
FR1ENDS of the
CH1LDREN
Portland

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2015

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

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, 2015, 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 misstatements.

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, 2015, 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 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
December 17, 2015

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2015 <i>(With Comparative Amounts for 2014)</i>	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,446,534	\$ 1,263,676
Investments <i>(Note 3)</i>	-	6,264
Receivables - net <i>(Note 4)</i>	2,078,484	2,285,540
Prepaid expenses	111,122	97,588
Cash restricted for property acquisition <i>(Note 5)</i>	820,078	769,978
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> <i>(Notes 10, 12 and 13)</i>	404,913	-
Property and equipment - net <i>(Note 5)</i>	<u>3,403,490</u>	<u>1,097,952</u>
Total assets	<u>\$ 8,264,621</u>	<u>\$ 5,520,998</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 916,828	\$ 327,269
Commitment <i>(Note 14)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	899,583	1,018,700
Other undesignated	<u>1,621,254</u>	<u>1,195,250</u>
Total unrestricted	2,520,837	2,213,950
Temporarily restricted <i>(Note 6)</i>	4,786,132	2,942,705
Permanently restricted <i>(Notes 7 and 13)</i>	<u>40,824</u>	<u>37,074</u>
Total net assets	<u>7,347,793</u>	<u>5,193,729</u>
Total liabilities and net assets	<u>\$ 8,264,621</u>	<u>\$ 5,520,998</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, 2015 (With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2015	2014
Public support and revenue:					
Contributions	\$ 1,377,627	\$ 2,279,314	\$ 3,750	\$ 3,660,691	\$ 3,923,068
Grants and contracts	892,728	202,602	-	1,095,330	862,893
Special events - net (Note 9)	1,943,408	20,000	-	1,963,408	2,095,268
In-kind contributions	197,222	-	-	197,222	180,661
Rental income	6,332	-	-	6,332	5,068
Gain on sale of property and equipment	288,292	-	-	288,292	-
Miscellaneous income	2,111	-	-	2,111	6,646
Net assets released from restrictions (Note 6)	658,489	(658,489)	-	-	-
Total public support and revenue	5,366,209	1,843,427	3,750	7,213,386	7,073,604
Expenses:					
Program services	4,080,273	-	-	4,080,273	3,968,231
Administrative	295,031	-	-	295,031	375,080
Development	556,002	-	-	556,002	466,705
Total expenses	4,931,306	-	-	4,931,306	4,810,016
Increase in net assets before investment activity	434,903	1,843,427	3,750	2,282,080	2,263,588
Investment activity:					
Interest income	1,378	-	-	1,378	2,732
Gain (loss) on investments	661	-	-	661	(3,592)
Net decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(5,911)	-	-	(5,911)	-
Net investment activity	(3,872)	-	-	(3,872)	(860)
Transfer to <i>Friends of the Children - Portland Foundation</i> (Note 10)	(124,144)	-	-	(124,144)	(33,000)
Increase in net assets	306,887	1,843,427	3,750	2,154,064	2,229,728
Net assets, beginning of year	2,213,950	2,942,705	37,074	5,193,729	2,964,001
Net assets, end of year	\$ 2,520,837	\$ 4,786,132	\$ 40,824	\$ 7,347,793	\$ 5,193,729

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, 2015 (With Comparative Totals for 2014)

	Program			Total	
	Services	Administrative	Development	2015	2014
Salaries and related expenses:					
Salaries and wages	\$ 2,340,306	\$ 208,673	\$ 395,229	\$ 2,944,208	\$ 2,843,310
Payroll taxes and benefits	571,427	40,636	69,350	681,413	645,606
Total salaries and related expenses	2,911,733	249,309	464,579	3,625,621	3,488,916
Children's activities	185,970	-	-	185,970	173,605
Friend transportation	202,654	-	-	202,654	187,798
Friends' activities	30,889	-	-	30,889	28,629
Friend communication	29,180	-	-	29,180	26,725
Scholarships	17,683	-	-	17,683	28,565
In-kind gifts for children and families	161,800	-	-	161,800	144,688
Research and evaluation	27,330	-	-	27,330	36,115
Travel and meetings	11,488	751	5,143	17,382	16,639
Community awareness	21,674	881	5,345	27,900	34,792
Staff development	35,851	16,813	13,771	66,435	49,105
Repairs and maintenance	65,813	3,579	5,350	74,742	79,179
Supplies	13,461	2,208	3,097	18,766	20,277
Payroll and banking fees	19,589	1,408	9,712	30,708	22,745
Business insurance	30,761	2,125	3,188	36,074	32,290
Utilities	39,098	2,085	3,128	44,312	48,775
Information technology	117,764	8,311	14,718	140,793	118,674
Professional fees	43,789	1,402	2,103	47,294	43,917
Chapter affiliation fees	12,750	1,350	900	15,000	10,000
Postage and printing	19,573	1,333	19,754	40,660	32,117
East County Project	-	-	-	-	103,500
Depreciation	81,423	3,476	5,214	90,113	82,965
Total expenses	\$ 4,080,273	\$ 295,031	\$ 556,002	\$ 4,931,306	\$ 4,810,016

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, 2015 <i>(With Comparative Totals for 2014)</i>	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 2,154,064	\$ 2,229,728
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions restricted for property acquisition	(1,938,502)	(852,230)
Proceeds from contributions to permanent endowment	(3,750)	(4,312)
Depreciation	90,113	82,965
Gain on sale of property and equipment	(288,292)	-
(Gain) loss on investments	(661)	3,592
Net decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	5,911	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	124,144	33,000
Changes in:		
Receivables	207,056	(1,452,541)
Prepaid expenses	(13,534)	(63,164)
Accounts payable and accrued liabilities	51,864	(103,434)
Net cash provided (used) by operating activities	388,413	(126,396)
Cash flows from investing activities:		
Proceeds from sales of investments	6,925	148,921
Purchase of investments	-	(122,264)
Cash restricted for property acquisition	(50,100)	(769,978)
Proceeds from sale of property and equipment	382,837	-
Purchase of property and equipment	(1,952,501)	(189,494)
Purchase of beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(410,824)	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	(124,144)	(33,000)
Net cash used by investing activities	(2,147,807)	(965,815)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	1,938,502	852,230
Proceeds from contributions to permanent endowment	3,750	4,312
Net cash provided by financing activities	1,942,252	856,542
Net increase (decrease) in cash and cash equivalents	182,858	(235,669)
Cash and cash equivalents, beginning of year	1,263,676	1,499,345
Cash and cash equivalents, end of year	\$ 1,446,534	\$ 1,263,676
Supplemental disclosure of noncash information:		
Construction in progress accrued in accounts payable	\$ 537,695	\$ -

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Friends of the Children - Portland (*Friends - Portland*) is a non-profit organization that provides Portland's most at-risk children with intensive and long-term mentors. We take a preventative, early intervention approach that breaks the cycle of poverty and abuse by helping children in need to overcome the many obstacles in their lives.

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

For children and youth, *Friends - Portland* opens doors of opportunity that would otherwise remain closed and support is provided consistently for 12 ½ years.

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

Summary of Significant Accounting Policies - The significant accounting policies followed by the *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 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 (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 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.

Beneficial Interest in Assets Held by *Friends of the Children - Portland Foundation* (the *Foundation*) - *Friends - Portland* has interest in assets invested by *Friends of the Children - Portland Foundation*. At August 31, 2015, assets totaled \$404,913 (*Note 10*).

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 three 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. Public support includes \$305,000 and \$408,500 for the years ended August 31, 2015 and 2014, respectively, from the *Foundation*.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

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

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

In-Kind Contributions - The Organizations receive contributed services from a small number of unpaid volunteers who assist in a range of fundraising and program activities. The values of such services, which the Organizations consider not practical to estimate, have not been recognized in the consolidated statement of activities. Significant services received that create or enhance a non-financial asset or require specialized skills the Organizations would have purchased if not donated are recognized in the consolidated statement of activities. The value of such services for the year ended August 31, 2015, totaled \$47,006 and consisted of donated 401(k) administrative services, maintenance services, and dental services for program youth. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and the contributions are an essential part of the Organizations' activities.

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

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 Organization files 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 2014 - 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, 2014, from which the summarized information was derived.

Reclassifications - Certain information in the 2014 financial statements has been reclassified for comparative purposes to conform to the 2015 presentation.

2. Program and Supporting Services

Program Services - Program activities include costs of day-to-day activities with at-risk children, sustaining the children's relationships with adult role models and helping them become productive members of the community.

Supporting Services

Administrative - Administrative activities include business management, recordkeeping, budgeting, public relations, financing, and related administrative activities. These services provide the necessary developmental, organizational, and management support for the effective operation of the programs.

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

3. Investments

Investments included the following at August 31:

	2015	2014
Bank stock	<u>\$ -</u>	<u>\$ 6,264</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2015	2014
Pledges due within one year	\$ 1,288,310	\$ 1,477,718
Contract receivable	105,093	75,491
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	23	10,848
Receivable from <i>Friends of the Children - National</i> ^A	33,569	53,577
Other receivables	29,034	30,721
Receivables due in less than one year	1,456,029	1,648,355
Pledges due in one to five years	683,210	696,062
Allowance for doubtful accounts	(9,997)	(9,450)
Discount to present value (4 percent discount rate used)	(50,758)	(49,427)
Net receivables	\$ 2,078,484	\$ 2,285,540

^AThese are related parties.

5. Property and Equipment

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

	2015	2014
Computer equipment	\$ 337,079	\$ 221,035
Office equipment and furniture	267,086	248,983
Vehicles	88,901	88,901
Building and improvements	1,049,118	1,206,584
Land	100,000	100,000
Construction in progress	2,434,970	84,370
	4,277,154	1,949,873
Less accumulated depreciation	(873,664)	(851,921)
Net property and equipment	\$ 3,403,490	\$ 1,097,952

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

5. Property and Equipment - Continued

During 2014, the Organization signed a 49 year ground lease, with an option to extend for five consecutive terms of 10 years each, with the City of Gresham for \$1 a year for the use of land to build and operate a new facility. During 2015, the lease commenced upon signing a \$2,475,542 contract with a general construction contractor. The total estimated cost of the project is \$5 million, including estimated construction and furnishing costs of \$3.1 million, the land lease valued at \$900,000, and the remaining funds to be used for ongoing facility operating costs. Management believes the project will be funded through capital campaign donations. At August 31, 2015, the Organizations had cash of \$820,078 and pledges receivable of \$1,239,033 restricted for use on this project.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2015, are available for the following purposes:

Back to School	\$ 7,560
Longitudinal study	75,000
Scholarships	106,373
Future periods	571,877
East County Building	<u>4,025,322</u>
	<u>\$ 4,786,132</u>

During the year ended August 31, 2015, net assets of \$658,489 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 \$40,824 at August 31, 2015, for the Fast Friends Scholarship Fund.

8. Retirement Plans

Friends - Portland has a retirement plan pursuant to Internal Revenue Code (IRC) Section 401(k), in which employees 18 years of age and older and with at least one month of service are eligible to participate. *Friends - Portland* also has a retirement plan under IRC Section 403(b) for certain eligible employees. Contributions to both plans are discretionary. Employer retirement expense totaled \$61,191 and \$57,017 for the years ended August 31, 2015 and 2014, respectively.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

9. Special Events

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

	2015	2014
Gross proceeds from events	\$ 2,133,247	\$ 2,259,016
Less direct costs of events	<u>(169,839)</u>	<u>(163,748)</u>
	<u><u>\$ 1,963,408</u></u>	<u><u>\$ 2,095,268</u></u>

10. Friends of the Children - Portland Foundation

During the year ended August 31, 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 data are as follows for the *Foundation* as of and for the years ended August 31:

	2015	2014
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 345,230	\$ 214,081
Receivable from <i>Friends of the Children - Portland</i>	90,000	33,000
<i>Investments:</i>		
Equity securities	4,255,742	4,587,661
Fixed income securities	1,177,961	840,962
Alternative assets	195,920	259,482
Prepaid expenses	<u>1,549</u>	<u>1,367</u>
<i>Total assets</i>	<u><u>\$ 6,066,402</u></u>	<u><u>\$ 5,936,553</u></u>
<i>Liabilities and net assets:</i>		
Accounts Payable	\$ 23	\$ 10,848
Funds held on behalf of <i>Friends of the Children - Portland</i>	404,913	-
<i>Net assets:</i>		
Unrestricted net assets	<u>5,661,466</u>	<u>5,925,705</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 6,066,402</u></u>	<u><u>\$ 5,936,553</u></u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

Activities:

*Support, revenue, and other increases
in net assets:*

Contributions	\$ 141,860	\$ 101,720
Interest and dividends	113,143	106,382
Gain (loss) on investments	(259,722)	825,575
Transfer from <i>Friends of the Children - Portland</i>	124,144	33,000

*Total support, revenue, and other
increases in net assets*

	119,425	1,066,677
--	---------	-----------

Expenses:

Contributions to <i>Friends of the Children - Portland</i>	305,000	408,500
Outside services	37,717	38,712
Investment fees	31,229	30,696
Marketing expenses	471	310
Accounting and compliance fees	8,996	8,786
Miscellaneous expenses	251	360

Total expenses

	383,664	487,364
--	---------	---------

Increase (decrease) in net assets

	\$ (264,239)	\$ 579,313
--	--------------	------------

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, 2015, 45 percent of net receivables was due from four donors.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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, 2015 are as follows:

	Level 1	Level 2	Total
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	<u>\$ 348,938</u>	<u>\$ 55,975</u>	<u>\$ 404,913</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 require *Friends - Portland* to present its net assets and its revenue and gains based upon the existence or absence of donor imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted. Accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Accounting standards also provide for enhanced disclosure about endowment funds (both donor restricted endowment funds and quasi-endowment funds).

Interpretation of Relevant Law

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

Investment Strategy and Spending Policy

During 2009, an endowment fund was established to provide funding for scholarships for students who have completed the *Friends - Portland* program and are continuing their education in a traditional four year college, community college, or a trade or vocational school. Endowment assets are invested with *Friends of the Children - Portland Foundation* and are subject to the *Foundation's* investment policies. A formal spending policy has not been established. During the year ended August 31, 2015, the funds were invested with the *Foundation* on behalf of *Friends - Portland*.

Endowment net asset composition by type of fund as of August 31, 2015, is as follows:

	Unrestricted Deficit	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship Fund	<u>\$ (1,091)</u>	<u>\$ -</u>	<u>\$ 40,824</u>	<u>\$ 39,733</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, 2015, are as follows:

	Unrestricted Deficit	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship net assets, beginning of year	\$ -	\$ -	\$ 37,074	\$ 37,074
Contributions	-	-	3,750	3,750
Net investments return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i>	(1,091)	-	-	(1,091)
Fast Friends Scholarship net assets, end of year	\$ (1,091)	\$ -	\$ 40,824	\$ 39,733

From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires *Friends - Portland* to retain as a fund of perpetual duration (historic dollar value). Deficiencies of this nature reported in unrestricted net assets were \$1,091 as of August 31, 2015. These deficiencies resulted primarily from unfavorable market fluctuations.

14. Lease Commitments

The Organizations lease office equipment under operating leases expiring through August 2020. Lease expense for the year ended August 31, 2015, was \$3,066. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2016	\$ 2,950
2017	2,950
2018	2,664
2019	2,460
2020	2,460
	\$ 13,484

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

15. Subsequent Events

Management has evaluated subsequent events through December 17, 2015, 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, 2015

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 1,291,752	\$ 154,782	\$ -	\$ 1,446,534
Investments	-	-	-	-
Receivables - net	2,077,286	36,550	(35,352)	2,078,484
Prepaid expenses	111,122	-	-	111,122
Cash restricted for property acquisition	820,078	-	-	820,078
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	39,733	365,180	-	404,913
Property and equipment - net	<u>2,650,487</u>	<u>753,003</u>	<u>-</u>	<u>3,403,490</u>
Total assets	<u>\$ 6,990,458</u>	<u>\$ 1,309,515</u>	<u>\$ (35,352)</u>	<u>\$ 8,264,621</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 945,798	\$ 6,382	\$ (35,352)	\$ 916,828
Net assets:				
Unrestricted	1,217,704	1,303,133	-	2,520,837
Temporarily restricted	4,786,132	-	-	4,786,132
Permanently restricted	<u>40,824</u>	<u>-</u>	<u>-</u>	<u>40,824</u>
Total net assets	<u>6,044,660</u>	<u>1,303,133</u>	<u>-</u>	<u>7,347,793</u>
Total liabilities and net assets	<u>\$ 6,990,458</u>	<u>\$ 1,309,515</u>	<u>\$ (35,352)</u>	<u>\$ 8,264,621</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2015

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 3,660,691	\$ -	\$ -	\$ 3,660,691
Grants and contracts	1,095,330	-	-	1,095,330
Loss on disposal of equipment	-	-	-	-
Special events - net	1,963,408	-	-	1,963,408
In-kind contributions	197,222	-	-	197,222
Rental income	-	151,332	(145,000)	6,332
Gain on sale of property and equipment	-	288,292	-	288,292
Miscellaneous income	2,111	-	-	2,111
Total public support and revenue	6,918,762	439,624	(145,000)	7,213,386
Expenses:				
Program services:				
Salaries and related expenses	2,911,733	-	-	2,911,733
Children's expenses	892,732	136,335	(123,250)	905,817
Friends' expenses	262,723	-	-	262,723
Total program services	4,067,188	136,335	(123,250)	4,080,273
Administrative	297,609	5,822	(8,400)	295,031
Development	560,434	8,918	(13,350)	556,002
Total expenses	4,925,231	151,075	(145,000)	4,931,306
Increase in net assets before investment activity	1,993,531	288,549	-	2,282,080
Investment activity:				
Interest income	-	1,378	-	1,378
Gain on investments	661	-	-	661
Net decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(1,091)	(4,820)	-	(5,911)
Net investment activity	(430)	(3,442)	-	(3,872)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(124,144)	-	-	(124,144)
Increase in net assets	1,868,957	285,107	-	2,154,064
Net assets, beginning of year	4,175,703	1,018,026	-	5,193,729
Net assets, end of year	\$ 6,044,660	\$ 1,303,133	\$ -	\$ 7,347,793