000) | 4,376,347 |
| Administrative | 694,759 | 13,338 | (15,600) | 692,497 |
| Development | 722,755 | 12,624 | (14,400) | 720,979 |
| Total expenses | 5,764,670 | 145,153 | (120,000) | 5,789,823 |
| Increase (decrease) in net assets before investment activity | 363,653 | (19,553) | - | 344,100 |
| Investment activity: | | | | |
| Interest income | 3,185 | 203 | - | 3,388 |
| Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | 3,313 | 23,075 | - | 26,388 |
| Net investment activity | 6,498 | 23,278 | - | 29,776 |
| Transfer to <i>Friends of the Children - Portland Foundation</i> | (94,630) | (405,370) | - | (500,000) |
| Increase (decrease) in net assets | 275,521 | (401,645) | - | (126,124) |
| Net assets, beginning of year | 5,894,619 | 1,306,134 | - | 7,200,753 |
| Net assets, end of year | \$ 6,170,140 | \$ 904,489 | \$ - | \$ 7,074,629 |