

---

**FRIENDS OF THE CHILDREN - PORTLAND**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended August 31, 2010**

**and**

**Supplementary Financial Information**

**with**

**Independent Auditors' Report**

---

# FRIENDS OF THE CHILDREN - PORTLAND

## Table of Contents

---

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
<b>Supplementary Financial Information</b>	
Consolidating Schedule of Financial Position	18
Consolidating Schedule of Activities	19

## Independent Auditors' Report

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, 2010, 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* 2009 consolidated financial statements and, in our report dated December 16, 2009, we expressed an unqualified opinion on those consolidated 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, 2010, 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.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of *Friends of the Children - Portland* and *Youth Resources, Inc.* taken as a whole. The supplementary consolidating financial information appearing on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of *Friends of the Children - Portland* and *Youth Resources, Inc.* Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

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

December 13, 2010

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Financial Position**

<b>August 31, 2010</b> <i>(With Comparative Amounts for 2009)</i>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,359,966	\$ 1,312,875
Investments <i>(Notes 3 and 13)</i>	100,737	100,203
Receivables - net <i>(Note 4)</i>	915,708	1,002,154
Prepaid expenses	60,673	37,519
Property and equipment - net <i>(Note 5)</i>	<u>926,315</u>	<u>1,000,841</u>
<b>Total assets</b>	<b><u>\$ 3,363,399</u></b>	<b><u>\$ 3,453,592</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 255,431	\$ 217,026
Deferred revenue	<u>10,198</u>	<u>1,125</u>
<b>Total liabilities</b>	<b>265,629</b>	<b>218,151</b>
<b>Net assets:</b>		
Unrestricted	2,222,028	2,226,156
Temporarily restricted <i>(Note 7)</i>	868,667	1,002,210
Permanently restricted <i>(Notes 8 and 14)</i>	<u>7,075</u>	<u>7,075</u>
<b>Total net assets</b>	<b><u>3,097,770</u></b>	<b><u>3,235,441</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 3,363,399</u></b>	<b><u>\$ 3,453,592</u></b>

---

*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, 2010** (With Comparative Totals for 2009)

	Unrestricted	Temporarily	Permanently	Total	
		Restricted	Restricted	2010	2009
<b>Public support and revenue:</b>					
Contributions	\$ 553,698	\$ 252,089	\$ -	\$ 805,787	\$ 878,081
Grants and contracts	809,664	434,087	-	1,243,751	1,195,362
Special events - net (Note 6)	1,583,103	-	-	1,583,103	1,544,346
In-kind contributions	115,311	-	-	115,311	165,773
Rental income	7,221	-	-	7,221	4,300
Loss on disposal of equipment	(4,735)	-	-	(4,735)	-
Net assets released from restrictions (Note 7)	819,719	(819,719)	-	-	-
<b>Total public support and revenue</b>	<b>3,883,981</b>	<b>(133,543)</b>	<b>-</b>	<b>3,750,438</b>	<b>3,787,862</b>
<b>Expenses:</b>					
Program services:					
Salaries and related expenses	2,370,076	-	-	2,370,076	2,349,078
Children's expenses	807,243	-	-	807,243	765,799
Friends' expenses	72,220	-	-	72,220	65,859
Total program services	3,249,539	-	-	3,249,539	3,180,736
Administrative	241,652	-	-	241,652	216,738
Development	408,457	-	-	408,457	399,708
<b>Total expenses</b>	<b>3,899,648</b>	<b>-</b>	<b>-</b>	<b>3,899,648</b>	<b>3,797,182</b>
<b>Decrease in net assets before investment activity</b>	<b>(15,667)</b>	<b>(133,543)</b>	<b>-</b>	<b>(149,210)</b>	<b>(9,320)</b>
<b>Investment activity:</b>					
Interest and dividends	12,371	-	-	12,371	10,346
Gain (loss) on investments	(832)	-	-	(832)	8,468
Net investment activity	11,539	-	-	11,539	18,814
<b>Increase (decrease) in net assets</b>	<b>(4,128)</b>	<b>(133,543)</b>	<b>-</b>	<b>(137,671)</b>	<b>9,494</b>
Net assets, beginning of year	2,226,156	1,002,210	7,075	3,235,441	3,225,947
<b>Net assets, end of year</b>	<b>\$ 2,222,028</b>	<b>\$ 868,667</b>	<b>\$ 7,075</b>	<b>\$ 3,097,770</b>	<b>\$ 3,235,441</b>

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, 2010** *(With Comparative Totals for 2009)*

	<b>Program Services</b>	<b>Administrative</b>	<b>Development</b>
<b>Salaries and related expenses:</b>			
Salaries and wages	\$ 1,910,560	\$ 190,413	\$ 249,648
Payroll taxes	143,850	13,881	20,176
Benefits	255,281	12,901	40,451
Retirement plan expense	41,435	2,437	4,875
Workers' compensation	18,950	1,013	1,999
	<hr/>	<hr/>	<hr/>
<b>Total salaries and related expenses</b>	<b>2,370,076</b>	<b>220,645</b>	<b>317,149</b>
Children's activities	245,743	-	-
Transportation	160,717	1,062	3,838
Child evaluation	26,460	-	-
Friends' activities	30,347	-	-
Scholarships	21,570	-	-
Wireless phones expense	18,532	-	-
Community awareness	691	41	3,831
Staff development	23,341	1,749	10,162
Small equipment and maintenance expense	115,652	5,735	12,028
Rent expense	-	-	-
Supplies	11,971	484	1,043
Payroll and banking fees	13,825	797	1,593
Business insurance	20,583	1,079	2,160
Utilities	34,705	1,783	3,214
Telephone	9,261	632	2,052
Postage	6,975	410	3,860
Professional fees	56,515	3,111	32,991
Chapter affiliation fees	6,375	375	750
Printing and copying	9,338	549	4,801
Depreciation	66,862	3,200	6,400
Bad debt expense	-	-	2,585
	<hr/>	<hr/>	<hr/>
<b>Total expenses</b>	<b><u>\$ 3,249,539</u></b>	<b><u>\$ 241,652</u></b>	<b><u>\$ 408,457</u></b>

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

---



---

<b>Total</b>	
<b>2010</b>	<b>2009</b>
\$ 2,350,621	\$ 2,336,476
177,907	171,764
308,633	288,293
48,747	36,865
21,962	25,267
<b>2,907,870</b>	<b>2,858,665</b>
245,743	229,466
165,617	168,254
26,460	26,610
30,347	25,908
21,570	-
18,532	18,381
4,563	38,686
35,252	32,511
133,415	69,526
-	15,417
13,498	11,806
16,215	17,149
23,822	22,949
39,702	31,427
11,945	13,003
11,245	12,441
92,617	100,232
7,500	7,500
14,688	23,972
76,462	68,279
2,585	5,000
<b><u>\$ 3,899,648</u></b>	<b><u>\$ 3,797,182</u></b>

---

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Cash Flows**

<b>Year Ended August 31, 2010</b> <i>(With Comparative Totals for 2009)</i>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ (137,671)	\$ 9,494
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	-	(7,075)
Donated investment securities	(42,169)	(160,247)
Donated equipment	-	(29,993)
Loss on disposal of equipment	4,735	-
Depreciation	76,462	68,279
(Gain) loss on investments	832	(8,468)
Changes in:		
Receivables	86,446	(59,035)
Prepaid expenses	(23,154)	3,424
Accounts payable and accrued liabilities	38,405	2,268
Deferred revenue	9,073	(65,499)
<b>Net cash provided (used) by operating activities</b>	<b>12,959</b>	<b>(246,852)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	94,463	159,131
Purchases of investments	(53,660)	-
Purchase of equipment	(6,671)	(38,611)
<b>Net cash provided by investing activities</b>	<b>34,132</b>	<b>120,520</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>-</b>	<b>7,075</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>47,091</b>	<b>(119,257)</b>
Cash and cash equivalents, beginning of year	1,312,875	1,432,132
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,359,966</b>	<b>\$ 1,312,875</b>

*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*) (the Organization) 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.

**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

### 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 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 fair 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 \$472,780 and \$210,000 for the years ended August 31, 2010 and 2009, 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

### 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 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, 2010 and 2009, totaled \$33,269 and \$58,250, 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.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions, and also provide guidance on various related matters such as interest, penalties, and required disclosures. Management believes the Organizations do not 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. As such, the returns for 2006, 2007, and 2008 are currently subject to examination. 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 2009** - 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 the Organizations' consolidated financial statements for the year ended August 31, 2009, from which the summarized information was derived.

**Reclassifications** - Certain reclassifications have been made to the 2009 information to conform with the 2010 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 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>2010</b>	<b>2009</b>
Money market funds	\$ 57,156	\$ 4,453
Fixed income funds	43,581	43,300
Equity mutual funds	-	52,450
	<u>\$ 100,737</u>	<u>\$ 100,203</u>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

**4. Receivables**

Receivables consisted of the following at August 31:

	<b>2010</b>	<b>2009</b>
Pledges due within one year	\$ 462,515	\$ 399,363
Contract receivable	63,622	61,777
Receivable from <i>Friends of the Children - Portland Foundation</i> <sup>A</sup>	12,462	9,241
Receivable from <i>Friends of the Children - National</i> <sup>A</sup>	105	-
Other receivables	20,758	26,194
	<b>559,462</b>	<b>496,575</b>
<b>Receivables due in less than one year</b>		
Pledges due in one to five years	382,633	539,332
Pledges due in more than five years	-	8,500
Discount to present value (4 percent discount rate used)	(23,987)	(37,253)
Allowance for doubtful accounts	(2,400)	(5,000)
	<b>\$ 915,708</b>	<b>\$ 1,002,154</b>
<b>Net receivables</b>	<b>\$ 915,708</b>	<b>\$ 1,002,154</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>2010</b>	<b>2009</b>
Computer equipment	\$ 93,284	\$ 147,901
Office equipment and furniture	227,957	285,078
Vehicles	30,763	30,763
Building and improvements	1,034,651	1,034,832
Land	100,000	100,000
	1,486,655	1,598,574
Less accumulated depreciation	(560,340)	(597,733)
<b>Net property and equipment</b>	<b>\$ 926,315</b>	<b>\$ 1,000,841</b>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

---

**6. Special Events**

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

	<b>2010</b>	<b>2009</b>
Gross proceeds from events	\$ 1,709,835	\$ 1,626,973
Less direct costs of events	<u>(126,732)</u>	<u>(82,627)</u>
	<u><b>\$ 1,583,103</b></u>	<u><b>\$ 1,544,346</b></u>

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets at August 31, 2010, are available for the following purposes:

Quilting	\$ 146
Back to school appeal	407
Longitudinal study	68,333
Scholarships	60,791
Future periods	<u>738,990</u>
	<u><b>\$ 868,667</b></u>

During the year ended August 31, 2010, net assets of \$819,719 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, 2010, 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 retirement plan by the Organization are on a discretionary basis. The Organization accrued \$48,747 and \$36,865 of retirement plan contribution expense during the years ended August 31, 2010 and 2009, respectively.

**FRIENDS OF THE CHILDREN - PORTLAND**

**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 - 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, which does not have a controlling financial interest sufficient to require consolidated financial statements.

Summarized unaudited financial data are as follows for the *Foundation* as of and for the years ended August 31:

	<b>2010</b>	<b>2009</b>
<b>Financial Position:</b>		
<i>Assets:</i>		
Cash and cash equivalents	\$ 212,042	\$ 209,160
Contributions receivable	223,672	319,512
<i>Investments:</i>		
Equity securities	3,143,365	2,859,597
Fixed income securities	1,002,233	1,161,236
	<u>\$ 4,581,312</u>	<u>\$ 4,549,505</u>
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ 12,462	\$ 19,303
<i>Net assets:</i>		
Unrestricted net assets	4,345,178	4,174,691
Temporarily restricted net assets	223,672	355,511
	<u>\$ 4,581,312</u>	<u>\$ 4,549,505</u>
 <i>Total liabilities and net assets</i>	 <u>\$ 4,581,312</u>	 <u>\$ 4,549,505</u>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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

	<b>2010</b>	<b>2009</b>
<b>Activities:</b>		
<i>Support, revenue, and other increases in net assets:</i>		
Contributions	\$ 260,083	\$ 268,334
Interest and dividends	113,221	83,341
Gain (loss) on investments	212,839	(285,034)
	586,143	66,641
<i>Net support, revenue, and other increases in net assets</i>		
 <i>Expenses:</i>		
Scholarships	-	8,000
Contributions to Friends of the Children - Portland	472,780	210,000
Outside services	39,638	32,352
Investment fees	27,659	21,374
Marketing expenses	111	1,724
Accounting and compliance fees	6,713	7,299
Miscellaneous expenses	594	575
	547,495	281,324
<i>Total expenses</i>		
	\$ 38,648	\$ (214,683)
<i>Increase (decrease) in net assets</i>	\$ 38,648	\$ (214,683)

**11. Operating Agreement**

The Organization has signed an operating agreement for software license services that calls for monthly payments of \$1,200 that expires February, 2013. The future minimum rental commitment under the noncancelable operating lease at August 31, 2010, is as follows:

<b>Years Ending August 31,</b>	<b>Amount</b>
2011	\$ 14,400
2012	14,400
2013	6,000
	\$ 34,800
	\$ 34,800

## FRIENDS OF THE CHILDREN - PORTLAND

### Notes to Consolidated Financial Statements - Continued

---

#### 12. 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, 2010, 40 percent of gross pledges receivable were due from four donors.

#### 13. Fair Value Measurements

Generally accepted accounting principles establish 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 OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

**13. Fair Value Measurements - Continued**

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

<b>2010</b>	<b>Level 1</b>	<b>Level 2</b>
Money market funds	\$ -	\$ 57,156
Fixed income funds:		
Mortgage backed funds	43,581	-
	<u>\$ 43,581</u>	<u>\$ 57,156</u>
<b>2009</b>	<b>Level 1</b>	<b>Level 2</b>
Money market funds	\$ -	\$ 4,453
Fixed income funds	43,300	-
Equity mutual funds	52,450	-
	<u>\$ 95,750</u>	<u>\$ 4,453</u>

**14. Endowment Funds**

Generally accepted accounting principles require the Organization 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 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, *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.

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

---

**14. Endowment Funds - Continued**

*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 establishing an investment and spending policy for the endowment. The funds are currently being held in cash and cash equivalents.

Endowment net asset composition by type of fund as of August 31, 2010, is as follows:

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

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2010, are as follows:

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

**15. Subsequent Events**

Subsequent events have been evaluated through December 13, 2010, the date the consolidated financial statements were available to be issued.

---

**FRIENDS OF THE CHILDREN - PORTLAND**

**Supplementary Financial Information**

---

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Schedule of Financial Position**

**August 31, 2010**

<b>ASSETS</b>	<b>Friends - Portland</b>	<b>Youth Resources, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
Cash and cash equivalents	\$ 1,345,389	\$ 14,577	\$ -	\$ 1,359,966
Investments	-	100,737	-	100,737
Receivables - net	914,734	41,000	(40,026)	915,708
Prepaid expenses	56,831	3,842	-	60,673
Property and equipment - net	90,096	836,219	-	926,315
<b>Total assets</b>	<b><u>\$ 2,407,050</u></b>	<b><u>\$ 996,375</u></b>	<b><u>\$ (40,026)</u></b>	<b><u>\$ 3,363,399</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 291,250	\$ 4,207	\$ (40,026)	\$ 255,431
Deferred revenue	10,198	-	-	10,198
<b>Total liabilities</b>	<b>301,448</b>	<b>4,207</b>	<b>(40,026)</b>	<b>265,629</b>
<b>Net assets:</b>				
Unrestricted	1,229,860	992,168	-	2,222,028
Temporarily restricted	868,667	-	-	868,667
Permanently restricted	7,075	-	-	7,075
<b>Total net assets</b>	<b><u>2,105,602</u></b>	<b><u>992,168</u></b>	<b><u>-</u></b>	<b><u>3,097,770</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,407,050</u></b>	<b><u>\$ 996,375</u></b>	<b><u>\$ (40,026)</u></b>	<b><u>\$ 3,363,399</u></b>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Schedule of Activities**

**Year Ended August 31, 2010**

	<b>Friends - Portland</b>	<b>Youth Resources, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Public support and revenue:</b>				
Contributions	\$ 805,787	\$ -	\$ -	\$ 805,787
Grants and contracts	1,243,751	-	-	1,243,751
Loss on disposal of equipment	(4,735)	-	-	(4,735)
Special events - net	1,583,103	-	-	1,583,103
In-kind contributions	115,311	-	-	115,311
Rental income	-	157,221	(150,000)	7,221
<b>Total public support and revenue</b>	<b>3,743,217</b>	<b>157,221</b>	<b>(150,000)</b>	<b>3,750,438</b>
<b>Expenses:</b>				
Program services:				
Salaries and related expenses	2,370,076	-	-	2,370,076
Children's expenses	795,279	139,464	(127,500)	807,243
Friends' expenses	72,220	-	-	72,220
Total program services	3,237,575	139,464	(127,500)	3,249,539
Administrative	242,699	6,453	(7,500)	241,652
Development	411,352	12,105	(15,000)	408,457
<b>Total expenses</b>	<b>3,891,626</b>	<b>158,022</b>	<b>(150,000)</b>	<b>3,899,648</b>
<b>Decrease in net assets before investment activity</b>	<b>(148,409)</b>	<b>(801)</b>	<b>-</b>	<b>(149,210)</b>
<b>Investment activity:</b>				
Interest and dividends	10,524	1,847	-	12,371
Loss on investments	(100)	(732)	-	(832)
Net investment activity	10,424	1,115	-	11,539
<b>Increase (decrease) in net assets</b>	<b>(137,985)</b>	<b>314</b>	<b>-</b>	<b>(137,671)</b>
Net assets, beginning of year	2,243,587	991,854	-	3,235,441
<b>Net assets, end of year</b>	<b>\$ 2,105,602</b>	<b>\$ 992,168</b>	<b>\$ -</b>	<b>\$ 3,097,770</b>