
FRIENDS OF THE CHILDREN - PORTLAND

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2013

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 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, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other 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 18 and 19 is presented for purposes of additional analysis and 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's* 2012 consolidated financial statements, and our report dated December 12, 2012, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012, 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 18, 2013

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2013 <i>(With Comparative Amounts for 2012)</i>	2013	2012
ASSETS		
Cash and cash equivalents	\$ 1,499,345	\$ 1,545,378
Investments <i>(Notes 3 and 12)</i>	36,513	1,486
Receivables - net <i>(Note 4)</i>	832,999	673,532
Prepaid expenses	34,424	48,238
Property and equipment - net <i>(Note 5)</i>	<u>991,423</u>	<u>863,332</u>
Total assets	<u>\$ 3,394,704</u>	<u>\$ 3,131,966</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 430,703	\$ 324,711
Commitments <i>(Note 14)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	991,423	863,332
Other undesignated	<u>1,221,743</u>	<u>1,349,354</u>
Total unrestricted	2,213,166	2,212,686
Temporarily restricted <i>(Note 6)</i>	718,073	569,707
Permanently restricted <i>(Notes 7 and 13)</i>	<u>32,762</u>	<u>24,862</u>
Total net assets	<u>2,964,001</u>	<u>2,807,255</u>
Total liabilities and net assets	<u>\$ 3,394,704</u>	<u>\$ 3,131,966</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, 2013 (With Comparative Totals for 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
Public support and revenue:					
Contributions	\$ 1,127,249	\$ 583,442	\$ 7,900	\$ 1,718,591	\$ 1,596,112
Grants and contracts	714,302	-	-	714,302	714,702
Special events - net (Note 9)	2,178,897	15,700	-	2,194,597	1,754,741
In-kind contributions	215,272	-	-	215,272	186,610
Rental income	5,113	-	-	5,113	4,250
Miscellaneous income	11,771	-	-	11,771	3,225
Net assets released from restrictions (Note 6)	450,776	(450,776)	-	-	-
Total public support and revenue	4,703,380	148,366	7,900	4,859,646	4,259,640
Expenses:					
Program services:					
Salaries and related expenses	2,721,463	-	-	2,721,463	2,608,358
Children's expenses	992,813	-	-	992,813	984,228
Friends' expenses	76,277	-	-	76,277	82,206
Total program services	3,790,553	-	-	3,790,553	3,674,792
Administrative	312,510	-	-	312,510	275,235
Development	467,334	-	-	467,334	489,679
Total expenses	4,570,397	-	-	4,570,397	4,439,706
Increase (decrease) in net assets before investment activity	132,983	148,366	7,900	289,249	(180,066)
Investment activity:					
Interest and dividends	2,722	-	-	2,722	4,039
Gain (loss) on investments	(225)	-	-	(225)	235
Net investment activity	2,497	-	-	2,497	4,274
Transfer to <i>Friends of the Children - Portland Foundation (Note 10)</i>	(135,000)	-	-	(135,000)	(10,000)
Increase (decrease) in net assets	480	148,366	7,900	156,746	(185,792)
Net assets, beginning of year	2,212,686	569,707	24,862	2,807,255	2,993,047
Net assets, end of year	\$ 2,213,166	\$ 718,073	\$ 32,762	\$ 2,964,001	\$ 2,807,255

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, 2013 *(With Comparative Totals for 2012)*

	Program			Total	
	Services	Administrative	Development	2013	2012
Salaries and related expenses:					
Salaries and wages	\$ 2,187,424	\$ 238,612	\$ 308,947	\$ 2,734,983	\$ 2,590,325
Payroll taxes	161,690	17,787	22,889	202,366	191,887
Benefits	291,172	17,440	29,371	337,983	313,670
Retirement plan expense	44,759	3,159	4,739	52,657	55,520
Unemployment expense	18,417	1,300	1,950	21,667	31,467
Workers' compensation	18,001	1,102	1,653	20,756	17,085
Total salaries and related expenses	2,721,463	279,400	369,549	3,370,412	3,199,954
Children's activities	322,928	-	-	322,928	316,514
Transportation	200,701	567	3,708	204,976	200,281
Child evaluation	26,600	-	-	26,600	26,500
Friends' activities	29,490	-	-	29,490	30,180
Scholarships	26,500	-	-	26,500	33,110
Wireless phones expense	26,253	-	-	26,253	26,355
Community awareness	30,482	639	2,514	33,635	20,178
Staff development	20,534	1,956	8,753	31,243	35,380
Small equipment and maintenance expense	62,314	4,215	6,293	72,822	63,815
Supplies	8,977	608	882	10,467	8,361
Payroll and banking fees	16,852	1,186	1,786	19,824	18,429
Business insurance	26,207	1,780	2,670	30,657	24,247
Utilities	38,122	2,001	3,002	43,125	47,261
Information technology	91,180	6,175	10,635	107,990	103,987
Postage	8,262	610	5,856	14,728	10,918
Professional fees	54,457	8,240	6,328	69,025	147,597
Chapter affiliation fees	8,500	600	900	10,000	10,000
Printing and copying	8,680	787	10,954	20,421	19,192
Depreciation	62,051	3,746	5,619	71,416	69,907
Bad debt expense	-	-	27,885	27,885	27,540
Total expenses	\$ 3,790,553	\$ 312,510	\$ 467,334	\$ 4,570,397	\$ 4,439,706

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, 2013 <i>(With Comparative Totals for 2012)</i>	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 156,746	\$ (185,792)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Proceeds from contributions to permanent endowment	(7,900)	(6,233)
Donated investment securities	(80,413)	(53,994)
Donated equipment	(8,349)	-
Depreciation	71,416	69,907
(Gain) loss on investments	225	(235)
Transfer to <i>Friends of the Children - Portland Foundation</i>	135,000	10,000
Changes in:		
Receivables	(159,467)	157,418
Prepaid expenses	13,814	128,021
Accounts payable and accrued liabilities	103,892	106,953
Deferred revenue	-	(24,320)
Net cash provided by operating activities	224,964	201,725
Cash flows from investing activities:		
Proceeds from sales of investments	90,789	54,198
Purchases of investments	(45,628)	-
Purchase of property and equipment	(189,058)	(68,100)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(135,000)	(10,000)
Net cash used by investing activities	(278,897)	(23,902)
Cash flows from financing activities:		
Proceeds from contributions to permanent endowment	7,900	6,233
Net cash provided by financing activities	7,900	6,233
Net increase (decrease) in cash and cash equivalents	(46,033)	184,056
Cash and cash equivalents, beginning of year	1,545,378	1,361,322
Cash and cash equivalents, end of year	\$ 1,499,345	\$ 1,545,378
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 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 *Friends - Portland* 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, *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, the 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, 2013, *Friends - Portland* has conditional grants receivable totaling \$65,000 from two foundations. The receipt of these grants is conditioned upon receiving matching contributions. The revenue will be recognized once the conditions have been met. Public support includes \$325,000 and \$350,000 for the years ended August 31, 2013 and 2012, 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 years ended August 31, 2013 and 2012, totaled \$45,503 and \$59,795, 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, 2010, 2011 and 2012, 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

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 2012 - 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, 2012, 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 fundraising and public awareness campaigns, preparing and distributing fundraising materials, and other activities aimed at the solicitation of contributions from individuals, businesses, and foundations.

3. Investments

Investments included the following at August 31:

	2013	2012
Money market funds	<u>\$ 36,513</u>	<u>\$ 1,486</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2013	2012
Pledges due within one year	\$ 570,305	\$ 464,397
Contract receivable	56,550	56,550
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	-	1,001
Receivable from <i>Friends of the Children - National</i> ^A	28,001	12,117
Other receivables	26,898	28,460
	681,754	562,525
Receivables due in less than one year		
Pledges due in one to five years	187,400	117,200
Allowance for doubtful accounts	(25,000)	-
Discount to present value (4 percent discount rate used)	(11,155)	(6,193)
	\$ 832,999	\$ 673,532
Net receivables	\$ 832,999	\$ 673,532

^AThese are related parties.

5. Property and Equipment

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

	2013	2012
Computer equipment	\$ 180,806	\$ 125,185
Office equipment and furniture	241,201	232,377
Vehicles	57,543	57,543
Building and improvements	1,180,829	1,045,767
Land	100,000	100,000
	1,760,379	1,560,872
Less accumulated depreciation	(768,956)	(697,540)
Net property and equipment	\$ 991,423	\$ 863,332

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2013, are available for the following purposes:

Back to School	\$ 9,039
Scholarships	82,893
Longitudinal study	10,000
Future periods	<u>616,141</u>
	<u>\$ 718,073</u>

During the year ended August 31, 2013, net assets of \$450,776 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 \$32,762 at August 31, 2013, 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.

9. Special Events

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

	2013	2012
Gross proceeds from events	\$ 2,361,101	\$ 2,102,583
Less direct costs of events	<u>(166,504)</u>	<u>(347,842)</u>
	<u>\$ 2,194,597</u>	<u>\$ 1,754,741</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:

	2013	2012
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 148,495	\$ 381,876
Contributions receivable	5,000	37,500
Receivable from <i>Friends of the Children - Portland</i>	135,182	10,000
<i>Investments:</i>		
Equity securities	4,108,842	3,515,921
Fixed income securities	948,873	1,078,481
<i>Total assets</i>	\$ 5,346,392	\$ 5,023,778
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ -	\$ 12,175
<i>Net assets:</i>		
Unrestricted net assets	5,341,392	4,974,103
Temporarily restricted net assets	5,000	37,500
<i>Total liabilities and net assets</i>	\$ 5,346,392	\$ 5,023,778

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

	2013	2012
Activities:		
<i>Support, revenue, and other increases</i>		
<i>in net assets:</i>		
Contributions	\$ 107,220	\$ 206,295
Interest and dividends	115,588	151,940
Gain on investments	378,698	269,966
Transfer from <i>Friends of the Children - Portland</i>	135,000	10,000
<i>Total support, revenue, and other increases in net assets</i>	736,506	638,201
<i>Expenses:</i>		
Contributions to <i>Friends of the Children - Portland</i>	325,000	350,000
Outside services	39,249	49,902
Investment fees	29,173	27,951
Marketing expenses	517	2,540
Accounting and compliance fees	7,301	8,702
Miscellaneous expenses	477	224
<i>Total expenses</i>	401,717	439,319
<i>Increase in net assets</i>	\$ 334,789	\$ 198,882

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, 2013, 49 percent of gross pledges receivable were due from four donors.

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:

2013	Level 2
Money market funds	<u>\$ 36,513</u>
2012	
Money market funds	<u>\$ 1,486</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 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.

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, 2013, is as follows:

	Permanently Restricted
Fast Friends Scholarship Fund	<u>\$ 32,762</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, 2013, are as follows:

	Permanently Restricted
Fast Friends Scholarship net assets, beginning of year	\$ 24,862
Contributions	<u>7,900</u>
Fast Friends Scholarship net assets, end of year	<u><u>\$ 32,762</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, 2013, was \$4,485. Future amounts due under the leases are as follows:

Years Ending August 31,	Amount
2014	\$ 2,780
2015	2,576
2016	1,064
2017	<u>308</u>
	<u><u>\$ 6,728</u></u>

15. Subsequent Events

Management has evaluated subsequent events through December 18, 2013, 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, 2013

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 1,367,506	\$ 131,839	\$ -	\$ 1,499,345
Investments	34,976	1,537	-	36,513
Receivables - net	830,824	3,650	(1,475)	832,999
Prepaid expenses	34,424	-	-	34,424
Property and equipment - net	<u>100,925</u>	<u>890,498</u>	<u>-</u>	<u>991,423</u>
Total assets	<u>\$ 2,368,655</u>	<u>\$ 1,027,524</u>	<u>\$ (1,475)</u>	<u>\$ 3,394,704</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 422,498	\$ 9,680	\$ (1,475)	\$ 430,703
Net assets:				
Unrestricted	1,195,322	1,017,844	-	2,213,166
Temporarily restricted	718,073	-	-	718,073
Permanently restricted	<u>32,762</u>	<u>-</u>	<u>-</u>	<u>32,762</u>
Total net assets	<u>1,946,157</u>	<u>1,017,844</u>	<u>-</u>	<u>2,964,001</u>
Total liabilities and net assets	<u>\$ 2,368,655</u>	<u>\$ 1,027,524</u>	<u>\$ (1,475)</u>	<u>\$ 3,394,704</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2013

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 1,718,591	\$ -	\$ -	\$ 1,718,591
Grants and contracts	714,302	-	-	714,302
Special events - net	2,191,062	3,535	-	2,194,597
In-kind contributions	208,423	6,849	-	215,272
Rental income	-	163,913	(158,800)	5,113
Miscellaneous income	5,720	6,051	-	11,771
Total public support and revenue	4,838,098	180,348	(158,800)	4,859,646
Expenses:				
Program services:				
Salaries and related expenses	2,721,463	-	-	2,721,463
Children's expenses	991,272	136,521	(134,980)	992,813
Friends' expenses	76,277	-	-	76,277
Total program services	3,789,012	136,521	(134,980)	3,790,553
Administrative	314,212	7,826	(9,528)	312,510
Development	470,127	11,499	(14,292)	467,334
Total expenses	4,573,351	155,846	(158,800)	4,570,397
Increase in net assets before investment activity	264,747	24,502	-	289,249
Investment activity:				
Interest and dividends	2,470	252	-	2,722
Loss on investments	(225)	-	-	(225)
Net investment activity	2,245	252	-	2,497
Transfer to <i>Friends of the Children - Portland Foundation</i>	(135,000)	-	-	(135,000)
Increase in net assets	131,992	24,754	-	156,746
Net assets, beginning of year	1,814,165	993,090	-	2,807,255
Net assets, end of year	\$ 1,946,157	\$ 1,017,844	\$ -	\$ 2,964,001