



CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2014

and

Consolidating Information

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - PORTLAND

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Independent Auditors' Report

The Board of Directors
Friends of the Children - Portland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *Friends of the Children - Portland* and *Youth Resources, Inc.* (nonprofit organizations), which comprise the consolidated statement of financial position as of August 31, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *Friends of the Children - Portland* and *Youth Resources, Inc.* as of August 31, 2014, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 19 and 20 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited *Friends of the Children - Portland* and *Youth Resources Inc.*'s 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
December 17, 2014

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2014 <i>(With Comparative Amounts for 2013)</i>	2014	2013
ASSETS		
Cash and cash equivalents	\$ 1,263,676	\$ 1,499,345
Investments <i>(Notes 3 and 12)</i>	6,264	36,513
Receivables - net <i>(Note 4)</i>	2,285,540	832,999
Prepaid expenses	97,588	34,424
Cash restricted for property acquisition <i>(Note 5)</i>	769,978	-
Property and equipment - net <i>(Note 5)</i>	<u>1,097,952</u>	<u>991,423</u>
Total assets	<u>\$ 5,520,998</u>	<u>\$ 3,394,704</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 327,269	\$ 430,703
Commitments <i>(Note 14)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	1,097,952	991,423
Other undesignated	<u>1,115,998</u>	<u>1,221,743</u>
Total unrestricted	2,213,950	2,213,166
Temporarily restricted <i>(Note 6)</i>	2,942,705	718,073
Permanently restricted <i>(Notes 7 and 13)</i>	<u>37,074</u>	<u>32,762</u>
Total net assets	<u>5,193,729</u>	<u>2,964,001</u>
Total liabilities and net assets	<u>\$ 5,520,998</u>	<u>\$ 3,394,704</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, 2014 (With Comparative Totals for 2013)

	Unrestricted	Temporarily	Permanently	Total	
		Restricted	Restricted	2014	2013
Public support and revenue:					
Contributions	\$ 1,204,468	\$ 2,774,288	\$ 4,312	\$ 3,983,068	\$ 1,718,591
Grants and contracts	766,742	96,151	-	862,893	714,302
Special events - net (Note 9)	1,968,218	67,050	-	2,035,268	2,194,597
In-kind contributions	180,661	-	-	180,661	215,272
Rental income	5,068	-	-	5,068	5,113
Miscellaneous income	6,646	-	-	6,646	11,771
Net assets released from restrictions (Note 6)	712,857	(712,857)	-	-	-
Total public support and revenue	4,844,660	2,224,632	4,312	7,073,604	4,859,646
Expenses:					
Program services	3,968,231	-	-	3,968,231	3,790,553
Administrative	375,080	-	-	375,080	312,510
Development	466,705	-	-	466,705	467,334
Total expenses	4,810,016	-	-	4,810,016	4,570,397
Increase in net assets before investment activity	34,644	2,224,632	4,312	2,263,588	289,249
Investment activity:					
Interest and dividends	2,732	-	-	2,732	2,722
Loss on investments	(3,592)	-	-	(3,592)	(225)
Net investment activity	(860)	-	-	(860)	2,497
Transfer to <i>Friends of the Children - Portland Foundation</i> (Note 10)	(33,000)	-	-	(33,000)	(135,000)
Increase in net assets	784	2,224,632	4,312	2,229,728	156,746
Net assets, beginning of year	2,213,166	718,073	32,762	2,964,001	2,807,255
Net assets, end of year	\$ 2,213,950	\$ 2,942,705	\$ 37,074	\$ 5,193,729	\$ 2,964,001

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, 2014 (With Comparative Totals for 2013)

	Program			Total	
	Services	Administrative	Development	2014	2013
Salaries and related expenses:					
Salaries and wages	\$ 2,262,516	\$ 261,104	\$ 319,693	\$ 2,843,313	\$ 2,760,039
Payroll taxes and benefits	539,256	44,097	62,253	645,606	635,429
Total salaries and related expenses	2,801,772	305,201	381,946	3,488,919	3,395,468
Children's activities	173,605	-	-	173,605	157,325
Child evaluation	36,115	-	-	36,115	27,200
Friend transportation	187,798	-	-	187,798	192,198
Friends' activities	28,629	-	-	28,629	29,490
Friend communication	26,725	-	-	26,725	26,253
In-kind gifts for children and families	144,688	-	-	144,688	165,603
Scholarships	28,565	-	-	28,565	26,500
Travel and meetings	11,547	936	8,566	21,049	17,105
Community awareness	22,878	732	11,182	34,792	33,635
Staff development	34,722	4,780	3,346	42,848	26,917
Repairs and maintenance	74,668	4,425	6,252	85,345	80,085
Supplies	16,946	1,679	1,652	20,277	10,467
Payroll and banking fees	11,696	826	10,222	22,744	19,824
Business insurance	27,627	1,865	2,798	32,290	30,657
Utilities	37,526	2,088	2,995	42,609	35,862
Information technology	101,791	7,334	11,395	120,520	107,990
Professional fees	37,335	2,469	4,112	43,916	43,367
Chapter affiliation fees	8,500	600	900	10,000	10,000
Postage and printing	16,228	1,144	14,745	32,117	35,150
East County Project (Note 5)	66,790	36,710	-	103,500	-
Depreciation	72,080	4,291	6,594	82,965	71,416
Bad debt expense	-	-	-	-	27,885
Total expenses	\$ 3,968,231	\$ 375,080	\$ 466,705	\$ 4,810,016	\$ 4,570,397

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Cash Flows

Year Ended August 31, 2014 <i>(With Comparative Totals for 2013)</i>	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 2,229,728	\$ 156,746
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions restricted for property acquisition	(852,230)	-
Proceeds from contributions to permanent endowment	(4,312)	(7,900)
Donated equipment	-	(8,349)
Depreciation	82,965	71,416
Loss on investments	3,592	225
Transfer to <i>Friends of the Children - Portland Foundation</i>	33,000	135,000
Changes in:		
Receivables	(1,452,541)	(159,467)
Prepaid expenses	(63,164)	13,814
Accounts payable and accrued liabilities	(103,434)	103,892
Net cash provided (used) by operating activities	(126,396)	305,377
Cash flows from investing activities:		
Proceeds from sales of investments	148,921	10,376
Purchases of investments	(122,264)	(45,628)
Cash restricted for property acquisition	(769,978)	-
Purchase of property and equipment	(189,494)	(189,058)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(33,000)	(135,000)
Net cash used by investing activities	(965,815)	(359,310)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	852,230	-
Proceeds from contributions to permanent endowment	4,312	7,900
Net cash provided by financing activities	856,542	7,900
Net decrease in cash and cash equivalents	(235,669)	(46,033)
Cash and cash equivalents, beginning of year	1,499,345	1,545,378
Cash and cash equivalents, end of year	\$ 1,263,676	\$ 1,499,345
Supplemental disclosure of non-cash information:		
Property and equipment accrued in accounts payable	\$ -	\$ 2,100

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*) 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 60 percent having parents that did not complete high school, 50 percent having one or more parent that has been incarcerated, and 85 percent being born by a teen parent. The children involved with *Friends - Portland* overcome these odds as 91 percent regularly attend school with an 83 percent graduation rate, 98 percent of our adolescents avoid teen parenting, and 93 percent avoid involvement in the juvenile justice system.

For children and youth, *Friends - Portland* 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 controlled subsidiary, *Youth Resources, Inc.* (collectively, the Organizations). All inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organizations and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the 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, determination of any required allowance for potentially uncollectible receivables, and functional allocation of expenses.

Cash and Cash Equivalents - The Organizations consider all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

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 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, 2014, *Friends - Portland* has a conditional grant receivable totaling \$50,000 from one foundation. The receipt of this grant is conditioned upon receiving matching contributions. The revenue will be recognized once the conditions have been met. Public support includes \$408,500 and \$325,000 for the years ended August 31, 2014 and 2013, respectively, from *Friends of the Children - Portland Foundation*.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

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

The Organizations report gifts of furniture and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

In-Kind Contributions - The Organizations receive contributed services from a small number of unpaid volunteers who assist in a range of fundraising and program activities. The values of such services, which the Organizations consider not practical to estimate, have not been recognized in the consolidated statement of activities. Significant services received that create or enhance a non-financial asset or require specialized skills the Organizations would have purchased if not donated are recognized in the consolidated statement of activities. The value of such services for the year ended August 31, 2014, totaled \$31,066 and consisted of donated 401(k) administrative services and dental services for program youth. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and the contributions are an essential part of the Organizations' activities.

Income Tax Status - Income taxes are not provided for in the consolidated financial statements since the Organizations are exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organizations are not classified as private foundations.

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 Organization files 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, 2011, 2012 and 2013, are currently subject to examination. There are currently no tax examinations in progress for any periods. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

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

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 2013 - 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, 2013, from which the summarized information was derived.

Reclassifications - Certain information in the 2013 financial statements has been reclassified for comparative purposes to conform to the 2014 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 fundraising and public awareness campaigns, preparing and distributing fundraising materials, and other activities aimed at the solicitation of contributions from individuals, businesses, and foundations.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

3. Investments

Investments included the following at August 31:

	2014	2013
Bank stock	\$ 6,264	\$ -
Money market funds	-	36,513
	<u>\$ 6,264</u>	<u>\$ 36,513</u>

4. Receivables

Receivables consisted of the following at August 31:

	2014	2013
Pledges due within one year	\$ 1,277,703	\$ 570,305
Contract receivable	275,806	56,550
Receivable from <i>Friends of the Children - Portland Foundation</i> [^]	10,848	-
Receivable from <i>Friends of the Children - National</i> [^]	53,577	28,001
Other receivables	30,421	26,898
	<u>1,648,355</u>	<u>681,754</u>
Receivables due in less than one year		
Pledges due in one to five years	696,062	187,400
Allowance for doubtful accounts	(9,450)	(25,000)
Discount to present value (4 percent discount rate used)	(49,427)	(11,155)
	<u>(58,877)</u>	<u>(46,155)</u>
Net receivables	<u>\$ 2,285,540</u>	<u>\$ 832,999</u>

[^]These are related parties.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

5. Property and Equipment

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

	2014	2013
Computer equipment	\$ 221,035	\$ 180,806
Office equipment and furniture	248,983	241,201
Vehicles	88,901	57,543
Building and improvements	1,206,584	1,180,829
Land	100,000	100,000
Construction in progress	84,370	-
	1,949,873	1,760,379
Less accumulated depreciation	(851,921)	(768,956)
Net property and equipment	\$ 1,097,952	\$ 991,423

During 2014, the Organization signed a 49-year ground lease, with an option to extend for five consecutive terms of ten years each, with the City of Gresham for \$1 a year for the use of land to build and operate a new facility. The lease will commence upon signing the contract with a general construction contractor. The total estimated cost of the project is \$5 million, including estimated construction and furnishing costs of \$3.1 million, the land lease valued at \$900,000, and the remaining funds to be used for ongoing facility operating costs. Management believes the project will be funded through capital campaign donations. At August 31, 2014, the Organization had cash of \$769,978 and pledges receivable of \$1,137,495 restricted for use on this project. During the year ended August 31, 2014, the Organization incurred expenses totaling \$103,500 related to expansion planning for the East County Project. Of this amount, \$66,790 related to demolition costs for the building that previously existed on the site selected for expansion and project management costs. The remaining \$36,710 related to general planning activities.

Subsequent to August 31, 2014, the Organization signed a construction contract totaling \$2,475,542 and the lease with the City of Gresham began.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2014, are available for the following purposes:

Back to School	\$	5,630
Scholarships		96,234
Longitudinal study		150,000
Future periods		704,116
East County Building		1,986,725
		<u>1,986,725</u>
		<u>\$ 2,942,705</u>

During the year ended August 31, 2014, net assets of \$712,857 were released from restrictions due to the specific actions of Friends - Portland and/or the passage of time.

7. Permanently Restricted Net Assets

Permanently restricted net assets consist of \$37,074 at August 31, 2014, for the Fast Friends Scholarship Fund.

8. Retirement Plans

Friends - Portland has a retirement plan pursuant to Internal Revenue Code (IRC) Section 401(k), in which employees 18 years of age and older and with at least one month of service are eligible to participate. *Friends - Portland* also has a retirement plan under IRC Section 403(b) for certain eligible employees. Contributions to both plans are discretionary. Employer contributions to the 401(k) plan totaled \$57,017 and \$52,657 for the years ended August 31, 2014 and 2013, respectively.

9. Special Events

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

	2014	2013
Gross proceeds from events	\$ 2,199,016	\$ 2,361,101
Less direct costs of events	(163,748)	(166,504)
	<u>\$ 2,035,268</u>	<u>\$ 2,194,597</u>

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:

	2014	2013
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 214,081	\$ 148,495
Contributions receivable	-	5,000
Receivable from <i>Friends of the Children - Portland</i>	33,000	135,182
<i>Investments:</i>		
Equity securities	4,847,143	4,108,842
Fixed income securities	840,962	948,873
Prepaid expenses	1,367	-
<i>Total assets</i>	\$ 5,936,553	\$ 5,346,392
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ 10,848	\$ -
<i>Net assets:</i>		
Unrestricted net assets	5,925,705	5,341,392
Temporarily restricted net assets	-	5,000
<i>Total liabilities and net assets</i>	\$ 5,936,553	\$ 5,346,392

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

	2014	2013
Activities:		
<i>Support, revenue, and other increases</i>		
<i>in net assets:</i>		
Contributions	\$ 101,720	\$ 107,220
Interest and dividends	106,382	115,588
Gain on investments	825,575	378,698
Transfer from <i>Friends of the Children - Portland</i>	33,000	135,000
<i>Total support, revenue, and other increases in net assets</i>	1,066,677	736,506
<i>Expenses:</i>		
Contributions to <i>Friends of the Children - Portland</i>	408,500	325,000
Outside services	38,712	39,249
Investment fees	30,696	29,173
Marketing expenses	310	517
Accounting and compliance fees	8,786	7,301
Miscellaneous expenses	360	477
<i>Total expenses</i>	487,364	401,717
<i>Increase in net assets</i>	\$ 579,313	\$ 334,789

11. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organizations to concentrations of risk consist primarily of cash and cash equivalents and receivables. The Organizations typically maintain balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation (FDIC) limits. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2014, 22 percent of net receivables was due from one donor.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

12. 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 generally included in this category include corporate bonds and loans.
- Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, and hedge funds.

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

2014	Level 2
Bank stock	<u>\$ 6,264</u>
2013	
Money market funds	<u>\$ 36,513</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds

Generally accepted accounting principles require *Friends - Portland* to present its net assets and its revenue and gains based upon the existence or absence of donor imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted. Accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Accounting standards also provide for enhanced disclosure about endowment funds (both donor restricted endowment funds and quasi-endowment funds).

Interpretation of Relevant Law

The Board of Directors of *Friends - Portland* has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, *Friends - Portland* classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by *Friends - Portland* in a manner consistent with the standard of prudence prescribed by UPMIFA.

Investment Strategy and Spending Policy

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, 2014, is as follows:

	Permanently Restricted
Fast Friends Scholarship Fund	<u>\$ 37,074</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds - Continued

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2014, are as follows:

	Permanently Restricted
Fast Friends Scholarship net assets, beginning of year	\$ 32,762
Contributions	<u>4,312</u>
Fast Friends Scholarship net assets, end of year	<u><u>\$ 37,074</u></u>

14. Lease Commitments

The Organizations lease office equipment under operating leases expiring through October 2016. Lease expense for the year ended August 31, 2014, was \$3,106. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2015	\$ 1,554
2016	798
2017	490
2018	<u>204</u>
	<u><u>\$ 3,046</u></u>

15. Subsequent Events

Management has evaluated subsequent events through December 17, 2014, 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, 2014

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 1,131,719	\$ 131,957	\$ -	\$ 1,263,676
Investments	6,264	-	-	6,264
Receivables - net	2,284,840	11,509	(10,809)	2,285,540
Prepaid expenses	97,488	100	-	97,588
Cash restricted for property acquisition	769,978	-	-	769,978
Property and equipment - net	<u>215,706</u>	<u>882,246</u>	<u>-</u>	<u>1,097,952</u>
Total assets	<u>\$ 4,505,995</u>	<u>\$ 1,025,812</u>	<u>\$ (10,809)</u>	<u>\$ 5,520,998</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	\$ 330,292	\$ 7,786	\$ (10,809)	\$ 327,269
Net assets:				
Unrestricted	1,195,924	1,018,026	-	2,213,950
Temporarily restricted	2,942,705	-	-	2,942,705
Permanently restricted	<u>37,074</u>	<u>-</u>	<u>-</u>	<u>37,074</u>
Total net assets	<u>4,175,703</u>	<u>1,018,026</u>	<u>-</u>	<u>5,193,729</u>
Total liabilities and net assets	<u>\$ 4,505,995</u>	<u>\$ 1,025,812</u>	<u>\$ (10,809)</u>	<u>\$ 5,520,998</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2014

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 3,983,068	\$ -	\$ -	\$ 3,983,068
Grants and contracts	862,893	-	-	862,893
Special events - net	2,035,268	-	-	2,035,268
In-kind contributions	180,661	-	-	180,661
Rental income	-	164,568	(159,500)	5,068
Miscellaneous income	6,646	-	-	6,646
Total public support and revenue	7,068,536	164,568	(159,500)	7,073,604
Expenses:				
Program services:				
Salaries and related expenses	2,801,772	-	-	2,801,772
Children's expenses	1,000,851	144,317	(135,575)	1,009,593
Friends' expenses	156,866	-	-	156,866
Total program services	3,959,489	144,317	(135,575)	3,968,231
Administrative	376,419	8,231	(9,570)	375,080
Development	469,034	12,026	(14,355)	466,705
Total expenses	4,804,942	164,574	(159,500)	4,810,016
Increase (decrease) in net assets before investment activity	2,263,594	(6)	-	2,263,588
Investment activity:				
Interest and dividends	2,544	188	-	2,732
Loss on investments	(3,592)	-	-	(3,592)
Net investment activity	(1,048)	188	-	(860)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(33,000)	-	-	(33,000)
Increase in net assets	2,229,546	182	-	2,229,728
Net assets, beginning of year	1,946,157	1,017,844	-	2,964,001
Net assets, end of year	\$ 4,175,703	\$ 1,018,026	\$ -	\$ 5,193,729