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**FRIENDS OF THE CHILDREN - PORTLAND**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended August 31, 2012**

**and**

**Consolidating Information**

**with**

**Independent Auditors' Report**

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# FRIENDS OF THE CHILDREN - PORTLAND

## Table of Contents

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	<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	5
Notes to Consolidated Financial Statements	6
<b>Consolidating Information</b>	
Consolidating Schedule of Financial Position	17
Consolidating Schedule of Activities	18

## 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, 2012, 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* 2011 consolidated financial statements and, in our report dated November 4, 2011, 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 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 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, 2012, 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 17 and 18 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.*

December 12, 2012

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Financial Position**

<b>August 31, 2012</b> <i>(With Comparative Amounts for 2011)</i>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,545,378	\$ 1,361,322
Investments <i>(Notes 3 and 13)</i>	1,486	1,455
Receivables - net <i>(Note 4)</i>	673,532	830,950
Prepaid expenses	48,238	176,259
Property and equipment - net <i>(Note 5)</i>	<u>863,332</u>	<u>865,139</u>
<b>Total assets</b>	<b><u>\$ 3,131,966</u></b>	<b><u>\$ 3,235,125</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 324,711	\$ 217,758
Deferred revenue	<u>-</u>	<u>24,320</u>
<b>Total liabilities</b>	<b>324,711</b>	<b>242,078</b>
<b>Net assets:</b>		
Unrestricted	2,212,686	2,223,625
Temporarily restricted <i>(Note 7)</i>	569,707	750,793
Permanently restricted <i>(Notes 8 and 14)</i>	<u>24,862</u>	<u>18,629</u>
<b>Total net assets</b>	<b><u>2,807,255</u></b>	<b><u>2,993,047</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 3,131,966</u></b>	<b><u>\$ 3,235,125</u></b>

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*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, 2012** (With Comparative Totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
<b>Public support and revenue:</b>					
Contributions	\$ 1,176,348	\$ 413,531	\$ 6,233	\$ 1,596,112	\$ 1,427,768
Grants and contracts	714,702	-	-	714,702	806,784
Special events - net (Note 6)	1,753,441	1,300	-	1,754,741	1,630,550
In-kind contributions	186,610	-	-	186,610	201,940
Rental income	4,250	-	-	4,250	7,448
Miscellaneous income	3,225	-	-	3,225	-
Loss on disposal of equipment	-	-	-	-	(1,305)
Net assets released from restrictions (Note 7)	595,917	(595,917)	-	-	-
<b>Total public support and revenue</b>	<b>4,434,493</b>	<b>(181,086)</b>	<b>6,233</b>	<b>4,259,640</b>	<b>4,073,185</b>
<b>Expenses:</b>					
Program services:					
Salaries and related expenses	2,608,358	-	-	2,608,358	2,492,535
Children's expenses	984,228	-	-	984,228	904,330
Friends' expenses	82,206	-	-	82,206	80,115
Total program services	3,674,792	-	-	3,674,792	3,476,980
Administrative	275,235	-	-	275,235	289,904
Development	489,679	-	-	489,679	409,481
<b>Total expenses</b>	<b>4,439,706</b>	<b>-</b>	<b>-</b>	<b>4,439,706</b>	<b>4,176,365</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>(5,213)</b>	<b>(181,086)</b>	<b>6,233</b>	<b>(180,066)</b>	<b>(103,180)</b>
<b>Investment activity:</b>					
Interest and dividends	4,039	-	-	4,039	10,419
Gain (loss) on investments	235	-	-	235	(462)
Net investment activity	4,274	-	-	4,274	9,957
Transfer to <i>Friends of the Children - Portland Foundation (Note 10)</i>	(10,000)	-	-	(10,000)	(11,500)
<b>Increase (decrease) in net assets</b>	<b>(10,939)</b>	<b>(181,086)</b>	<b>6,233</b>	<b>(185,792)</b>	<b>(104,723)</b>
Net assets, beginning of year	2,223,625	750,793	18,629	2,993,047	3,097,770
<b>Net assets, end of year</b>	<b>\$ 2,212,686</b>	<b>\$ 569,707</b>	<b>\$ 24,862</b>	<b>\$ 2,807,255</b>	<b>\$ 2,993,047</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, 2012** (With Comparative Totals for 2011)

	Program			Total	
	Services	Administrative	Development	2012	2011
<b>Salaries and related expenses:</b>					
Salaries and wages	\$ 2,101,039	\$ 205,619	\$ 283,667	\$ 2,590,325	\$ 2,435,775
Payroll taxes	155,008	15,188	21,691	191,887	178,123
Benefits	263,850	20,400	29,420	313,670	292,138
Retirement plan expense	47,192	3,331	4,997	55,520	44,014
Unemployment expense	26,747	1,888	2,832	31,467	37,001
Workers' compensation	14,522	1,025	1,538	17,085	15,101
<b>Total salaries and related expenses</b>	<b>2,608,358</b>	<b>247,451</b>	<b>344,145</b>	<b>3,199,954</b>	<b>3,002,152</b>
Children's activities	316,514	-	-	316,514	257,709
Transportation	196,646	580	3,055	200,281	186,275
Child evaluation	26,500	-	-	26,500	26,660
Friends' activities	30,180	-	-	30,180	30,939
Scholarships	33,110	-	-	33,110	13,500
Wireless phones expense	26,355	-	-	26,355	26,660
Community awareness	17,140	449	2,589	20,178	89,673
Staff development	25,671	1,754	7,955	35,380	32,511
Small equipment and maintenance expense	55,161	3,323	5,331	63,815	67,315
Rent expense	14,025	990	1,485	16,500	945
Supplies	6,979	502	880	8,361	9,869
Payroll and banking fees	15,528	1,095	1,806	18,429	15,481
Business insurance	20,830	1,367	2,050	24,247	24,608
Utilities	41,543	2,266	3,452	47,261	47,076
Telephone	88,748	5,767	9,472	103,987	84,442
Postage	7,401	459	3,058	10,918	12,217
Professional fees	64,069	4,228	62,800	131,097	130,620
Chapter affiliation fees	8,500	600	900	10,000	7,500
Printing and copying	10,815	729	7,648	19,192	22,447
Depreciation	60,719	3,675	5,513	69,907	75,086
Bad debt expense	-	-	27,540	27,540	12,680
<b>Total expenses</b>	<b>\$ 3,674,792</b>	<b>\$ 275,235</b>	<b>\$ 489,679</b>	<b>\$ 4,439,706</b>	<b>\$ 4,176,365</b>

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

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Cash Flows**

<b>Year Ended August 31, 2012</b> <i>(With Comparative Totals for 2011)</i>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Decrease in net assets	\$ (185,792)	\$ (104,723)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	(6,233)	(11,554)
Donated investment securities	(53,994)	(115,037)
Loss on disposal of equipment	-	1,305
Depreciation	69,907	75,086
(Gain) loss on investments	(235)	462
Transfer to <i>Friends of the Children - Portland     Foundation</i>	10,000	11,500
Changes in:		
Receivables	157,418	84,758
Prepaid expenses	128,021	(115,586)
Accounts payable and accrued liabilities	106,953	(37,673)
Deferred revenue	(24,320)	14,122
<b>Net cash provided (used) by operating activities</b>	<b>201,725</b>	<b>(197,340)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	54,198	252,459
Purchases of investments	-	(38,602)
Proceeds from sales of equipment	-	381
Purchase of equipment	(68,100)	(15,596)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(10,000)	(11,500)
<b>Net cash provided (used) by investing activities</b>	<b>(23,902)</b>	<b>187,142</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions to permanent endowment	6,233	11,554
<b>Net cash provided by financing activities</b>	<b>6,233</b>	<b>11,554</b>
<b>Net increase in cash and cash equivalents</b>	<b>184,056</b>	<b>1,356</b>
Cash and cash equivalents, beginning of year	1,361,322	1,359,966
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,545,378</b>	<b>\$ 1,361,322</b>

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

# FRIENDS OF THE CHILDREN - PORTLAND

## 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*) (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

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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. 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 activity, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments as well as interest and dividend income, is reported in the 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. Management did not believe an allowance for doubtful accounts was necessary at August 31, 2012 and 2011. Management will write off any balance that remains after it has exhausted all reasonable collection efforts.

**Property and Equipment** - Property and equipment are recorded at cost or estimated fair value at date of donation. Depreciation of furniture, equipment, and vehicles is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years. Depreciation of buildings and improvements is calculated using the straight-line method over estimated useful lives ranging from 20 to 40 years.

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

**Contribution Recognition** - Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At August 31, 2012, the Organization has a conditional grant receivable of \$30,000 from a foundation. The receipt of this grant is conditioned upon receiving matching contributions. The revenue will be recognized once the conditions have been met. Contributions include \$350,000 and \$425,000 for the years ended August 31, 2012 and 2011, respectively, from *Friends of the Children - Portland Foundation*.

## FRIENDS OF THE CHILDREN - PORTLAND

### 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 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.

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 that create or enhance a non-financial asset or require specialized skills the Organizations would have purchased if not donated are recognized in the consolidated statement of activities. The value of such services for the years ended August 31, 2012 and 2011, totaled \$59,795 and \$124,575, 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, 2009, 2010, and 2011 are currently subject to examination. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

**FRIENDS OF THE CHILDREN - PORTLAND**

**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**

**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 2011** - 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, 2011, 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:

	<b>2012</b>	<b>2011</b>
Money market funds	<u>\$ 1,486</u>	<u>\$ 1,455</u>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

**4. Receivables**

Receivables consisted of the following at August 31:

	<b>2012</b>	<b>2011</b>
Pledges due within one year	\$ 464,397	\$ 464,776
Contract receivable	56,550	65,521
Receivable from <i>Friends of the Children - Portland Foundation</i> <sup>A</sup>	1,001	11,304
Receivable from <i>Friends of the Children - National</i> <sup>A</sup>	12,117	-
Other receivables	28,460	21,100
	<u>562,525</u>	<u>562,701</u>
<b>Receivables due in less than one year</b>	<b>562,525</b>	<b>562,701</b>
Pledges due in one to five years	117,200	279,033
Discount to present value (4 percent discount rate used)	(6,193)	(10,784)
	<u>111,007</u>	<u>268,249</u>
<b>Net receivables</b>	<b><u>\$ 673,532</u></b>	<b><u>\$ 830,950</u></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>2012</b>	<b>2011</b>
Computer equipment	\$ 125,185	\$ 96,413
Office equipment and furniture	232,377	228,285
Vehicles	57,543	27,543
Building and improvements	1,045,767	1,040,531
Land	100,000	100,000
	<u>1,560,872</u>	<u>1,492,772</u>
Less accumulated depreciation	(697,540)	(627,633)
	<u>(697,540)</u>	<u>(627,633)</u>
<b>Net property and equipment</b>	<b><u>\$ 863,332</u></b>	<b><u>\$ 865,139</u></b>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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**6. Special Events**

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

	<b>2012</b>	<b>2011</b>
Gross proceeds from events	\$ 2,102,583	\$ 1,784,673
Less direct costs of events	<u>(347,842)</u>	<u>(154,123)</u>
	<u><u>\$ 1,754,741</u></u>	<u><u>\$ 1,630,550</u></u>

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets at August 31, 2012, are available for the following purposes:

Back to School	\$ 6,670
Scholarships	70,778
Longitudinal study	71,667
Future periods	<u>420,592</u>
	<u><u>\$ 569,707</u></u>

During the year ended August 31, 2012, net assets of \$595,917 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 \$24,862 at August 31, 2012, 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 \$55,519 and \$44,014 of retirement plan contribution expense during the years ended August 31, 2012 and 2011, 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, that 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>2012</b>	<b>2011</b>
<b>Financial position:</b>		
<i>Assets:</i>		
Cash and cash equivalents	\$ 381,876	\$ 217,390
Contributions receivable	47,500	129,865
<i>Investments:</i>		
Equity securities	3,515,921	3,301,326
Fixed income securities	1,078,481	1,175,444
<i>Total assets</i>	<b>\$ 5,023,778</b>	<b>\$ 4,824,025</b>
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ 12,175	\$ 11,304
<i>Net assets:</i>		
Unrestricted net assets	4,974,103	4,694,356
Temporarily restricted net assets	37,500	118,365
<i>Total liabilities and net assets</i>	<b>\$ 5,023,778</b>	<b>\$ 4,824,025</b>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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

	<b>2012</b>	<b>2011</b>
<b>Activities:</b>		
<i>Support, revenue, and other increases in net assets:</i>		
Contributions	\$ 206,295	\$ 108,281
Interest and dividends	151,940	135,777
Gain on investments	269,966	502,702
Transfer from <i>Friends of the Children - Portland</i>	10,000	11,500
<i>Total support, revenue, and other increases in net assets</i>	638,201	758,260
 <i>Expenses:</i>		
Contributions to <i>Friends of the Children - Portland</i>	350,000	425,000
Outside services	49,902	50,657
Investment fees	27,951	28,935
Marketing expenses	2,540	1,350
Accounting and compliance fees	8,702	8,282
Miscellaneous expenses	224	165
<i>Total expenses</i>	439,319	514,389
<i>Increase in net assets</i>	<u>\$ 198,882</u>	<u>\$ 243,871</u>

**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 commitment under the noncancelable agreement for the year ended August 31, 2013, is \$7,200.

## FRIENDS OF THE CHILDREN - PORTLAND

### Notes to Consolidated Financial Statements - Continued

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#### 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, 2012, 41 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 that would generally be included in Level 1 include listed securities.
- Level 2: Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. Investments that 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**

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**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>2012</b>	<b>Level 2</b>
Money market funds	<u>\$ 1,486</u>
<b>2011</b>	
Money market funds	<u>\$ 1,455</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**

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**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, 2012, is as follows:

	<b>Permanently Restricted</b>
Fast Friends Scholarship Fund	<u>\$ 24,862</u>

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2012, are as follows:

	<b>Permanently Restricted</b>
Fast Friends Scholarship net assets, beginning of year	\$ 18,629
Contributions	<u>6,233</u>
Fast Friends Scholarship net assets, end of year	<u>\$ 24,862</u>

**15. Subsequent Events**

Management has evaluated subsequent events through December 12, 2012, the date the consolidated financial statements were available to be issued.

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**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Information**

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**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Schedule of Financial Position**

**August 31, 2012**

	<b>Friends - Portland</b>	<b>Youth Resources, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,358,527	\$ 186,851	\$ -	\$ 1,545,378
Investments	-	1,486	-	1,486
Receivables - net	675,174	26,750	(28,392)	673,532
Prepaid expenses	48,238	-	-	48,238
Property and equipment - net	<u>77,566</u>	<u>785,766</u>	<u>-</u>	<u>863,332</u>
<b>Total assets</b>	<b><u>\$ 2,159,505</u></b>	<b><u>\$ 1,000,853</u></b>	<b><u>\$ (28,392)</u></b>	<b><u>\$ 3,131,966</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	<u>\$ 345,340</u>	<u>\$ 7,763</u>	<u>\$ (28,392)</u>	<u>\$ 324,711</u>
<b>Total liabilities</b>	<b>345,340</b>	<b>7,763</b>	<b>(28,392)</b>	<b>324,711</b>
<b>Net assets:</b>				
Unrestricted	1,219,596	993,090	-	2,212,686
Temporarily restricted	569,707	-	-	569,707
Permanently restricted	<u>24,862</u>	<u>-</u>	<u>-</u>	<u>24,862</u>
<b>Total net assets</b>	<b><u>1,814,165</u></b>	<b><u>993,090</u></b>	<b><u>-</u></b>	<b><u>2,807,255</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,159,505</u></b>	<b><u>\$ 1,000,853</u></b>	<b><u>\$ (28,392)</u></b>	<b><u>\$ 3,131,966</u></b>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Schedule of Activities**

**Year Ended August 31, 2012**

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
<b>Public support and revenue:</b>				
Contributions	\$ 1,597,412	\$ -	\$ -	\$ 1,597,412
Grants and contracts	714,702	-	-	714,702
Special events - net	1,742,248	11,193	-	1,753,441
In-kind contributions	184,078	2,532	-	186,610
Rental income	-	129,770	(125,520)	4,250
Miscellaneous income	3,150	75	-	3,225
<b>Total public support and revenue</b>	<b>4,241,590</b>	<b>143,570</b>	<b>(125,520)</b>	<b>4,259,640</b>
<b>Expenses:</b>				
Program services:				
Salaries and related expenses	2,608,358	-	-	2,608,358
Children's expenses	964,280	126,640	(106,692)	984,228
Friends' expenses	82,206	-	-	82,206
Total program services	3,654,844	126,640	(106,692)	3,674,792
Administrative	276,032	6,734	(7,531)	275,235
Development	490,826	10,150	(11,297)	489,679
<b>Total expenses</b>	<b>4,421,702</b>	<b>143,524</b>	<b>(125,520)</b>	<b>4,439,706</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>(180,112)</b>	<b>46</b>	<b>-</b>	<b>(180,066)</b>
<b>Investment activity:</b>				
Interest and dividends	3,646	393	-	4,039
Gain on investments	197	38	-	235
Net investment activity	3,843	431	-	4,274
Transfer to <i>Friends of the Children - Portland Foundation</i>	(10,000)	-	-	(10,000)
<b>Increase (decrease) in net assets</b>	<b>(186,269)</b>	<b>477</b>	<b>-</b>	<b>(185,792)</b>
Net assets, beginning of year	2,000,434	992,613	-	2,993,047
<b>Net assets, end of year</b>	<b>\$ 1,814,165</b>	<b>\$ 993,090</b>	<b>\$ -</b>	<b>\$ 2,807,255</b>