
FR1ENDS of the
CH1LDREN
Portland

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2018

and

Consolidating Information

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - PORTLAND

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
Consolidating Information	
Consolidating Schedule of Financial Position	19
Consolidating Schedule of Activities	20



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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.*, which comprise the consolidated statement of financial position as of August 31, 2018, 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, 2018, 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hoffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
December 20, 2018

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2018 <i>(With Comparative Amounts for 2017)</i>	2018	2017
ASSETS		
Cash and cash equivalents	\$ 2,749,717	\$ 2,319,643
Receivables - net <i>(Note 3)</i>	650,872	828,176
Prepaid expenses	100,894	107,523
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> <i>(Notes 9, 12, and 13)</i>	58,317	44,908
Property and equipment - net <i>(Note 4)</i>	<u>4,201,288</u>	<u>4,255,344</u>
Total assets	<u>\$ 7,761,088</u>	<u>\$ 7,555,594</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities <i>(Note 10)</i>	\$ 277,413	\$ 248,365
Deferred revenue	-	32,600
Funds due to <i>Friends of the Children - Portland Foundation</i> <i>(Note 9)</i>	<u>150,000</u>	<u>200,000</u>
Total liabilities	427,413	480,965
Commitments <i>(Notes 4 and 14)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	4,201,288	4,255,344
Other undesignated	<u>2,291,556</u>	<u>2,218,218</u>
Total unrestricted	6,492,844	6,473,562
Temporarily restricted <i>(Note 5)</i>	791,557	553,543
Permanently restricted <i>(Notes 6 and 13)</i>	<u>49,274</u>	<u>47,524</u>
Total net assets	<u>7,333,675</u>	<u>7,074,629</u>
Total liabilities and net assets	<u>\$ 7,761,088</u>	<u>\$ 7,555,594</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, 2018 (With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Public support and revenue:					
Contributions	\$ 1,634,973	\$ 669,838	\$ 1,750	\$ 2,306,561	\$ 1,797,789
Grants and contracts (Note 10)	1,309,146	-	-	1,309,146	1,571,283
Special events - net (Note 8)	2,748,919	54,816	-	2,803,735	2,579,474
In-kind contributions	237,821	-	-	237,821	165,866
Rental income	16,368	-	-	16,368	17,600
Miscellaneous income	350	-	-	350	1,911
Net assets released from restrictions (Note 5)	491,599	(491,599)	-	-	-
Total public support and revenue	6,439,176	233,055	1,750	6,673,981	6,133,923
Expenses:					
Program services	4,877,279	-	-	4,877,279	4,376,347
Administrative	591,619	-	-	591,619	692,497
Development	806,582	-	-	806,582	720,979
Total expenses	6,275,480	-	-	6,275,480	5,789,823
Increase in net assets before investment activity	163,696	233,055	1,750	398,501	344,100
Investment activity:					
Interest income	5,586	-	-	5,586	3,388
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> (Notes 9 and 13)	-	4,959	-	4,959	26,388
Net investment activity	5,586	4,959	-	10,545	29,776
Transfer to <i>Friends of the Children - Portland Foundation</i> (Note 9)	(150,000)	-	-	(150,000)	(500,000)
Increase (decrease) in net assets	19,282	238,014	1,750	259,046	(126,124)
Net assets, beginning of year	6,473,562	553,543	47,524	7,074,629	7,200,753
Net assets, end of year	\$ 6,492,844	\$ 791,557	\$ 49,274	\$ 7,333,675	\$ 7,074,629

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, 2018 *(With Comparative Totals for 2017)*

	Program			Total	
	Services	Administrative	Development	2018	2017
Salaries and related expenses:					
Salaries and wages	\$ 2,838,879	\$ 437,575	\$ 585,346	\$ 3,861,800	\$ 3,557,072
Payroll taxes and benefits	658,509	88,539	94,277	841,325	816,266
Total salaries and related expenses	3,497,388	526,114	679,623	4,703,125	4,373,338
Children's activities	230,880	-	-	230,880	204,698
Friend transportation	203,069	-	-	203,069	183,642
Friend communication	30,994	-	-	30,994	29,910
Scholarships	707	-	-	707	32,582
In-kind gifts for children and families	209,263	-	-	209,263	157,071
Travel and meetings	17,454	3,610	9,232	30,296	23,496
Community awareness	27,986	865	2,293	31,144	7,218
Staff development	44,114	8,299	14,525	66,938	72,562
Repairs and maintenance	88,974	7,384	6,101	102,459	102,991
Supplies	12,391	2,090	2,664	17,145	15,416
Payroll and banking fees	19,040	2,141	18,851	40,032	37,597
Business insurance	38,083	6,583	6,113	50,779	51,266
Utilities	53,210	4,759	4,487	62,456	68,733
Information technology	135,378	21,281	28,489	185,148	163,043
Professional fees	36,888	1,149	1,042	39,079	9,730
Chapter affiliation fees <i>(Note 10)</i>	25,500	-	-	25,500	22,500
Postage and printing	11,531	1,845	12,927	26,303	27,444
Depreciation	188,729	5,499	5,076	199,304	206,586
Bad debt	-	-	15,159	15,159	-
Rent	5,700	-	-	5,700	-
Total expenses	\$ 4,877,279	\$ 591,619	\$ 806,582	\$ 6,275,480	\$ 5,789,823

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, 2018 (With Comparative Totals for 2017)	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 259,046	\$ (126,124)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Proceeds from contributions to permanent endowment	(1,750)	(4,000)
Depreciation	199,304	206,586
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(4,959)	(26,388)
Transfer to <i>Friends of the Children - Portland Foundation</i>	150,000	500,000
Changes in:		
Receivables	46,292	137,321
Prepaid expenses	6,629	(6,890)
Accounts payable and accrued liabilities	29,048	(48,839)
Deferred revenue	(32,600)	32,600
Funds due to <i>Friends of the Children - Portland Foundation</i>	(50,000)	50,000
Net cash provided by operating activities	601,010	714,266
Cash flows from investing activities:		
Purchase of property and equipment	(145,248)	(71,035)
Purchase of beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(8,450)	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	(94,629)
Net cash used by investing activities	(303,698)	(165,664)
Cash flows from financing activities:		
Proceeds from pledges restricted for property acquisition	131,012	120,175
Proceeds from contributions to permanent endowment	1,750	4,000
Net cash provided by financing activities	132,762	124,175
Net increase in cash and cash equivalents	430,074	672,777
Cash and cash equivalents, beginning of year	2,319,643	1,646,866
Cash and cash equivalents, end of year	\$ 2,749,717	\$ 2,319,643

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*) commits to standing alongside our community's youth as they work to overcome barriers to their success. Each child receives 1:1 support and guidance from a salaried, professional mentor (called a Friend), from kindergarten through high school graduation - 12½ years, no matter what. Friends work collaboratively with high-priority youth and their caregivers to set and achieve individualized goals, as well as advocate for them in the school, child welfare, healthcare, and other systems that impact them.

Youth in the Friends program face considerable challenges, including placement in the foster care system, under-resourced neighborhood schools, homelessness, hunger, and disparities in access to, and quality of, health care. Despite these barriers, program youth enter adulthood with a strong foundation for continuing achievement: 83 percent graduate high school or earn a GED, 93 percent avoid the juvenile justice system, and 98 percent avoid teen parenting.

Youth Resources, Inc. provides a safe, positive environment for children involved in the *Friends - Portland* program to go play and participate in educational and social programs.

Summary of Significant Accounting Policies - The significant accounting policies followed by *Friends - Portland* and its wholly controlled subsidiary, *Youth Resources, Inc.* (collectively 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 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 Organization 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 (GAAP) 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 certain 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.

Beneficial Interest in Assets Held by *Friends of the Children - Portland Foundation* (the *Foundation*) - *Friends - Portland* has an interest in certain assets invested by the *Foundation*. At August 31, 2018, the balance was \$58,317 (*Note 9*).

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 (pledges), 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.

Included in grants and contracts is support from the *Foundation* (*Note 9*) of \$347,561 and \$536,176 for the years ended August 31, 2018 and 2017, respectively.

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, 2018, totaled \$27,444 and consisted of dental services for program youth and 401(k) plan management services. 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 (IRC) and similar state provisions. The Organizations are not classified as private foundations.

GAAP prescribes a recognition threshold and measurement process for uncertain tax positions and also provides 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. 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.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

Summarized Financial Information for 2017 - 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 GAAP. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended August 31, 2017, 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 managerial 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. Receivables

Receivables consisted of the following at August 31:

	2018	2017
Pledges due within one year	\$ 371,652	\$ 519,490
Contract receivable (<i>Note 10</i>)	157,718	131,178
Receivable from <i>Friends of the Children - Portland Foundation</i> [^]	7,989	5,140
Receivable from <i>Friends of the Children - National</i> [^]	-	103,000
Other receivables	<u>24,887</u>	<u>35,108</u>
Receivables due in less than one year	562,246	793,916
Pledges due in one to five years	100,000	47,056
Discount to present value (4 percent rate used)	(7,986)	-
Allowance for doubtful accounts	<u>(3,388)</u>	<u>(12,796)</u>
Net receivables	<u><u>\$ 650,872</u></u>	<u><u>\$ 828,176</u></u>

At August 31, 2017, management elected not to calculate any discount on pledges due beyond one year as such amounts would not be material to the consolidated financial statements.

[^]These are related parties.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

4. Property and Equipment

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

	2018	2017
Computer equipment	\$ 450,144	\$ 432,079
Office equipment and furniture	275,705	266,009
Vehicles	88,901	88,901
Building and improvements	4,549,924	4,444,282
Land	100,000	100,000
Construction in progress	11,845	-
	<u>5,476,519</u>	<u>5,331,271</u>
Less accumulated depreciation	<u>(1,275,231)</u>	<u>(1,075,927)</u>
Net property and equipment	<u><u>\$ 4,201,288</u></u>	<u><u>\$ 4,255,344</u></u>

The Organization entered into a 49 year ground lease, with an option to extend for 5 consecutive terms of 10 years each, with the City of Gresham for \$1 per year for use of certain land to operate a facility included above in building and improvements. The lease commenced during 2014.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2018, are available for the following purposes:

Back to School	\$ 42,103
Scholarships	132,793
Future periods	601,194
East County Building Operations	6,424
Unexpended endowment earnings (<i>Note 13</i>)	9,043
	<u>\$ 791,557</u>

During the year ended August 31, 2018, net assets of \$491,599 were released from restrictions due to the specific actions of *Friends - Portland* and/or the passage of time.

6. Permanently Restricted Net Assets

Permanently restricted net assets consist of \$49,274 at August 31, 2018, for the Fast Friends Scholarship Fund.

7. Retirement Plans

Friends - Portland has a retirement plan pursuant to 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 retirement expense totaled \$74,062 and \$71,251 for the years ended August 31, 2018 and 2017, respectively.

8. Special Events

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

	2018	2017
Gross proceeds from events	\$ 3,058,377	\$ 2,773,427
Less direct costs of events	<u>(254,642)</u>	<u>(193,953)</u>
	<u>\$ 2,803,735</u>	<u>\$ 2,579,474</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

9. Friends of the Children - Portland Foundation

In 2004, 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 information is as follows for the *Foundation* as of and for the years ended August 31:

	2018	2017
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 355,813	\$ 189,547
Due from <i>Friends of the Children - Portland</i>	150,000	200,000
<i>Investments:</i>		
Equity securities	4,033,103	3,879,629
Fixed income securities	1,826,827	1,625,559
Alternative assets	122,281	182,506
<i>Total assets</i>	\$ 6,488,024	\$ 6,077,241
 <i>Liabilities and net assets:</i>		
Due to <i>Friends of the Children - Portland</i>	\$ 7,989	\$ 5,140
Other liabilities	-	67
Funds held on behalf of <i>Friends of the Children - Portland</i>	58,317	44,908
Unrestricted net assets	6,421,718	6,027,126
<i>Total liabilities and unrestricted net assets</i>	\$ 6,488,024	\$ 6,077,241

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

9. Friends of the Children - Portland Foundation - Continued

	2018	2017
Activities:		
<i>Support, revenue, and other increases in net assets:</i>		
Contributions	\$ 108,570	\$ 57,487
Interest and dividends	135,570	124,485
Gain on investments	491,814	344,989
Transfer from <i>Friends of the Children - Portland and Youth Resources, Inc.</i>	150,000	500,000
<i>Total support, revenue, and other increases in net assets</i>	885,954	1,026,961
<i>Expenses:</i>		
Contributions to <i>Friends of the Children - Portland</i>	347,561	536,176
Outside services	95,863	43,494
Banking and investment fees	33,088	31,977
Marketing expenses	2,964	368
Professional fees	11,886	11,517
Miscellaneous expenses	-	253
<i>Total expenses</i>	491,362	623,785
<i>Increase in net assets</i>	\$ 394,592	\$ 403,176

10. Friends of the Children - National

Friends of the Children - National (*Friends - National*) organization provides Friends of the Children chapters with training, program quality monitoring, data warehousing, operational support, and employee sharing from time to time.

For the year ended August 31, 2018, *Friends - National* provided *Friends - Portland* with grant income of \$185,206, included in grants and contracts, and *Friends - Portland* paid chapter affiliation fees of \$25,500. At August 31, 2018, there was \$37,500 included in contract receivable from *Friends - National* and \$50,824 in accounts payable to *Friends - National*.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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 limits. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2018, 24 percent of gross pledges was due from three donors.

12. Fair Value Measurements

GAAP establishes 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 year ended August 31, 2018, are as follows:

	Level 1	Level 2	Total
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	<u>\$ 48,986</u>	<u>\$ 9,331</u>	<u>\$ 58,317</u>

Fair value of equity securities and fixed income securities is measured by reference to quoted prices as provided by the *Foundation's* investment broker.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds

GAAP requires *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). *Friends-Portland's* endowment consists solely of donor-restricted 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

The endowment fund provides funding for scholarships for students who have completed the *Friends - Portland* program and are continuing their education in a traditional four year college, community college, or a trade or vocational school. The endowment assets are invested with the *Foundation* and are subject to the *Foundation's* investment policies. A formal spending policy has not been established.

Endowment net asset composition by type of fund as of August 31, 2018, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship Fund	<u>\$ 9,043</u>	<u>\$ 49,274</u>	<u>\$ 58,317</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, 2018, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship net assets, beginning of year	\$ 4,084	\$ 47,524	\$ 51,608
Contributions	-	1,750	1,750
Net investment return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i>	4,959	-	4,959
Fast Friends Scholarship net assets, end of year	\$ 9,043	\$ 49,274	\$ 58,317

14. Lease Commitments

The Organizations lease office equipment under operating leases expiring through August 2020. Lease expense for the year ended August 31, 2018, was \$2,950. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2019	\$ 2,460
2020	2,460
	\$ 4,920

15. Subsequent Events

Management has evaluated subsequent events through December 20, 2018, 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, 2018

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 2,553,479	\$ 196,238	\$ -	\$ 2,749,717
Receivables - net	650,872	22,604	(22,604)	650,872
Prepaid expenses	100,894	-	-	100,894
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	58,317	-	-	58,317
Property and equipment - net	<u>3,546,275</u>	<u>655,013</u>	<u>-</u>	<u>4,201,288</u>
Total assets	<u>\$ 6,909,837</u>	<u>\$ 873,855</u>	<u>\$ (22,604)</u>	<u>\$ 7,761,088</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 297,182	\$ 2,835	\$ (22,604)	\$ 277,413
Funds due to <i>Friends of the Children - Portland Foundation</i>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total liabilities	447,182	2,835	(22,604)	427,413
Net assets:				
Unrestricted	5,621,824	871,020	-	6,492,844
Temporarily restricted	791,557	-	-	791,557
Permanently restricted	<u>49,274</u>	<u>-</u>	<u>-</u>	<u>49,274</u>
Total net assets	<u>6,462,655</u>	<u>871,020</u>	<u>-</u>	<u>7,333,675</u>
Total liabilities and net assets	<u>\$ 6,909,837</u>	<u>\$ 873,855</u>	<u>\$ (22,604)</u>	<u>\$ 7,761,088</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2018

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 2,306,561	\$ -	\$ -	\$ 2,306,561
Grants and contracts	1,309,146	-	-	1,309,146
Special events - net	2,803,735	-	-	2,803,735
In-kind contributions	237,821	-	-	237,821
Rental income	12,000	124,368	(120,000)	16,368
Miscellaneous income	350	-	-	350
Total public support and revenue	6,669,613	124,368	(120,000)	6,673,981
Expenses:				
Program services:				
Salaries and related expenses	3,497,388	-	-	3,497,388
Children's expenses	1,106,188	129,640	(90,000)	1,145,828
Friends' expenses	234,063	-	-	234,063
Total program services	4,837,639	129,640	(90,000)	4,877,279
Administrative	590,905	15,114	(14,400)	591,619
Development	808,831	13,351	(15,600)	806,582
Total expenses	6,237,375	158,105	(120,000)	6,275,480
Increase (decrease) in net assets before investment activity	432,238	(33,737)	-	398,501
Investment activity:				
Interest income	5,318	268	-	5,586
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	4,959	-	-	4,959
Net investment activity	10,277	268	-	10,545
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	-	-	(150,000)
Increase (decrease) in net assets	292,515	(33,469)	-	259,046
Net assets, beginning of year	6,170,140	904,489	-	7,074,629
Net assets, end of year	\$ 6,462,655	\$ 871,020	\$ -	\$ 7,333,675