
**FR1ENDS of the
CH1LDREN**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2016

and

Consolidating and Supplementary Financial Information

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN

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 and Supplementary Financial Information	
Consolidating Schedule of Financial Position	22
Consolidating Schedule of Activities	23
Schedule of Financial Position - National	24
Schedule of Activities - National	25
Schedule of Cash Flows - National	26

Independent Auditors' Report

The Board of Directors
Friends of the Children

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *Friends of the Children*, which comprise the consolidated statement of financial position as of August 31, 2016, 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* as of August 31, 2016, and the changes in its consolidated net assets and its 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 and supplementary financial information on pages 22 through 26 is presented for purposes of additional analysis of the consolidated financial statement, 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's* 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Heuman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
January 23, 2017

FRIENDS OF THE CHILDREN
Consolidated Statement of Financial Position

August 31, 2016 <i>(With Comparative Amounts for 2015)</i>	2016	2015
ASSETS		
Cash and cash equivalents	\$ 2,818,391	\$ 2,552,059
Investments <i>(Notes 3 and 12)</i>	5,809,113	5,585,623
Receivables - net <i>(Notes 4 and 11)</i>	1,274,657	2,370,906
Prepaid expenses	113,352	118,622
Cash restricted for property acquisition	-	820,078
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> <i>(Notes 10, 12, and 13)</i>	423,891	404,913
Property and equipment - net <i>(Note 5)</i>	<u>4,395,997</u>	<u>3,406,700</u>
Total assets	<u>\$ 14,835,401</u>	<u>\$ 15,258,901</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 598,438	\$ 984,466
Commitments <i>(Note 14)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	4,395,997	902,793
Other undesignated	<u>2,139,705</u>	<u>1,767,513</u>
Total unrestricted	6,535,702	2,670,306
Temporarily restricted <i>(Note 6)</i>	1,750,237	5,905,805
Permanently restricted <i>(Notes 7 and 13)</i>	<u>5,951,024</u>	<u>5,698,324</u>
Total net assets	<u>14,236,963</u>	<u>14,274,435</u>
Total liabilities and net assets	<u>\$ 14,835,401</u>	<u>\$ 15,258,901</u>

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

FRIENDS OF THE CHILDREN
Consolidated Statement of Activities

Year Ended August 31, 2016 (With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Public support and revenue:					
Contributions	\$ 1,628,242	\$ 418,563	\$ 252,700	\$ 2,299,505	\$ 4,544,381
Grants and contracts	1,497,453	510,065	-	2,007,518	1,876,330
Special events - net (Note 9)	2,116,031	-	-	2,116,031	1,961,408
In-kind contributions	105,752	-	-	105,752	197,222
Chapter affiliation fees	53,600	-	-	53,600	93,375
Chapter revenue sharing	14,085	-	-	14,085	42,577
Consulting income	111,100	-	-	111,100	133,600
Rental income	3,663	-	-	3,663	6,332
Gain on sale of property and equipment	-	-	-	-	288,292
Miscellaneous income	1,090	-	-	1,090	2,458
Net assets released from restrictions (Note 6)	5,360,529	(5,360,529)	-	-	-
Total public support and revenue	10,891,545	(4,431,901)	252,700	6,712,344	9,145,975
Expenses:					
Program services:					
Affiliate services	1,336,576	-	-	1,336,576	817,724
<i>Friends - Portland</i>	4,163,554	-	-	4,163,554	4,053,123
Total program services	5,500,130	-	-	5,500,130	4,870,847
Management and general					
Fundraising	616,452	-	-	616,452	378,839
	783,234	-	-	783,234	611,913
Total expenses	6,899,816	-	-	6,899,816	5,861,599
Increase (decrease) in net assets before investment activity	3,991,729	(4,431,901)	252,700	(187,472)	3,284,376
Investment activity:					
Interest and dividends	4,696	136,567	-	141,263	116,026
Gain (loss) on investments, net (Note 3)	(7)	139,766	-	139,759	(283,739)
Net increase (decrease) in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	18,978	-	-	18,978	(5,911)
Net investment activity	23,667	276,333	-	300,000	(173,624)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	-	-	(150,000)	(124,144)
Increase (decrease) in net assets	3,865,396	(4,155,568)	252,700	(37,472)	2,986,608
Net assets, beginning of year	2,670,306	5,905,805	5,698,324	14,274,435	11,287,827
Net assets, end of year	\$ 6,535,702	\$ 1,750,237	\$ 5,951,024	\$ 14,236,963	\$ 14,274,435

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

FRIENDS OF THE CHILDREN

Consolidated Statement of Functional Expenses

Year Ended August 31, 2016 *(With Comparative Totals for 2015)*

	Program Services			Supporting Services			Total	
	Affiliate Services	Friends - Portland	Total	Administrative	Fundraising	Total	2016	2015
Salaries and related expenses:								
Salaries and wages	\$ 605,203	\$ 2,415,900	\$ 3,021,103	\$ 430,577	\$ 546,990	\$ 977,567	\$ 3,998,670	\$ 3,543,523
Payroll taxes and benefits	82,908	554,200	637,108	86,171	97,775	183,946	821,054	777,171
Total salaries and related expenses	688,111	2,970,100	3,658,211	516,748	644,765	1,161,513	4,819,724	4,320,694
Chapter support services	397,546	-	397,546	-	-	-	397,546	51,544
Children's activities	-	178,379	178,379	-	-	-	178,379	185,970
Friend transportation	-	198,253	198,253	-	-	-	198,253	202,654
Friends' activities	-	29,440	29,440	-	-	-	29,440	30,889
Friend communication	-	29,545	29,545	-	-	-	29,545	29,180
Scholarships	-	24,759	24,759	-	-	-	24,759	17,683
In-kind gifts for children and families	-	101,880	101,880	-	-	-	101,880	161,800
Research and evaluation	-	27,000	27,000	-	-	-	27,000	59,276
Travel and meetings	70,371	15,720	86,091	5,366	12,853	18,219	104,310	61,205
Community awareness	5,585	8,206	13,791	1,297	6,821	8,118	21,909	44,312
Staff development	4,983	32,816	37,799	20,046	17,255	37,301	75,100	83,309
Repairs and maintenance	2,795	86,411	89,206	6,834	7,032	13,866	103,072	74,742
Supplies	980	14,877	15,857	1,425	1,320	2,745	18,602	19,790
Payroll and banking fees	2,841	18,818	21,659	6,830	12,123	18,953	40,612	33,531
Business insurance	5,536	37,331	42,867	7,250	6,692	13,942	56,809	42,474
Utilities	-	51,334	51,334	4,538	4,274	8,812	60,146	44,311
Information technology	50,147	117,590	167,737	21,918	19,425	41,343	209,080	135,105
Professional fees	104,156	29,225	133,381	14,374	24,810	39,184	172,565	126,636
Postage and printing	987	14,113	15,100	2,336	18,950	21,286	36,386	44,181
Depreciation	1,597	177,757	179,354	7,490	6,914	14,404	193,758	92,313
Miscellaneous	941	-	941	-	-	-	941	-
Total expenses	\$ 1,336,576	\$ 4,163,554	\$ 5,500,130	\$ 616,452	\$ 783,234	\$ 1,399,686	\$ 6,899,816	\$ 5,861,599

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

FRIENDS OF THE CHILDREN
Consolidated Statement of Cash Flows

Year Ended August 31, 2016 <i>(With Comparative Totals for 2015)</i>	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (37,472)	\$ 2,986,608
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions restricted for property acquisition	(52,577)	(1,938,502)
Proceeds from contributions to permanent endowment	(252,700)	(256,250)
Depreciation	193,758	92,313
Gain on sale of property and equipment	-	(288,292)
(Gain) loss on investments	(139,759)	283,739
Net (increase) decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(18,978)	5,911
Transfer to <i>Friends of the Children - Portland Foundation</i>	150,000	124,144
Changes in:		
Receivables	164,103	(91,459)
Prepaid expenses	5,270	(14,426)
Accounts payable and accrued liabilities	(386,028)	38,359
Net cash provided (used) by operating activities	(374,383)	942,145
Cash flows from investing activities:		
Proceeds from sales of investments	2,328,577	2,506,262
Purchases of investments	(2,412,308)	(2,583,614)
Cash restricted for property acquisition	-	(50,100)
Proceeds from sale of property and equipment	-	382,837
Purchases of property and equipment	(362,977)	(1,955,464)
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>	(150,000)	(124,144)
Net cash used by investing activities	(596,708)	(2,235,047)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	984,723	1,938,502
Proceeds from contributions to permanent endowment	252,700	256,250
Net cash provided by financing activities	1,237,423	2,194,752
Net increase in cash and cash equivalents	266,332	901,850
Cash and cash equivalents, beginning of year	2,552,059	1,650,209
Cash and cash equivalents, end of year	\$ 2,818,391	\$ 2,552,059
Supplemental disclosure of non-cash information:		
Property and equipment accrued in accounts payable	\$ -	\$ 537,595
Restricted cash used for property acquisition	820,078	-

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

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - *Friends of the Children* is the only program in the nation that provides carefully screened, full-time professional salaried mentors (called *Friends*) to at-risk youth for 12 years starting in first grade. The objectives of the national office are to sustain and grow existing *Friends of the Children* chapters, expand and build new chapters, and enhance *Friends*' image, awareness, position, and influence. The national office also provides training, program quality monitoring, data warehousing, and operational support.

Summary of Significant Accounting Policies - The significant accounting policies followed by the organization are described below to enhance the usefulness of the consolidated financial statements to the reader.

Principles of Consolidation - The consolidated financial statements include the accounts of *Friends of the Children (Friends - National)*, *Friends of the Children - Portland (Friends - Portland)*, and *Youth Resources, Inc.* (collectively, the organization). Consolidated financial statements are required because *Friends - National* has a controlling financial interest in *Friends - Portland* and *Youth Resources, Inc.* is a wholly controlled subsidiary of *Friends - Portland*. All significant intercompany balances and transactions have been eliminated.

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 organization 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 organization. Generally, the donors of these assets permit the organization 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

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, the determination of any required allowance for uncollectible receivables, and the functional allocation of expenses.

Cash and Cash Equivalents - The organization considers 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 *the Foundation*. At August 31, 2016, assets totaled \$423,891 (*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 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. Chapter affiliation fees are received annually from the affiliates and are generally based on specific agreements with the affiliates. Fees are recognized as revenue earned. For exchange transactions, amounts received but not yet earned are recorded as deferred revenue.

FRIENDS OF THE CHILDREN

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 - 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. At August 31, 2016, *Friends* had a conditional matching pledge from a foundation totaling \$83,000. Public support includes \$420,000 and \$305,000 for the years ended August 31, 2016 and 2015, respectively, from *the Foundation*.

The organization reports 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 organization reports 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 organization receives contributed services from a small number of unpaid volunteers who assist in a range of fundraising and program activities. The value of such services, which the organization considers not practical to estimate, has 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 organization 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, 2016, totaled \$16,168 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 on which to value these contributions and the contributions are an essential part of the organization's activities.

Income Tax Status - Income taxes are not provided for in the consolidated financial statements since each organization is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. None of the organizations are classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions, and provide guidance on various related matters such as interest, penalties, and required disclosures. Management believes the organization does not 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.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

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

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

Summarized Financial Information for 2015 - 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 *Friends - National's* consolidated financial statements for the year ended August 31, 2015, from which the summarized information was derived.

2. Program and Supporting Services

Program Services:

Affiliate Services - The organization provides a variety of services to help sustain and grow existing chapters, including grant awards, technical assistance and training in areas such as child assessment, planning, administration, fundraising, and Board development. *Friends of the Children* affiliates provided services to children located in the following geographic areas in 2016:

New York, NY	Portland, OR
Boston, MA	Klamath Falls, OR
Seattle, WA	Cornwall, UK
Tampa Bay, FL	

Total affiliate services expenses during the year ended August 31, 2016, were \$1,349,576.

Friends - Portland - Activities include the cost of day-to-day activities with at-risk children in the Portland, Oregon, metropolitan area, sustaining the children's relationships with adult role models, and helping them become productive members of the community.

Total *Friends - Portland* expenses, prior to the effect of eliminating entries, during the year ended August 31, 2016, were \$4,192,954 for program expenses, \$674,212 for development expenses, and \$479,625 for administrative expenses.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Program and Supporting Services - Continued

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:

	2016	2015
Equity securities	\$ 3,800,204	\$ 3,960,451
Fixed income securities	1,601,768	1,068,991
Money market funds	233,952	364,517
Alternative assets	<u>173,189</u>	<u>191,664</u>
	<u>\$ 5,809,113</u>	<u>\$ 5,585,623</u>

Realized and unrealized gain on investments of \$139,759 for the year ended August 31, 2016, is presented net of investment management expenses of \$28,064.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2016	2015
Pledges due within one year	\$ 814,002	\$ 1,564,251
Contract receivable	197,943	105,093
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	5,127	23
Other receivables	43,674	29,084
Receivables due in less than one year	1,060,746	1,698,451
Pledges due in one to five years	223,908	733,210
Allowance for doubtful accounts	(9,997)	(9,997)
Discount to present value (4 percent discount rate used)	-	(50,758)
Net receivables	<u><u>\$ 1,274,657</u></u>	<u><u>\$ 2,370,906</u></u>

^ARelated party.

Management has elected not to calculate any discount to present value on pledges due beyond one year, as of August 31, 2016, as such amount would not be material to the consolidated financial statements

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Property and Equipment

	2016	2015
Computer equipment	\$ 423,708	\$ 345,091
Office equipment and furniture	265,976	267,086
Vehicles	88,901	88,901
Buildings and improvements	4,391,247	1,049,118
Land	100,000	100,000
Construction in progress	-	2,434,970
	5,269,832	4,285,166
Less accumulated depreciation and amortization	(873,835)	(878,466)
Net property and equipment	\$ 4,395,997	\$ 3,406,700

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.

6. Temporarily Restricted Net Assets

At August 31, 2016, temporarily restricted net assets were available for the following purposes:

Scholarships	\$ 108,539
Chapter assistance	255,641
Back to School	42,700
Future periods	1,032,279
Unexpended endowment earnings (<i>Note 13</i>)	6,384
East County Building Operations	304,694
	\$ 1,750,237

During the year ended August 31, 2016, net assets of \$5,360,529 were released from restrictions due to specific actions of the organization and/or the passage of time.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

7. Permanently Restricted Net Assets

At August 31, 2016, permanently restricted net assets consist of the following:

Fast Friends Scholarship fund	\$ 43,524
National program operations	<u>5,907,500</u>
	<u><u>\$ 5,951,024</u></u>

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.

Friends - National employees participate in the 401(k) and 403(b) plans offered by *Friends - Portland*.

Employer retirement expense totaled \$68,587 and \$68,128 for the years ended August 31, 2016 and 2015, respectively.

9. Special Events

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

	2016	2015
Gross proceeds from special events	\$ 2,341,182	\$ 2,131,247
Less direct costs of special events	<u>(212,151)</u>	<u>(169,839)</u>
Net proceeds from special events	<u><u>\$ 2,129,031</u></u>	<u><u>\$ 1,961,408</u></u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation

During the year ended August 31, 2004, *the Foundation* was established. *The Foundation* was organized to be exempt from income tax under Section 501(c)(3) of the IRC and similar state provisions. *The Foundation* raises private donations, manages investments, and manages a scholarship program for *Friends - Portland*. Although *the Foundation* is organized as a support organization for *Friends - Portland*, there is not 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 is as follows:

	2016	2015
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 291,443	\$ 345,230
Receivable from <i>Friends - Portland</i>	150,000	90,000
<i>Investments:</i>		
Equity securities	3,776,296	4,255,742
Fixed income securities	1,656,760	1,177,961
Alternative assets	177,034	195,920
Prepaid expenses	1,435	1,549
<i>Total assets</i>	\$ 6,052,968	\$ 6,066,402
 <i>Liabilities and net assets:</i>		
Due to <i>Friends of the Children - Portland</i>	\$ 5,127	\$ 23
Funds held on behalf of <i>Friends of the Children - Portland</i>	423,891	404,913
<i>Net assets:</i>		
Unrestricted net assets	5,623,051	5,661,466
<i>Total liabilities and net assets</i>	\$ 6,052,069	\$ 6,066,402

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

Activities:

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

Contributions	\$ 32,968	\$ 141,860
Interest and dividends	133,040	113,143
Gain (loss) on investments	148,096	(259,722)
Transfer from <i>Friends - Portland</i>	150,000	124,144

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

464,104 119,425

Expenses:

Contribution to <i>Friends - Portland</i>	420,000	305,000
Outside services	39,980	37,717
Investment fees	31,488	31,229
Marketing expenses	388	471
Accounting and compliance fees	9,515	8,996
Miscellaneous expenses	249	251

Total expenses

501,620 383,664

Decrease in net assets

\$ (37,516) \$ (264,239)

11. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the organization to concentrations of risk consist primarily of cash and cash equivalents, investments, and receivables. The organization typically maintains balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation (FDIC) limits. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such changes could materially affect account balances and the amounts reported in the consolidated statement of financial position. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2016, approximately 11 percent of net receivables were due from one donor.

FRIENDS OF THE CHILDREN

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.

Fair values of equity securities, mutual funds, and money market funds have all been determined by reference to quoted prices in active markets as provided by the investment custodian.

Fair values of nongovernment and foreign fixed income securities have been provided by the investment custodian based on pricing for debt instruments with like characteristics, including interest rate, term, and fair values.

Fair value of beneficial interest in assets held by *the Foundation* is measured by reference to quoted prices as provided by *the Foundation's* investment broker.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

12. Fair Value Measurements - Continued

The Organization's assets are measured at fair value on a recurring basis including how fair value was determined as of August 31, 2016:

	Level 1	Level 2	Total
Equity securities:			
Common stock:			
Materials	\$ 33,561	\$ -	\$ 33,561
Industrials	148,898	-	148,898
Telecommunication services	30,351	-	30,351
Consumer discretionary	316,721	-	316,721
Consumer staples	122,982	-	122,982
Energy	88,942	-	88,942
Financials	329,274	-	329,274
Health care	477,698	-	477,698
Information technology	560,816	-	560,816
Utilities	27,212	-	27,212
Equity mutual funds:			
Mid cap	588,815	-	588,815
Large cap	15,951	-	15,951
International	448,662	-	448,662
Enhanced yield equity	610,321	-	610,321
Total equity securities	3,800,204	-	3,800,204
Fixed income securities:			
Nongovernment obligations	-	959,837	959,837
Foreign obligations	-	50,699	50,699
Multi-strategy mutual fund	210,145	-	210,145
Daily accrual funds	150,796	-	150,796
Treasury and federal agencies	230,291	-	230,291
Total fixed income securities	591,232	1,010,536	1,601,768
Alternative assets:			
Multi-strategy hedge fund	173,189	-	173,189
Money market funds	233,952	-	233,952
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	343,352	80,539	423,891
	\$ 5,141,929	\$ 1,091,075	\$ 6,233,004

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds

GAAP requires the organization to present its net assets, 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 the organization 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, the organization 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 the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Investment Strategy and Spending Policy

The Fast Friends Scholarship 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. Endowment assets are invested with *the Foundation* and are subject to *the Foundation's* investment policies. A formal spending policy has not been established.

Also during 2009, *Friends - National* received a donation that established a permanent endowment to provide funding for continued operations of *Friends - National*. During 2014, *Friends - National* established an investment and spending policy. The primary objective of the organization's investment policy for endowments is capital preservation as adjusted to reflect the rate of inflation. To accomplish *Friends - National's* objective, the assets are invested in a mixture of equity securities, fixed income securities, and money market and cash funds.

The spending policy calculates the amount of money annually distributed to *Friends - National* for operating expenses. The current spending policy distributes quarterly payments that are equal to 1.25 percent of the net asset value of the funds at the measurement value. The measurement value is determined to be the average of the net asset value on the last 10 business days of the third quarter ending on May 31 of the preceding fiscal year.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds - Continued

All endowment funds are composed of funds arising from donor restrictions. Endowment net asset composition by type of fund as of August 31, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship fund	\$ -	\$ 771	\$ 43,524	\$ 44,295
National program operations	-	5,613	5,907,500	5,913,113
	<u>\$ -</u>	<u>\$ 6,384</u>	<u>\$5,951,024</u>	<u>\$5,957,408</u>

Changes in endowment net assets for the year ended August 31, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,091)	\$ 48,123	\$5,698,324	\$5,745,356
Investment return:				
Interest and dividends	-	135,795	-	135,795
Gain on investments	-	167,831	-	167,831
Investment fees	-	(28,064)	-	(28,064)
Contributions	-	-	252,700	252,700
Net investments return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i>	1,091	771	-	1,862
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(318,072)</u>	<u>-</u>	<u>(318,072)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 6,384</u>	<u>\$5,951,024</u>	<u>\$5,957,408</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

14. Lease Commitments

The organization leases office equipment under operating leases expiring through August 2020. Lease expense for the year ended August 31, 2016, was \$2,950. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2017	\$ 2,950
2018	2,664
2019	2,460
2020	<u>2,460</u>
	<u><u>\$ 10,534</u></u>

15. Subsequent Events

Management has evaluated subsequent events through January 23, 2017, the date the consolidated financial statements were available for issue.

FRIENDS OF THE CHILDREN

Consolidating and Supplementary Financial Information

FRIENDS OF THE CHILDREN
Consolidating Schedule of Financial Position

August 31, 2016

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 1,171,525	\$ 1,646,866	\$ -	\$ 2,818,391
Investments	5,809,113	-	-	5,809,113
Receivables - net	285,041	1,085,672	(96,056)	1,274,657
Prepaid expenses	12,719	100,633	-	113,352
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	423,891	-	423,891
Property and equipment - net	5,102	4,390,895	-	4,395,997
Total assets	<u>\$ 7,283,500</u>	<u>\$ 7,647,957</u>	<u>\$ (96,056)</u>	<u>\$ 14,835,401</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 247,290	\$ 447,204	\$ (96,056)	\$ 598,438
Net assets:				
Unrestricted	202,102	6,333,600	-	6,535,702
Temporarily restricted	926,608	823,629	-	1,750,237
Permanently restricted	5,907,500	43,524	-	5,951,024
Total net assets	<u>7,036,210</u>	<u>7,200,753</u>	<u>-</u>	<u>14,236,963</u>
Total liabilities and net assets	<u>\$ 7,283,500</u>	<u>\$ 7,647,957</u>	<u>\$ (96,056)</u>	<u>\$ 14,835,401</u>

FRIENDS OF THE CHILDREN
Consolidating Schedule of Activities

Year Ended August 31, 2016

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Public support and revenue:				
Contributions	\$ 442,849	\$ 1,856,656	\$ -	\$ 2,299,505
Grants and contracts	852,301	1,252,205	(96,988)	2,007,518
Special events - net	-	2,098,009	18,022	2,116,031
In-kind contributions	400	105,352	-	105,752
Chapter affiliation fees	88,000	-	(34,400)	53,600
Chapter revenue sharing	45,107	-	(31,022)	14,085
Consulting income	111,100	-	-	111,100
Rental income	-	15,663	(12,000)	3,663
Miscellaneous income	1,006	84	-	1,090
Total public support and revenue	1,540,763	5,327,969	(156,388)	6,712,344
Expenses:				
Program services:				
Affiliate services	1,455,564	-	(118,988)	1,336,576
<i>Friends - Portland</i>	-	4,192,954	(29,400)	4,163,554
Total program services	1,455,564	4,192,954	(148,388)	5,500,130
Administrative	140,787	479,625	(3,960)	616,452
Development	113,062	674,212	(4,040)	783,234
Total expenses	1,709,413	5,346,791	(156,388)	6,899,816
Decrease in net assets before investment activity	(168,650)	(18,822)	-	(187,472)
Investment activity:				
Interest and dividends	138,459	2,804	-	141,263
Gain on investments, net	139,759	-	-	139,759
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	18,978	-	18,978
Net investment activity	278,218	21,782	-	300,000
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	(150,000)	-	(150,000)
Increase (decrease) in net assets	109,568	(147,040)	-	(37,472)
Net assets, beginning of year	6,926,642	7,347,793	-	14,274,435
Net assets, end of year	\$ 7,036,210	\$ 7,200,753	\$ -	\$ 14,236,963

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Financial Position

August 31, 2016 <i>(With Comparative Amounts for 2015)</i>	2016	2015
Assets:		
Cash and cash equivalents	\$ 1,171,525	\$ 1,105,525
Investments	5,809,113	5,585,623
Receivables - net	285,041	325,991
Prepaid expenses	12,719	7,500
Equipment - net	5,102	3,210
Total assets	<u>\$ 7,283,500</u>	<u>\$ 7,027,849</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 247,290	\$ 101,207
Net assets:		
Unrestricted	202,102	149,469
Temporarily restricted	926,608	1,119,673
Permanently restricted	5,907,500	5,657,500
Total net assets	<u>7,036,210</u>	<u>6,926,642</u>
Total liabilities and net assets	<u>\$ 7,283,500</u>	<u>\$ 7,027,849</u>

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Activities

Year Ended August 31, 2016 (With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Public support and revenue:					
Contributions	\$ 112,505	\$ 80,344	\$ 250,000	\$ 442,849	\$ 883,690
Grants and contracts	358,432	493,869	-	852,301	781,000
In-kind contributions	400	-	-	400	-
Chapter affiliation fees	88,000	-	-	88,000	122,775
Chapter revenue sharing	45,107	-	-	45,107	42,577
Consulting income	111,100	-	-	111,100	133,600
Miscellaneous income	1,006	-	-	1,006	347
Net assets released from restrictions	1,042,840	(1,042,840)	-	-	-
Total public support and revenue	1,759,390	(468,627)	250,000	1,540,763	1,963,989
Expenses:					
Program services	1,455,564	-	-	1,455,564	819,724
Administrative	140,787	-	-	140,787	85,158
Development	113,062	-	-	113,062	56,811
Total expenses	1,709,413	-	-	1,709,413	961,693
Increase (decrease) in net assets before investment activity	49,977	(468,627)	250,000	(168,650)	1,002,296
Investment activity:					
Interest and dividends	2,663	135,796	-	138,459	114,648
Gain (loss) on investments, net	(7)	139,766	-	139,759	(284,400)
Net investment activity	2,656	275,562	-	278,218	(169,752)
Increase (decrease) in net assets	52,633	(193,065)	250,000	109,568	832,544
Net assets, beginning of year	149,469	1,119,673	5,657,500	6,926,642	6,094,098
Net assets, end of year	\$ 202,102	\$ 926,608	\$ 5,907,500	\$ 7,036,210	\$ 6,926,642

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Cash Flows

Year Ended August 31, 2016 <i>(With Comparative Totals for 2015)</i>	2016	2015
Cash flows from operating activities		
Increase in net assets	\$ 109,568	\$ 832,544
Adjustments to reconcile increase in net asset to net cash provided (used) by operating activities:		
Proceeds from contribution to permanent endowment	(250,000)	(252,500)
Depreciation	2,130	2,200
(Gain) loss on investments	(139,759)	284,400
Changes in:		
Receivables	40,950	(278,507)
Prepaid expenses	(5,219)	(892)
Accounts payable and accrued liabilities	146,083	(33,513)
Net cash provided (used) by operating activities	(96,247)	553,732
Cash flows from investing activities		
Purchases of equipment	(4,022)	(2,963)
Purchases of investments	(2,412,308)	(2,583,614)
Proceeds from sale of investments	2,328,577	2,499,337
Net cash used by investing activities	(87,753)	(87,240)
Cash flows from financing activities		
Proceeds from contribution to permanent endowment	250,000	252,500
Net cash provided by financing activities	250,000	252,500
Net increase in cash and cash equivalents	66,000	718,992
Cash and cash equivalents, beginning of year	1,105,525	386,533
Cash and cash equivalents, end of year	\$ 1,171,525	\$ 1,105,525