
FRIENDS OF THE CHILDREN - PORTLAND

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2011

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

We have audited the accompanying consolidated statement of financial position of *Friends of the Children - Portland* and *Youth Resources, Inc.* (collectively, the Organizations) as of August 31, 2011, 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* 2010 consolidated financial statements and, in our report dated December 13, 2010, 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, 2011, 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 consolidated financial statements as a whole. The consolidating information appearing on pages 18 and 19 is presented for purposes of additional analysis of the consolidated financial statements 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 consolidating 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 consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Hoffman, Stewart & Schmidt, P.C.

November 4, 2011

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2011 <i>(With Comparative Amounts for 2010)</i>	2011	2010
ASSETS		
Cash and cash equivalents	\$ 1,361,322	\$ 1,359,966
Investments <i>(Notes 3 and 13)</i>	1,455	100,737
Receivables - net <i>(Note 4)</i>	830,950	915,708
Prepaid expenses	176,259	60,673
Property and equipment - net <i>(Note 5)</i>	<u>865,139</u>	<u>926,315</u>
Total assets	<u>\$ 3,235,125</u>	<u>\$ 3,363,399</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 217,758	\$ 255,431
Deferred revenue	<u>24,320</u>	<u>10,198</u>
Total liabilities	242,078	265,629
Net assets:		
Unrestricted	2,223,625	2,222,028
Temporarily restricted <i>(Note 7)</i>	750,793	868,667
Permanently restricted <i>(Notes 8 and 14)</i>	<u>18,629</u>	<u>7,075</u>
Total net assets	<u>2,993,047</u>	<u>3,097,770</u>
Total liabilities and net assets	<u>\$ 3,235,125</u>	<u>\$ 3,363,399</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, 2011 (With Comparative Totals for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2011	2010
Public support and revenue:					
Contributions	\$ 928,136	\$ 488,078	\$ 11,554	\$ 1,427,768	\$ 1,270,874
Grants and contracts	806,784	-	-	806,784	809,664
Special events - net (Note 6)	1,630,550	-	-	1,630,550	1,552,103
In-kind contributions	201,940	-	-	201,940	115,311
Rental income	7,448	-	-	7,448	7,221
Loss on disposal of equipment	(1,305)	-	-	(1,305)	(4,735)
Net assets released from restrictions (Note 7)	605,952	(605,952)	-	-	-
Total public support and revenue	4,179,505	(117,874)	11,554	4,073,185	3,750,438
Expenses:					
Program services:					
Salaries and related expenses	2,492,535	-	-	2,492,535	2,370,076
Children's expenses	904,330	-	-	904,330	807,243
Friends' expenses	80,115	-	-	80,115	72,220
Total program services	3,476,980	-	-	3,476,980	3,249,539
Administrative	289,904	-	-	289,904	241,652
Development	409,481	-	-	409,481	408,457
Total expenses	4,176,365	-	-	4,176,365	3,899,648
Increase (decrease) in net assets before investment activity	3,140	(117,874)	11,554	(103,180)	(149,210)
Investment activity:					
Interest and dividends	10,419	-	-	10,419	12,371
Loss on investments	(462)	-	-	(462)	(832)
Net investment activity	9,957	-	-	9,957	11,539
Transfer to <i>Friends of the Children - Portland Foundation (Note 10)</i>	(11,500)	-	-	(11,500)	-
Increase (decrease) in net assets	1,597	(117,874)	11,554	(104,723)	(137,671)
Net assets, beginning of year	2,222,028	868,667	7,075	3,097,770	3,235,441
Net assets, end of year	\$ 2,223,625	\$ 750,793	\$ 18,629	\$ 2,993,047	\$ 3,097,770

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, 2011 *(With Comparative Totals for 2010)*

	Program Services	Administrative	Development
Salaries and related expenses:			
Salaries and wages	\$ 2,020,200	\$ 217,148	\$ 198,427
Payroll taxes	145,506	16,009	16,608
Benefits	245,130	19,370	27,638
Retirement plan expense	37,412	2,641	3,961
Unemployment expense	31,451	2,220	3,330
Workers' compensation	12,836	906	1,359
Total salaries and related expenses	2,492,535	258,294	251,323
Children's activities	257,709	-	-
Transportation	182,862	863	2,550
Child evaluation	26,660	-	-
Friends' activities	30,939	-	-
Scholarships	13,500	-	-
Wireless phones expense	26,660	-	-
Community awareness	72,651	302	16,720
Staff development	22,516	2,079	7,916
Small equipment and maintenance expense	57,269	3,803	6,243
Rent expense	803	57	85
Supplies	8,251	516	1,102
Payroll and banking fees	13,107	916	1,458
Business insurance	21,181	1,371	2,056
Utilities	41,059	2,637	3,380
Telephone	72,099	4,071	8,272
Postage	7,492	576	4,149
Professional fees	45,426	9,155	76,039
Chapter affiliation fees	6,375	406	719
Printing and copying	12,698	899	8,850
Depreciation	65,188	3,959	5,939
Bad debt expense	-	-	12,680
Total expenses	<u>\$ 3,476,980</u>	<u>\$ 289,904</u>	<u>\$ 409,481</u>

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

Total	
2011	2010
\$ 2,435,775	\$ 2,350,621
178,123	177,907
292,138	308,633
44,014	48,747
37,001	-
15,101	21,962
3,002,152	2,907,870
257,709	245,743
186,275	165,617
26,660	26,460
30,939	30,347
13,500	21,570
26,660	18,532
89,673	4,563
32,511	35,252
67,315	69,249
945	-
9,869	13,498
15,481	16,215
24,608	23,822
47,076	39,702
84,442	76,111
12,217	11,245
130,620	92,617
7,500	7,500
22,447	14,688
75,086	76,462
12,680	2,585
<u>\$ 4,176,365</u>	<u>\$ 3,899,648</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Cash Flows

Year Ended August 31, 2011 <i>(With Comparative Totals for 2010)</i>	2011	2010
Cash flows from operating activities:		
Decrease in net assets	\$ (104,723)	\$ (137,671)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	(11,554)	-
Donated investment securities	(115,037)	(42,169)
Loss on disposal of equipment	1,305	4,735
Depreciation	75,086	76,462
Loss on investments	462	832
Transfer to <i>Friends of the Children - Portland Foundation</i>	11,500	-
Changes in:		
Receivables	84,758	86,446
Prepaid expenses	(115,586)	(23,154)
Accounts payable and accrued liabilities	(37,673)	38,405
Deferred revenue	14,122	9,073
Net cash provided (used) by operating activities	(197,340)	12,959
Cash flows from investing activities:		
Proceeds from sales of investments	252,459	94,463
Purchases of investments	(38,602)	(53,660)
Proceeds from sales of equipment	381	-
Purchase of equipment	(15,596)	(6,671)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(11,500)	-
Net cash provided by investing activities	187,142	34,132
Cash flows from financing activities:		
Proceeds from contributions to permanent endowment	11,554	-
Net cash provided by financing activities	11,554	-
Net increase in cash and cash equivalents	1,356	47,091
Cash and cash equivalents, beginning of year	1,359,966	1,312,875
Cash and cash equivalents, end of year	\$ 1,361,322	\$ 1,359,966

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 a non-profit organization that provides Portland's most at-risk children with intensive and long-term mentors. We take a preventative, early intervention approach that breaks the cycle of poverty and abuse by helping children in need to overcome the many obstacles in their lives.

The children in the program have significant challenges with 54 percent having parents that did not complete high school, 60 percent have one or more parent that has been incarcerated, or 60 percent being born by a teen parent. The children involved with the Organization overcome these odds as 92 percent regularly attend school with an 85 percent graduation rate, 99 percent of our adolescents avoid teen parenting, and 95 percent avoided involvement 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 12 ½ 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. Estimates are used in the consolidated financial statements for, among other things, the calculation of depreciation expense and the determination of any required allowance for potentially uncollectible receivables.

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 \$425,000 and \$472,780 for the years ended August 31, 2011 and 2010, 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, 2011 and 2010, totaled \$124,575 and \$33,269, 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 uncertain tax positions and also provide 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. As such, the returns for the years ended August 31, 2008, 2009, and 2010 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 2010 - 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 States of America. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended August 31, 2010, from which the summarized information was derived.

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:

	2011	2010
Money market funds	\$ 1,455	\$ 57,156
Fixed income funds	-	43,581
	<u>\$ 1,455</u>	<u>\$ 100,737</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2011	2010
Pledges due within one year	\$ 464,776	\$ 462,515
Contract receivable	65,521	63,622
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	11,304	12,462
Receivable from <i>Friends of the Children - National</i> ^A	-	105
Other receivables	21,100	20,758
	562,701	559,462
Receivables due in less than one year		
Pledges due in one to five years	279,033	382,633
Discount to present value (4 percent discount rate used)	(10,784)	(23,987)
Allowance for doubtful accounts	-	(2,400)
	830,950	915,708
Net receivables	\$ 830,950	\$ 915,708

^AThese are related parties.

5. Property and Equipment

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

	2011	2010
Computer equipment	\$ 96,413	\$ 93,284
Office equipment and furniture	228,285	227,957
Vehicles	27,543	30,763
Building and improvements	1,040,531	1,034,651
Land	100,000	100,000
	1,492,772	1,486,655
Less accumulated depreciation	(627,633)	(560,340)
Net property and equipment	\$ 865,139	\$ 926,315

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:

	2011	2010
Gross proceeds from events	\$ 1,784,673	\$ 1,678,835
Less direct costs of events	<u>(154,123)</u>	<u>(126,732)</u>
	<u>\$ 1,630,550</u>	<u>\$ 1,552,103</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2011, are available for the following purposes:

Longitudinal study	\$ 26,666
Scholarships	60,666
Future periods	<u>663,461</u>
	<u>\$ 750,793</u>

During the year ended August 31, 2011, net assets of \$605,952 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 \$18,629 at August 31, 2011, 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 18 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 \$44,014 and \$48,747 of retirement plan contribution expense during the years ended August 31, 2011 and 2010, 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:

	2011	2010
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 217,390	\$ 212,042
Contributions receivable	129,865	223,672
<i>Investments:</i>		
Equity securities	3,301,326	3,143,365
Fixed income securities	1,175,444	1,002,233
<i>Total assets</i>	\$ 4,824,025	\$ 4,581,312
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ 11,304	\$ 12,462
<i>Net assets:</i>		
Unrestricted net assets	4,694,356	4,345,178
Temporarily restricted net assets	118,365	223,672
<i>Total liabilities and net assets</i>	\$ 4,824,025	\$ 4,581,312

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

	2011	2010
Activities:		
<i>Support, revenue, and other increases in net assets:</i>		
Contributions	\$ 108,281	\$ 260,083
Interest and dividends	135,777	113,221
Gain on investments	502,702	212,839
Transfer from <i>Friends of the Children - Portland</i>	11,500	-
	758,260	586,143
<i>Expenses:</i>		
Contributions to <i>Friends of the Children - Portland</i>	425,000	472,780
Outside services	50,657	39,638
Investment fees	28,935	27,659
Marketing expenses	1,350	111
Accounting and compliance fees	8,282	6,713
Miscellaneous expenses	165	594
	514,389	547,495
<i>Total expenses</i>	514,389	547,495
<i>Increase in net assets</i>	\$ 243,871	\$ 38,648

11. Operating Agreements

Friends of the Children - Portland 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, 2011, is as follows:

Years Ending August 31,	Amount
2012	\$ 14,400
2013	7,200
	\$ 21,600

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, 2011, 30 percent of gross pledges receivable were due from three 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:

2011	Level 1	Level 2
Money market funds	<u>\$ -</u>	<u>\$ 1,455</u>
2010		
Money market funds	\$ -	\$ 57,156
Fixed income funds:		
Mortgage backed funds	<u>43,581</u>	<u>-</u>
	<u>\$ 43,581</u>	<u>\$ 57,156</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, 2011, is as follows:

	Permanently Restricted
Fast Friends Scholarship fund	\$ 18,629

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2011, are as follows:

	Permanently Restricted
Fast Friends Scholarship net assets, beginning of year	\$ 7,075
Contributions	<u>11,554</u>
Fast Friends Scholarship net assets, end of year	<u>\$ 18,629</u>

15. Subsequent Events

Management has evaluated subsequent events through November 4, 2011, 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, 2011

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 1,219,106	\$ 142,216	\$ -	\$ 1,361,322
Investments	-	1,455	-	1,455
Receivables - net	830,037	39,760	(38,847)	830,950
Prepaid expenses	172,438	3,821	-	176,259
Property and equipment - net	<u>55,072</u>	<u>810,067</u>	<u>-</u>	<u>865,139</u>
Total assets	<u>\$ 2,276,653</u>	<u>\$ 997,319</u>	<u>\$ (38,847)</u>	<u>\$ 3,235,125</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 251,899	\$ 4,706	\$ (38,847)	\$ 217,758
Deferred revenue	<u>24,320</u>	<u>-</u>	<u>-</u>	<u>24,320</u>
Total liabilities	276,219	4,706	(38,847)	242,078
Net assets:				
Unrestricted	1,231,012	992,613	-	2,223,625
Temporarily restricted	750,793	-	-	750,793
Permanently restricted	<u>18,629</u>	<u>-</u>	<u>-</u>	<u>18,629</u>
Total net assets	<u>2,000,434</u>	<u>992,613</u>	<u>-</u>	<u>2,993,047</u>
Total liabilities and net assets	<u>\$ 2,276,653</u>	<u>\$ 997,319</u>	<u>\$ (38,847)</u>	<u>\$ 3,235,125</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2011

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 1,427,768	\$ -	\$ -	\$ 1,427,768
Grants and contracts	806,784	-	-	806,784
Loss on disposal of equipment	(1,305)	-	-	(1,305)
Special events - net	1,630,550	-	-	1,630,550
In-kind contributions	199,265	2,675	-	201,940
Rental income	-	145,448	(138,000)	7,448
Total public support and revenue	4,063,062	148,123	(138,000)	4,073,185
Expenses:				
Program services:				
Salaries and related expenses	2,492,535	-	-	2,492,535
Children's expenses	891,019	130,611	(117,300)	904,330
Friends' expenses	80,115	-	-	80,115
Total program services	3,463,669	130,611	(117,300)	3,476,980
Administrative	290,561	7,623	(8,280)	289,904
Development	411,007	10,894	(12,420)	409,481
Total expenses	4,165,237	149,128	(138,000)	4,176,365
Decrease in net assets before investment activity	(102,175)	(1,005)	-	(103,180)
Investment activity:				
Interest and dividends	8,440	1,979	-	10,419
Gain (loss) on investments	67	(529)	-	(462)
Net investment activity	8,507	1,450	-	9,957
Transfer to <i>Friends of the Children - Portland Foundation</i>	(11,500)	-	-	(11,500)
Increase (decrease) in net assets	(105,168)	445	-	(104,723)
Net assets, beginning of year	2,105,602	992,168	-	3,097,770
Net assets, end of year	\$ 2,000,434	\$ 992,613	\$ -	\$ 2,993,047