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**FR1ENDS** of the  
**CH1LDREN**  
Portland

**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended August 31, 2019**

**and**

**Consolidating Information**

**with**

**Independent Auditors' Report**

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# 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.* (the Organizations), which comprise the consolidated statement of financial position as of August 31, 2019, 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, 2019, 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.

## Emphasis of a Matter

As discussed in *Note 1* to the consolidated financial statements, the Organizations have adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## 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 20 and 21 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, 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 12, 2019

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Financial Position**

<b>August 31, 2019</b> <i>(With Comparative Amounts for 2018)</i>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,283,746	\$ 2,749,717
Receivables - net <i>(Note 4)</i>	1,674,655	650,872
Prepaid expenses	125,653	100,894
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> <i>(Notes 9, 12, and 13)</i>	60,394	58,317
Property and equipment - net <i>(Note 5)</i>	<u>4,354,694</u>	<u>4,201,288</u>
<b>Total assets</b>	<b><u>\$ 8,499,142</u></b>	<b><u>\$ 7,761,088</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 258,819	\$ 277,413
Funds due to <i>Friends of the Children - Portland Foundation</i> <i>(Note 9)</i>	<u>-</u>	<u>150,000</u>
<b>Total liabilities</b>	<b>258,819</b>	<b>427,413</b>
Commitments <i>(Notes 5 and 14)</i>		
<b>Net assets:</b>		
Without donor restrictions:		
Net investment in property and equipment	4,354,694	4,201,288
Other undesignated	<u>2,110,380</u>	<u>2,291,556</u>
	6,465,074	6,492,844
With donor restrictions <i>(Notes 6 and 13)</i>	<u>1,775,249</u>	<u>840,831</u>
<b>Total net assets</b>	<b><u>8,240,323</u></b>	<b><u>7,333,675</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 8,499,142</u></b>	<b><u>\$ 7,761,088</u></b>

*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, 2019** (With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
<b>Public support and revenue:</b>				
Contributions	\$ 1,406,264	\$ 2,011,801	\$ 3,418,065	\$ 2,306,561
Grants and contracts (Note 10)	1,371,467	-	1,371,467	1,309,146
Special events - net (Note 8)	2,258,464	246,931	2,505,395	2,803,735
In-kind contributions	399,254	-	399,254	237,821
Rental income (Note 10)	23,094	-	23,094	16,368
Miscellaneous income	-	-	-	350
Net assets released from restrictions (Note 6)	1,326,391	(1,326,391)	-	-
<b>Total public support and revenue</b>	<b>6,784,934</b>	<b>932,341</b>	<b>7,717,275</b>	<b>6,673,981</b>
<b>Expenses:</b>				
Program services	5,114,201	-	5,114,201	4,877,279
Administrative	735,952	-	735,952	591,619
Development	979,068	-	979,068	806,582
<b>Total expenses</b>	<b>6,829,221</b>	<b>-</b>	<b>6,829,221</b>	<b>6,275,480</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>(44,287)</b>	<b>932,341</b>	<b>888,054</b>	<b>398,501</b>
<b>Investment activity:</b>				
Interest income	16,517	-	16,517	5,586
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> (Notes 9 and 13)	-	2,077	2,077	4,959
Net investment activity	16,517	2,077	18,594	10,545
Transfer to <i>Friends of the Children - Portland Foundation</i> (Note 9)	-	-	-	(150,000)
<b>Increase (decrease) in net assets</b>	<b>(27,770)</b>	<b>934,418</b>	<b>906,648</b>	<b>259,046</b>
Net assets, beginning of year	6,492,844	840,831	7,333,675	7,074,629
<b>Net assets, end of year</b>	<b>\$ 6,465,074</b>	<b>\$ 1,775,249</b>	<b>\$ 8,240,323</b>	<b>\$ 7,333,675</b>

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

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Functional Expenses**

**Year Ended August 31, 2019** *(With Comparative Totals for 2018)*

	Program			Total	
	Services	Administrative	Development	2019	2018
<b>Salaries and related expenses:</b>					
Salaries and wages	\$ 2,795,477	\$ 525,983	\$ 702,971	\$ 4,024,431	\$ 3,861,800
Payroll taxes and benefits	679,855	95,575	112,519	887,949	841,326
<b>Total salaries and related expenses</b>	<b>3,475,332</b>	<b>621,558</b>	<b>815,490</b>	<b>4,912,380</b>	<b>4,703,126</b>
Children's activities	226,368	-	-	226,368	230,880
Friend transportation	216,765	-	-	216,765	203,069
Friend communication	29,000	-	-	29,000	30,994
Scholarships	19,500	-	-	19,500	707
In-kind gifts for children and families	198,854	-	-	198,854	209,263
Travel and meetings	19,365	6,288	10,111	35,764	30,296
Community awareness	145,237	583	5,400	151,220	31,144
Staff development	51,535	22,098	17,525	91,158	66,938
Repairs and maintenance	104,897	9,500	9,383	123,780	102,460
Supplies	11,626	1,930	2,266	15,822	17,145
Payroll and banking fees	18,252	2,490	15,334	36,076	40,032
Business insurance	39,681	5,902	5,448	51,031	50,777
Utilities	58,180	4,830	4,458	67,468	62,456
Information technology	189,636	31,143	45,939	266,718	185,148
Professional fees	54,734	20,720	5,918	81,372	39,079
Chapter affiliation fees <i>(Note 10)</i>	26,000	-	-	26,000	25,500
Postage and printing	10,729	1,785	20,756	33,270	26,303
Depreciation	195,710	7,125	6,577	209,412	199,304
Bad debt	-	-	14,463	14,463	15,159
Rent	22,800	-	-	22,800	5,700
<b>Total expenses</b>	<b>\$ 5,114,201</b>	<b>\$ 735,952</b>	<b>\$ 979,068</b>	<b>\$ 6,829,221</b>	<b>\$ 6,275,480</b>

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

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidated Statement of Cash Flows**

<b>Year Ended August 31, 2019</b> <i>(With Comparative Totals for 2018)</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 906,648	\$ 259,046
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	-	(1,750)
Proceeds from contributions restricted for acquisition of property and equipment	(57,003)	-
Depreciation	209,412	199,304
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(2,077)	(4,959)
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	150,000
Donated property and equipment	(22,977)	-
Changes in:		
Receivables	(1,023,783)	46,292
Prepaid expenses	(24,759)	6,629
Accounts payable and accrued liabilities	(18,594)	29,048
Deferred revenue	-	(32,600)
Funds due to <i>Friends of the Children - Portland Foundation</i>	(150,000)	(50,000)
<b>Net cash provided (used) by operating activities</b>	<b>(183,133)</b>	<b>601,010</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(339,841)	(145,248)
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)
<b>Net cash used by investing activities</b>	<b>(339,841)</b>	<b>(303,698)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for acquisition of property and equipment	57,003	131,012
Proceeds from contributions to permanent endowment	-	1,750
<b>Net cash provided by financing activities</b>	<b>57,003</b>	<b>132,762</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(465,971)</b>	<b>430,074</b>
Cash and cash equivalents, beginning of year	2,749,717	2,319,643
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,283,746</b>	<b>\$ 2,749,717</b>

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



# FRIENDS OF THE CHILDREN - PORTLAND

## Notes to Consolidated Financial Statements

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### 1. Nature of Activities and Summary of Significant Accounting Policies

**Friends of the Children - Portland** (*Friends - Portland*) 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 space in which children involved in the *Friends - Portland* program can 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 *Friends - Portland and Youth Resources, Inc.* All inter-company balances and transactions have been eliminated in consolidation.

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

*Net assets without donor restrictions* - Net assets not subject to donor-imposed stipulations.

*Net assets with donor restrictions* - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organizations and/or the passage of time. These donor restrictions are temporary in nature. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. 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 net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

## FRIENDS OF THE CHILDREN - PORTLAND

### Notes to Consolidated Financial Statements - Continued

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

##### Summary of Significant Accounting Policies - Continued

**Use of Estimates** - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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* (Note 9). At August 31, 2019, the balance of this beneficial interest was \$60,394.

**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 \$502,879 and \$347,561 for the years ended August 31, 2019 and 2018, respectively.

## FRIENDS OF THE CHILDREN - PORTLAND

### Notes to Consolidated Financial Statements - Continued

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

##### Summary of Significant Accounting Policies - Continued

**Contribution Recognition - Continued** - The Organizations consider all contributions and grants available for unrestricted use unless explicit donor stipulations specify how the funds must be used. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

The Organizations report gifts of property 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, the Organizations report expirations of donor restrictions 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 impractical 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 that 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, 2019 totaled \$31,907 and consisted of human resources services, staff training, and services capitalized as a part of building improvements. 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.

## FRIENDS OF THE CHILDREN - PORTLAND

### Notes to Consolidated Financial Statements - Continued

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

##### Summary of Significant Accounting Policies - Continued

**Functional Allocation of Expenses** - The cost of providing the various programs and other activities of the Organizations have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated to more than one program or supporting service function include the following:

- Salaries and related costs are allocated based on time and effort
- Occupancy costs, including depreciation, as well as information technology, supplies, and all-staff training, are allocated based on headcount

**New Accounting Pronouncement** - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organizations implemented ASU 2016-14 during the year ended August 31, 2019, and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Summarized Financial Information for 2018** - 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, 2018, from which the summarized information was derived.

**Subsequent Events** - Management has evaluated subsequent events through December 12, 2019, the date the consolidated financial statements were available to be issued.

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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**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.

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

**3. Liquidity and Availability of Financial Resources**

The Organizations' financial assets available for general expenditure within one year of the consolidated statement of financial position date consist of the following:

Financial assets at August 31, 2019:	
Cash and cash equivalents	\$ 2,283,746
Receivables - net	1,674,655
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	<u>60,394</u>
	4,018,795
Less amounts not available to be used for operations within one year:	
Net assets with temporary donor restrictions	1,724,222
Less net assets with purpose restrictions to be met in less than one year	(337,998)
Principal portion of endowment	<u>51,024</u>
	<u><u>\$ 2,581,547</u></u>

As part of the Organizations' liquidity management, management has a practice to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

**4. Receivables**

Receivables consisted of the following at August 31:

	<b>2019</b>	<b>2018</b>
Pledges due within one year	\$ 823,353	\$ 371,652
Contract receivable ( <i>Note 10</i> )	149,998	157,718
Receivable from <i>Friends of the Children - Portland Foundation</i> <sup>A</sup>	163,089	7,989
Receivable from <i>Friends of the Children - National</i> <sup>A</sup>	35,546	-
Other receivables	28,755	24,887
Receivables due in less than one year	1,200,741	562,246
Pledges due in one to five years	502,166	100,000
Discount to present value (4 percent rate used)	(22,976)	(7,986)
Allowance for doubtful accounts	(5,276)	(3,388)
Net receivables	<b>\$ 1,674,655</b>	<b>\$ 650,872</b>

<sup>A</sup>These are related parties.

**5. Property and Equipment**

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

	<b>2019</b>	<b>2018</b>
Computer equipment	\$ 472,670	\$ 450,144
Office equipment and furniture	278,305	275,705
Vehicles	88,901	88,901
Building and improvements	4,899,461	4,549,924
Land	100,000	100,000
Construction in progress	-	11,845
	5,839,337	5,476,519
Less accumulated depreciation	(1,484,643)	(1,275,231)
Net property and equipment	<b>\$ 4,354,694</b>	<b>\$ 4,201,288</b>

The Organizations 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**

**6. Net Assets with Donor Restrictions**

Net assets with donor restrictions at August 31, 2019, are available for the following purposes:

Southwest Washington expansion	\$ 1,171,182
Scholarships	114,813
Family engagement	106,250
Pre-apprenticeship and apprenticeship programs	43,750
Technology education	25,000
Other program support	37,065
Restricted for future periods	215,045
Unexpended endowment earnings ( <i>Note 13</i> )	11,120
Endowment principal ( <i>Note 13</i> )	51,024
	<u>\$ 1,775,249</u>

During the year ended August 31, 2019, the Organizations released \$1,326,391 of net assets from donor restrictions due to the incurrence of expenses in satisfaction of the restricted purposes, or by the occurrence of other events.

**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 \$72,137 and \$72,854 for the years ended August 31, 2019 and 2018, respectively.

**8. Special Events**

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

	<b>2019</b>	<b>2018</b>
Gross proceeds from events	\$ 2,706,902	\$ 3,058,377
Less direct costs of events	(201,507)	(254,642)
	<u>\$ 2,505,395</u>	<u>\$ 2,803,735</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:

	<b>2019</b>	<b>2018</b>
<b>Financial position:</b>		
<i>Assets:</i>		
Cash and cash equivalents	\$ 319,381	\$ 355,813
Due from <i>Friends of the Children - Portland</i>	-	150,000
Accounts receivable	300	-
<i>Investments:</i>		
Equity securities	4,119,848	4,033,103
Fixed income securities	1,685,965	1,826,827
Alternative assets	<u>121,915</u>	<u>122,281</u>
<i>Total assets</i>	<u><u>\$ 6,247,409</u></u>	<u><u>\$ 6,488,024</u></u>
 <i>Liabilities and net assets:</i>		
Due to <i>Friends of the Children - Portland</i>	\$ 163,089	\$ 7,989
Funds held on behalf of <i>Friends of the Children - Portland</i>	60,394	58,317
Net assets without donor restrictions	<u>6,023,926</u>	<u>6,421,718</u>
<i>Total liabilities and net assets without donor restrictions</i>	<u><u>\$ 6,247,409</u></u>	<u><u>\$ 6,488,024</u></u>



**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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

	<b>2019</b>	<b>2018</b>
<b>Activities:</b>		
<i>Support, revenue, and other increases in net assets :</i>		
Contributions	\$ 27,092	\$ 108,570
Net investment return	202,303	594,346
Transfer from <i>Friends of the Children - Portland and Youth Resources, Inc.</i>	-	150,000
	-	150,000
<i>Total public support, revenue, and other increases in net assets</i>	229,395	852,916
<i>Expenses :</i>		
Contributions to <i>Friends of the Children - Portland</i>	502,879	347,561
Outside services	109,178	95,863
Taxes and fees	50	50
Marketing expenses	3,225	2,964
Professional fees	9,142	11,886
Insurance expense	2,713	-
	2,713	-
<i>Total expenses</i>	627,187	458,324
<i>Increase (decrease) in net assets without donor restrictions</i>	\$ (397,792)	\$ 394,592

**10. Transactions with 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, 2019, *Friends - National* provided *Friends - Portland* with grant income of \$126,250 and contributions of \$33,000. *Friends - Portland* also paid chapter affiliation fees of \$26,000. At August 31, 2019, there was \$33,750 included in contract receivable from *Friends - National*.

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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**10. Transactions with Friends of the Children - National - Continued**

During 2019, *Friends - Portland* signed a memorandum of understanding (MOU) with *Friends - National* which included a rental agreement expiring May 31, 2024. Total rent *Friends - National* paid *Friends - Portland* during 2019 was \$18,000. Future amounts to be received from *Friends - National* under the MOU are as follows:

<b>Years Ending August 31,</b>	<b>Amount</b>
2020	\$ 36,000
2021	36,000
2022	36,000
2023	36,000
2024	27,000
	<hr/>
	<u>\$ 171,000</u>

**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, 2019, 28 percent of gross pledges was due from two donors.

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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**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, 2019, are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	<u>\$ 53,147</u>	<u>\$ 7,247</u>	<u>\$ 60,394</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**

Financial 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)

*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 accumulated earnings is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the *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 assets restricted by donors for the Fast Friends Scholarship Fund are composed of the following types of funds and assets as of August 31, 2019:

	<b>Accumulated Investment Earnings</b>	<b>Original Principal</b>	<b>Total</b>
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	\$ 11,120	\$ 49,274	\$ 60,394
Included in receivables	-	1,750	1,750
	\$ 11,120	\$ 51,024	\$ 62,144

**FRIENDS OF THE CHILDREN - PORTLAND**

**Notes to Consolidated Financial Statements - Continued**

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**13. Endowment Funds - Continued**

Changes in Fast Friends Scholarship net assets for the year ended August 31, 2019, are as follows:

	<b>Accumulated Investment Earnings</b>	<b>Original Principal</b>	<b>Total</b>
Fast Friends Scholarship net assets, beginning of year	\$ 9,043	\$ 49,274	\$ 58,317
Contributions	-	1,750	1,750
Net investment return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i>	<u>2,077</u>	<u>-</u>	<u>2,077</u>
Fast Friends Scholarship net assets, end of year	<u>\$ 11,120</u>	<u>\$ 51,024</u>	<u>\$ 62,144</u>

**14. Lease Commitments**

The Organizations have entered into various leases and service contracts expiring through August 2020. Future commitments under these agreements total \$92,190, to be paid during the year ended August 31, 2020. Lease expense for the year ended August 31, 2019 was \$25,010.

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**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Information**

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**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Schedule of Financial Position**

**August 31, 2019**

	<b>Friends - Portland</b>	<b>Youth Resources, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,084,755	\$ 198,991	\$ -	\$ 2,283,746
Receivables - net	1,674,655	2,843	(2,843)	1,674,655
Prepaid expenses	125,653	-	-	125,653
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	60,394	-	-	60,394
Property and equipment - net	<u>3,728,914</u>	<u>625,780</u>	<u>-</u>	<u>4,354,694</u>
<b>Total assets</b>	<b><u>\$ 7,674,371</u></b>	<b><u>\$ 827,614</u></b>	<b><u>\$ (2,843)</u></b>	<b><u>\$ 8,499,142</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	<u>\$ 256,449</u>	<u>\$ 5,213</u>	<u>\$ (2,843)</u>	<u>\$ 258,819</u>
<b>Total liabilities</b>	<b>256,449</b>	<b>5,213</b>	<b>(2,843)</b>	<b>258,819</b>
<b>Net assets:</b>				
Without donor restrictions	5,642,673	822,401	-	6,465,074
With donor restrictions	<u>1,775,249</u>	<u>-</u>	<u>-</u>	<u>1,775,249</u>
<b>Total net assets</b>	<b><u>7,417,922</u></b>	<b><u>822,401</u></b>	<b><u>-</u></b>	<b><u>8,240,323</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 7,674,371</u></b>	<b><u>\$ 827,614</u></b>	<b><u>\$ (2,843)</u></b>	<b><u>\$ 8,499,142</u></b>

**FRIENDS OF THE CHILDREN - PORTLAND**

**Consolidating Schedule of Activities**

**Year Ended August 31, 2019**

	<b>Friends - Portland</b>	<b>Youth Resources, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Public support and revenue:</b>				
Contributions	\$ 3,418,065	\$ -	\$ -	\$ 3,418,065
Grants and contracts	1,371,467	-	-	1,371,467
Special events - net	2,505,395	-	-	2,505,395
In-kind contributions	399,254	-	-	399,254
Rental income	18,000	125,094	(120,000)	23,094
<b>Total public support and revenue</b>	<b>7,712,181</b>	<b>125,094</b>	<b>(120,000)</b>	<b>7,717,275</b>
<b>Expenses:</b>				
Program services:				
Salaries and related expenses	3,475,332	-	-	3,475,332
Children's expenses	1,341,218	141,886	(90,000)	1,393,104
Friends' expenses	245,765	-	-	245,765
Total program services	5,062,315	141,886	(90,000)	5,114,201
Administrative	733,467	16,885	(14,400)	735,952
Development	979,082	15,586	(15,600)	979,068
<b>Total expenses</b>	<b>6,774,864</b>	<b>174,357</b>	<b>(120,000)</b>	<b>6,829,221</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>937,317</b>	<b>(49,263)</b>	<b>-</b>	<b>888,054</b>
<b>Investment activity:</b>				
Interest income	15,873	644	-	16,517
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	2,077	-	-	2,077
Net investment activity	17,950	644	-	18,594
<b>Increase (decrease) in net assets</b>	<b>955,267</b>	<b>(48,619)</b>	<b>-</b>	<b>906,648</b>
Net assets, beginning of year	6,462,655	871,020	-	7,333,675
<b>Net assets, end of year</b>	<b>\$ 7,417,922</b>	<b>\$ 822,401</b>	<b>\$ -</b>	<b>\$ 8,240,323</b>