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**FRIENDS OF THE CHILDREN - PORTLAND  
and  
YOUTH RESOURCES, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended August 31, 2009**

**with**

**Independent Auditors' Report**

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**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

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The Board of Directors  
*Friends of the Children - Portland*

We have audited the accompanying consolidated statement of financial position of *Friends of the Children - Portland* and *Youth Resources, Inc.* (the Organizations) as of August 31, 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from *Friends of the Children - Portland's* 2008 financial statements and, in our report dated January 2, 2009, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Hoffman, Stewart & Schmidt, P.C.*

December 16, 2009

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Consolidated Statement of Financial Position**

**August 31, 2009** (With Comparative Amounts for 2008)

ASSETS	Friends - Portland	Youth Resources, Inc.	Total	
			2009	2008
Cash and cash equivalents	\$ 1,292,990	\$ 19,885	\$ 1,312,875	\$ 1,432,132
Investments (Notes 3 and 12)	-	100,203	100,203	-
Receivables - net (Note 4)	1,000,421	1,733	1,002,154	943,119
Prepaid expenses	37,084	435	37,519	40,943
Property and equipment - net (Note 5)	130,624	870,217	1,000,841	97,356
<b>Total assets</b>	<b><u>\$ 2,461,119</u></b>	<b><u>\$ 992,473</u></b>	<b><u>\$ 3,453,592</u></b>	<b><u>\$ 2,513,550</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 216,407	\$ 619	\$ 217,026	\$ 214,758
Deferred revenue	1,125	-	1,125	66,624
<b>Total liabilities</b>	<b>217,532</b>	<b>619</b>	<b>218,151</b>	<b>281,382</b>
<b>Net assets:</b>				
Unrestricted	1,234,302	991,854	2,226,156	1,195,315
Temporarily restricted (Note 7)	1,002,210	-	1,002,210	1,036,853
Permanently restricted (Notes 8 and 13)	7,075	-	7,075	-
<b>Total net assets</b>	<b><u>2,243,587</u></b>	<b><u>991,854</u></b>	<b><u>3,235,441</u></b>	<b><u>2,232,168</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,461,119</u></b>	<b><u>\$ 992,473</u></b>	<b><u>\$ 3,453,592</u></b>	<b><u>\$ 2,513,550</u></b>

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

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Consolidated Statement of Activities**

**Year Ended August 31, 2009** (With Comparative Totals for 2008)

	Unrestricted			Total
	Friends - Portland	Youth Resources, Inc.	Eliminations	
<b>Public support and revenue:</b>				
Contributions	\$ 907,169	\$ -	\$ -	\$ 907,169
Grants and contracts	367,509	-	-	367,509
Special events - net (Note 6)	1,544,346	-	-	1,544,346
In-kind contributions	165,773	-	-	165,773
Rental income	-	104,300	(100,000)	4,300
Net assets released from restrictions (Note 7)	826,333	-	-	826,333
<b>Total public support and revenue</b>	<b>3,811,130</b>	<b>104,300</b>	<b>(100,000)</b>	<b>3,815,430</b>
<b>Expenses:</b>				
Program services:				
Salaries and related expenses	2,349,078	-	-	2,349,078
Children's expenses	748,698	102,101	(85,000)	765,799
Friends' expenses	65,859	-	-	65,859
Total program services	3,163,635	102,101	(85,000)	3,180,736
Administrative	216,683	5,055	(5,000)	216,738
Development	399,598	10,110	(10,000)	399,708
<b>Total expenses</b>	<b>3,779,916</b>	<b>117,266</b>	<b>(100,000)</b>	<b>3,797,182</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>31,214</b>	<b>(12,966)</b>	<b>-</b>	<b>18,248</b>
<b>Investment activity:</b>				
Interest and dividends	8,918	1,428	-	10,346
Gain (loss) on investments	(1,145)	9,613	-	8,468
Net investment activity	7,773	11,041	-	18,814
Transfer to <i>Friends of the Children - Portland Foundation</i> (Note 10)	-	-	-	-
<b>Increase (decrease) in net assets</b>	<b>38,987</b>	<b>(1,925)</b>	<b>-</b>	<b>37,062</b>
Net assets, beginning of year (Note 14)	1,195,315	993,779	-	2,189,094
<b>Net assets, end of year</b>	<b>\$ 1,234,302</b>	<b>\$ 991,854</b>	<b>\$ -</b>	<b>\$ 2,226,156</b>

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

Temporarily Restricted	Permanently Restricted	Total	
		2009	2008
\$ 147,504	\$ 7,075	\$ 1,061,748	\$ 920,635
644,186	-	1,011,695	1,513,274
-	-	1,544,346	2,119,271
-	-	165,773	183,175
-	-	4,300	-
<u>(826,333)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>(34,643)</b>	<b>7,075</b>	<b>3,787,862</b>	<b>4,736,355</b>
-	-	2,349,078	2,007,974
-	-	765,799	649,497
<u>-</u>	<u>-</u>	<u>65,859</u>	<u>79,426</u>
-	-	3,180,736	2,736,897
-	-	216,738	143,548
<u>-</u>	<u>-</u>	<u>399,708</u>	<u>384,670</u>
<u>-</u>	<u>-</u>	<u>3,797,182</u>	<u>3,265,115</u>
<b>(34,643)</b>	<b>7,075</b>	<b>(9,320)</b>	<b>1,471,240</b>
-	-	10,346	28,803
<u>-</u>	<u>-</u>	<u>8,468</u>	<u>(476)</u>
-	-	18,814	28,327
<u>-</u>	<u>-</u>	<u>-</u>	<u>(550,000)</u>
<b>(34,643)</b>	<b>7,075</b>	<b>9,494</b>	<b>949,567</b>
<u>1,036,853</u>	<u>-</u>	<u>3,225,947</u>	<u>1,282,601</u>
<b><u>\$ 1,002,210</u></b>	<b><u>\$ 7,075</u></b>	<b><u>\$ 3,235,441</u></b>	<b><u>\$ 2,232,168</u></b>

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Consolidated Statement of Functional Expenses**

**Year Ended August 31, 2009** *(With Comparative Totals for 2008)*

	<b>Program Services</b>	<b>Administrative</b>	<b>Development</b>
<b>Salaries and related expenses:</b>			
Salaries and wages	\$ 1,915,902	\$ 168,163	\$ 252,410
Payroll taxes	139,711	13,441	18,612
Benefits	240,100	8,255	39,938
Retirement plan expense	31,336	1,843	3,687
Workers' compensation	22,029	1,079	2,159
	<u>2,349,078</u>	<u>192,781</u>	<u>316,806</u>
<b>Total salaries and related expenses</b>	<b>2,349,078</b>	<b>192,781</b>	<b>316,806</b>
Children's activities	229,466	-	-
Transportation	162,549	1,190	4,515
Child evaluation	26,610	-	-
Friends' activities	25,908	-	-
Wireless phones expense	18,381	-	-
Community awareness	29,564	1,739	7,383
Staff development	21,570	3,127	7,814
Small equipment and maintenance expense	59,980	3,113	6,433
Rent expense	13,104	771	1,542
Supplies	9,743	1,060	1,003
Payroll and banking fees	14,599	850	1,700
Business insurance	19,580	1,123	2,246
Utilities	27,542	1,295	2,590
Telephone	10,457	532	2,014
Postage	8,017	470	3,954
Professional fees	79,224	4,570	16,438
Chapter affiliation fees	6,375	375	750
Printing and copying	10,161	592	13,219
Depreciation	58,828	3,150	6,301
Bad debt expense	-	-	5,000
	<u>-</u>	<u>-</u>	<u>5,000</u>
<b>Total expenses</b>	<b><u>\$ 3,180,736</u></b>	<b><u>\$ 216,738</u></b>	<b><u>\$ 399,708</u></b>

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

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<b>Total</b>	
<b>2009</b>	<b>2008</b>
\$ 2,336,475	\$ 2,006,917
171,764	149,145
288,293	243,401
36,866	39,890
25,267	10,124
<b>2,858,665</b>	<b>2,449,477</b>
229,466	278,881
168,254	151,374
26,610	18,733
25,908	23,733
18,381	17,555
38,686	24,843
32,511	46,757
69,526	26,418
15,417	52,036
11,806	13,880
17,149	27,046
22,949	17,776
31,427	-
13,003	6,857
12,441	10,559
100,232	43,856
7,500	7,500
23,972	21,552
68,279	14,682
5,000	11,600
<b><u>\$ 3,797,182</u></b>	<b><u>\$ 3,265,115</u></b>

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**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Consolidated Statement of Cash Flows**

<b>Year Ended August 31, 2009</b> <i>(With Comparative Totals for 2008)</i>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 9,494	\$ 949,567
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	(7,075)	-
Donated investment securities	(160,247)	(128,267)
Donated equipment	(29,993)	-
Depreciation	68,279	14,682
(Gain) loss on investments	(8,468)	476
Transfer to <i>Friends of the Children - Portland     Foundation</i>	-	550,000
Changes in:		
Receivables	(59,035)	(415,500)
Prepaid expenses	3,424	(8,928)
Accounts payable and accrued liabilities	2,268	30,566
Deferred revenue	(65,499)	(500)
<b>Net cash provided (used) by operating activities</b>	<b>(246,852)</b>	<b>992,096</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of donated investment securities	159,131	127,791
Purchase of equipment	(38,611)	(86,194)
Transfer to <i>Friends of the Children - Portland     Foundation</i>	-	(550,000)
<b>Net cash provided (used) by investing activities</b>	<b>120,520</b>	<b>(508,403)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions to permanent endowment	7,075	-
<b>Net cash provided by financing activities</b>	<b>7,075</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(119,257)</b>	<b>483,693</b>
Cash and cash equivalents, beginning of year	1,432,132	948,439
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,312,875</b>	<b>\$ 1,432,132</b>

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

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements**

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

**Friends of the Children - Portland** (*Friends - Portland*) is an innovative mentoring program, providing our community's most at-risk children with a mentor from kindergarten through high school. The organization pairs each child with a Friend – a professionally trained, paid mentor who provides long-term support. The children and youth served face significant challenges many of us cannot imagine: 93 percent qualify for free or reduced lunch programs, 60 percent have mothers who were teenage parents, and 78 percent have a mother who has been involved in domestic abuse. However, children involved with the organization overcome the odds: 96 percent regularly attend school, 97 percent of our adolescents avoid teen parenting, and 94 percent have not been involved in the juvenile justice system. For children and youth, the organization opens doors of opportunity that would otherwise remain closed, and support is provided consistently for 12½ years.

**Youth Resources, Inc.** provides a safe, positive environment for children involved in the *Friends of the Children - Portland* program to go to play and participate in educational and social programs (*Note 14*).

**Summary of Significant Accounting Policies** - The significant accounting policies followed by 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 *Friends of the Children - Portland* and its wholly-owned subsidiary, *Youth Resources, Inc.* 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 Organizations 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  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

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**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 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.

**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.

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

**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.

**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, 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. Contributions include \$210,000 and \$138,000 for the years ended August 31, 2009 and 2008, respectively, from *Friends of the Children - Portland Foundation*.

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. Temporarily restricted contributions are classified as unrestricted when the restriction is satisfied in the same fiscal year the contribution is received.

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

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**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 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 fund-raising 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 which 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 years ended August 31, 2009 and 2008, totaled \$58,250 and \$26,062, respectively, and consisted of donated 401(k) administrative services, photography services and information technology services. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where 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 both organizations are exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. Neither organization is classified as a private foundation.

**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.

**Summarized Financial Information for 2008** - 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 accounting principles generally accepted in the United State of America. Accordingly, such information should be read in conjunction with *Friends of the Children - Portland's* financial statements for the year ended August 31, 2008, from which the summarized information was derived.

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

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**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 management support for the effective operation of the programs.

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

**3. Investments**

Investments included the following at August 31:

	<b>2009</b>	<b>2008</b>
Money market funds	\$ 4,453	\$ -
Fixed income funds	43,300	-
Equity mutual funds	52,450	-
	<u>\$ 100,203</u>	<u>\$ -</u>

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

**4. Receivables**

Receivables consisted of the following at August 31:

	<b>2009</b>	<b>2008</b>
Pledges due within one year	\$ 399,363	\$ 400,250
Contract receivable	61,777	55,380
Receivable from <i>Friends of the Children - Portland Foundation</i> <sup>A</sup>	9,241	-
Receivable from <i>Friends of the Children - National</i> <sup>A</sup>	-	1,317
Other receivables	26,194	19,096
	<b>496,575</b>	<b>476,043</b>
<b>Receivables due in less than one year</b>		
Pledges due in one to five years	539,332	488,000
Pledges due in more than five years	8,500	25,500
Discount to present value (4 percent discount rate used)	(37,253)	(41,424)
Allowance for doubtful accounts	(5,000)	(5,000)
	<b>\$ 1,002,154</b>	<b>\$ 943,119</b>

<sup>A</sup> These are related parties.

**5. Property and Equipment**

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

	<b>2009</b>	<b>2008</b>
Computer equipment	\$ 147,901	\$ 85,691
Office equipment and furniture	285,078	31,296
Vehicles	30,763	30,763
Building and improvements	1,034,832	19,164
Land	100,000	-
	1,598,574	166,914
Less accumulated depreciation	(597,733)	(69,558)
	<b>\$ 1,000,841</b>	<b>\$ 97,356</b>

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

**6. Special Events**

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

	<b>2009</b>	<b>2008</b>
Gross proceeds from events	\$ 1,626,973	\$ 2,213,915
Less direct costs of events	<u>(82,627)</u>	<u>(94,644)</u>
	<u><b>\$ 1,544,346</b></u>	<u><b>\$ 2,119,271</b></u>

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets at August 31, 2009, are available for the following purposes:

Quilting	\$ 197
Back to school appeal	730
Longitudinal study	84,166
Scholarships	15,000
Future periods	<u>902,117</u>
	<u><b>\$ 1,002,210</b></u>

During the year ended August 31, 2009, net assets of \$826,333 were released from restrictions due to the specific actions of *Friends - Portland* and/or the passage of time.

**8. Permanently Restricted Net Assets**

Permanently restricted net assets consist of \$7,075 at August 31, 2009, for the Fast Friends Scholarship Fund.

**9. Retirement Plan**

*Friends - Portland* has a retirement plan pursuant to Internal Revenue Code Section 401(k), in which employees eighteen years of age and older and with at least one month of service are eligible to participate. Contributions to the Plan by the organization are on a discretionary basis. The organization accrued \$36,866 and \$39,890 of retirement plan contribution expense during the years ended August 31, 2009 and 2008, respectively.

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

**10. Friends of the Children - Portland Foundation**

During the year ended August 31, 2004, *Friends of the Children - Portland Foundation* (the *Foundation*) was established to ensure the long-term sustainability of the *Friends of the Children - Portland* program. A discretionary transfer of assets is made at year-end from *Friends of the Children - Portland* to the *Foundation* based on a vote by the Board of Directors. Grants from the *Foundation* to *Friends of the Children - Portland* help to support annual operations. The *Foundation* raises private donations, and manages investments and a scholarship program for *Friends of the Children - Portland*, but remains a separate 501(c)(3) organization, which does not have a controlling financial interest sufficient to require consolidated financial statements.

Assets transferred to the *Foundation* were \$-0- and \$550,000 for years ended August 31, 2009 and 2008, respectively. Summarized unaudited financial data are as follows for the *Foundation* as of and for the years ended August 31:

	<b>2009</b>	<b>2008</b>
<b>Financial Position:</b>		
<i>Assets:</i>		
Cash and cash equivalents	\$ 209,160	\$ 1,283,787
Contributions receivable	319,512	343,858
<i>Investments:</i>		
Equity securities	2,859,597	2,420,417
Fixed income securities	1,161,236	711,823
<i>Total assets</i>	\$ 4,549,505	\$ 4,759,885
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ 19,303	\$ 15,000
<i>Net assets:</i>		
Unrestricted net assets	4,174,691	4,362,228
Temporarily restricted net assets	355,511	382,657
<i>Total liabilities and net assets</i>	\$ 4,549,505	\$ 4,759,885



**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

**10. Friends of the Children - Portland Foundation - Continued**

	<b>2009</b>	<b>2008</b>
<b>Activities:</b>		
<i>Support, revenue, and other increases in net assets:</i>		
Contributions	\$ 268,334	\$ 1,699,650
Interest and dividends	83,341	73,758
Loss on investments	(285,034)	(302,688)
Transfer from <i>Friends of the Children - Portland</i>	-	550,000
	66,641	2,020,720
<i>Net support, revenue, and other increases in net assets</i>		
 <i>Expenses:</i>		
Scholarships	8,000	9,989
Contributions to <i>Friends of the Children - Portland</i>	210,000	138,000
Outside services	32,352	32,781
Investment fees	21,374	16,941
Marketing expenses	1,724	3,312
Accounting and compliance fees	7,299	4,943
Miscellaneous expenses	575	1,076
	281,324	207,042
<i>Total expenses</i>	<u>281,324</u>	<u>207,042</u>
 <i>Increase (decrease) in net assets</i>	<u>\$ (214,683)</u>	<u>\$ 1,813,678</u>

**11. 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 (FDIC) limits. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2009, 62 percent of gross pledges receivable were due from four donors.

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

**12. Fair Value Measurements**

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, 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 which 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 which are 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 that are 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 that are measured at fair value on a recurring basis along with how fair value was determined are as follows:

	<b>Level 1</b>
Money market funds	\$ 4,453
Fixed income funds	43,300
Equity mutual funds	52,450
	<hr/>
	\$ 100,203
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**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

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**13. Endowment Funds**

Financial Accounting Standards Board (FASB) Staff Position (FSP) 117-1 was issued by the FASB in August, 2008, and provides 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). The pronouncement also provides for enhanced disclosure about endowment funds (both donor restricted endowment funds and quasi-endowment funds). *Friends - Portland* adopted this provision during the year ended August 31, 2009.

*Interpretation of Relevant Law*

The Board of Directors of the *Friends - Portland* has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the *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 the *Friends - Portland* in a manner consistent with the standard of prudence prescribed by UPMIFA.

*Investment Strategy and Spending Policy*

During 2009, an endowment fund was established to provide funding for scholarships for students who have completed the *Friends of the Children - Portland* program and are continuing their education in a traditional four year college, community college, or a trade or vocational school. Management is currently in the process of setting up an investment and spending policy for the endowment. The funds that have been received as of August 31, 2009, are currently being held in cash and cash equivalents.

Endowment net asset composition by type of fund as of August 31, 2009, is as follows:

	<b>Permanently Restricted</b>
Fast Friends Scholarship fund	<u>\$ 7,075</u>

**FRIENDS OF THE CHILDREN - PORTLAND  
and YOUTH RESOURCES, INC.**

**Notes to Consolidated Financial Statements - Continued**

**13. Endowment Funds - Continued**

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2009, are as follows:

	<b>Permanently Restricted</b>
Fast Friends Scholarship net assets, beginning of year	\$ -
Contributions	<u>7,075</u>
Fast Friends Scholarship net assets, end of year	<u><u>\$ 7,075</u></u>

**14. Business Combination with Youth Resources, Inc.**

During 2009, *Friends - Portland* became the sole member of *Youth Resources, Inc.*, a nonprofit membership corporation exempt from income taxes under Internal Revenue Code Section 501(c)(3) and similar state provisions. This business combination has been accounted for using the pooling of interests method. As such, the assets from *Youth Resources, Inc.* have been included in these consolidated financial statements at their carrying values (primarily historical cost) prior to the business combination.

The following summarizes the change in net assets at August 31, 2008:

Net assets at August 31, 2008, prior to business combination	\$ 2,232,168
Net assets of <i>Youth Resources, Inc.</i> :	
Cash and cash equivalents	99,287
Accounts receivable	1,000
Property and equipment - net	<u>893,492</u>
Net assets acquired in business combination	<u>993,779</u>
Net assets at August 31, 2008, after business combination	<u><u>\$ 3,225,947</u></u>

**15. Subsequent Events**

Subsequent events have been evaluated through December 16, 2009, which is the date the consolidated financial statements were available to be issued.