
**FR1ENDS of the
CH1LDREN**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2021

and

Consolidating and Supplementary Financial Information

with

Independent Auditors' Report

and

Single Audit Reports

FRIENDS OF THE CHILDREN

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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* and its consolidated affiliates (*Friends of the Children - Portland and Youth Resources, Inc.*), which comprise the consolidated statement of financial position as of August 31, 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. The consolidated financial statements of *Friends of the Children - Portland and Youth Resources, Inc.* were not audited in accordance with *Government Auditing Standards*.

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* and its consolidated affiliates as of August 31, 2021, 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.

Emphasis of a Matter

As discussed in *Note 1* to the consolidated financial statements, *Friends of the Children* has adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. 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 and supplementary financial information on pages 24 through 28 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. The accompanying schedule of expenditures of federal awards on page 29, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also prepared for purposes of additional analysis and is not a required part of the consolidated financial statements. All supplementary 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* 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 1, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2022, on our consideration of *Friends of the Children's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of *Friends of the Children's* internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Friends of the Children's* internal control over financial reporting and compliance.

Altman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
February 2, 2022

FRIENDS OF THE CHILDREN
Consolidated Statement of Financial Position

| August 31, 2021 <i>(With Comparative Amounts for 2020)</i> | 2021 | 2020 |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 9,218,034 | \$ 5,706,730 |
| Investments <i>(Notes 4 and 16)</i> | 8,683,348 | 7,648,171 |
| Receivables - net <i>(Notes 5)</i> | 3,736,507 | 2,397,345 |
| Prepaid expenses | 166,729 | 184,369 |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation (Notes 14 and 16)</i> | 165,479 | 67,319 |
| Property and equipment - net <i>(Note 7)</i> | 4,067,128 | 4,390,258 |
| Restricted cash | 500 | 1,000 |
| Total assets | <u>\$ 26,037,725</u> | <u>\$ 20,395,192</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 612,298 | \$ 640,509 |
| Grants and contributions payable | 1,074,509 | 534,310 |
| Paycheck Protection Program loan <i>(Note 10)</i> | - | 1,036,881 |
| Due to <i>Friends of the Children - Southwest Washington (Note 12)</i> | 2,626 | 1,125,957 |
| Refundable advances | 663,333 | 316,667 |
| Total liabilities | 2,352,766 | 3,654,324 |
| Commitments <i>(Notes 9 and 15)</i> | | |
| Net assets: | | |
| Without donor restrictions: | | |
| Net investment in property and equipment | 4,067,128 | 4,390,258 |
| Undesignated | 6,711,386 | 3,086,402 |
| Total without donor restrictions | 10,778,514 | 7,476,660 |
| With donor restrictions <i>(Notes 8 and 17)</i> | 12,906,445 | 9,264,208 |
| Total net assets | <u>23,684,959</u> | <u>16,740,868</u> |
| Total liabilities and net assets | <u>\$ 26,037,725</u> | <u>\$ 20,395,192</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, 2021 (With Comparative Totals for 2020)

| | Without Donor Restrictions | With Donor Restrictions | Total | |
|---|-------------------------------|----------------------------|----------------------|----------------------|
| | | | 2021 | 2020 |
| Public support and revenue: | | | | |
| Contributions | \$ 7,662,800 | \$ 4,451,100 | \$ 12,113,900 | \$ 10,038,007 |
| Grants and contracts | 2,973,782 | - | 2,973,782 | 2,095,219 |
| Special events - net (Note 11) | 1,617,807 | 7,500 | 1,625,307 | 1,897,097 |
| Loss on uncollectible contributions receivable | (21,041) | - | (21,041) | (85,131) |
| In-kind contributions | 529,755 | - | 529,755 | 1,385,025 |
| Chapter affiliation fees | 385,300 | - | 385,300 | 163,450 |
| Chapter support revenue | 1,134,378 | - | 1,134,378 | 1,570,528 |
| Paycheck Protection Program proceeds (Note 10) | 2,574,466 | - | 2,574,466 | 424,545 |
| Gain on disposal of assets | 239,089 | - | 239,089 | (2,994) |
| Other revenue | 23,853 | - | 23,853 | 22,607 |
| Net assets released from restrictions (Note 8) | 2,247,347 | (2,247,347) | - | - |
| Total public support and revenue | 19,367,536 | 2,211,253 | 21,578,789 | 17,508,353 |
| Expenses: | | | | |
| Program services: | | | | |
| Affiliate services | 7,834,449 | - | 7,834,449 | 12,514,077 |
| <i>Friends - Portland</i> | 5,390,691 | - | 5,390,691 | 5,181,553 |
| Total program services | 13,225,140 | - | 13,225,140 | 17,695,630 |
| Administrative | 1,445,119 | - | 1,445,119 | 1,213,719 |
| Fundraising | 1,078,761 | - | 1,078,761 | 1,205,794 |
| Total expenses | 15,749,020 | - | 15,749,020 | 20,115,143 |
| Increase (decrease) in net assets before investment activity | 3,618,516 | 2,211,253 | 5,829,769 | (2,606,790) |
| Investment activity: | | | | |
| Net investment return | 20,906 | 1,407,900 | 1,428,806 | 607,629 |
| Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | - | 23,084 | 23,084 | 5,175 |
| Net investment activity | 20,906 | 1,430,984 | 1,451,890 | 612,804 |
| Transfer to <i>Friends of the Children - Portland Foundation</i> (Note 14) | (337,568) | - | (337,568) | - |
| Transfer to <i>Friends of the Children - Southwest Washington</i> (Note 12) | - | - | - | (439,787) |
| Increase (decrease) in net assets | 3,301,854 | 3,642,237 | 6,944,091 | (2,433,773) |
| Net assets, beginning of year | 7,476,660 | 9,264,208 | 16,740,868 | 19,174,641 |
| Net assets, end of year | \$ 10,778,514 | \$ 12,906,445 | \$ 23,684,959 | \$ 16,740,868 |

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, 2021 *(With Comparative Totals for 2020)*

| | Program Services | | | Supporting Services | | | Total | |
|--|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| | Affiliate Services | Friends - Portland | Total | Administrative | Fundraising | Total | 2021 | 2020 |
| Salaries and related expenses: | | | | | | | | |
| Salaries and wages | \$ 2,127,913 | \$ 3,408,785 | \$ 5,536,698 | \$ 826,330 | \$ 666,371 | \$ 1,492,701 | \$ 7,029,399 | \$ 6,775,869 |
| Payroll taxes and benefits | 424,505 | 843,666 | 1,268,171 | 201,592 | 121,151 | 322,743 | 1,590,914 | 1,426,041 |
| Total salaries and related expenses | 2,552,418 | 4,252,451 | 6,804,869 | 1,027,922 | 787,522 | 1,815,444 | 8,620,313 | 8,201,910 |
| Chapter grants | 4,425,052 | - | 4,425,052 | - | - | - | 4,425,052 | 8,457,686 |
| Children's activities | - | 153,913 | 153,913 | - | - | - | 153,913 | 180,095 |
| Friend transportation | - | 84,409 | 84,409 | - | - | - | 84,409 | 122,976 |
| Friend communication | - | 25,279 | 25,279 | - | - | - | 25,279 | 27,600 |
| Scholarships | - | 68,135 | 68,135 | - | - | - | 68,135 | 45,100 |
| In-kind gifts for children and families | - | 196,561 | 196,561 | - | - | - | 196,561 | 206,918 |
| Travel and meetings | 19,105 | 2,849 | 21,954 | 12,478 | 4,468 | 16,946 | 38,900 | 120,624 |
| Community awareness | 39,991 | 10,635 | 50,626 | 1,053 | 16,040 | 17,093 | 67,719 | 106,683 |
| Staff development | - | 32,749 | 32,749 | 53,020 | 5,555 | 58,575 | 91,324 | 113,575 |
| Professional fees | 298,341 | 36,600 | 334,941 | 245,912 | 110,389 | 356,301 | 691,242 | 444,745 |
| Donated advertising <i>(Note 18)</i> | 281,476 | - | 281,476 | - | 8,705 | 8,705 | 290,181 | 1,061,595 |
| Repairs and maintenance | - | 80,018 | 80,018 | 7,148 | 6,598 | 13,746 | 93,764 | 117,330 |
| Supplies | 5,966 | 16,380 | 22,346 | 11,050 | 5,312 | 16,362 | 38,708 | 24,281 |
| Payroll and banking fees | 12,145 | 18,228 | 30,373 | 11,895 | 18,929 | 30,824 | 61,197 | 63,674 |
| Business insurance | 8,549 | 37,349 | 45,898 | 4,517 | 3,732 | 8,249 | 54,147 | 64,054 |
| Utilities | 3,438 | 42,892 | 46,330 | 3,653 | 3,197 | 6,850 | 53,180 | 66,225 |
| Information technology | 142,574 | 131,793 | 274,367 | 46,958 | 70,867 | 117,825 | 392,192 | 337,647 |
| Postage and printing | 2,894 | 4,828 | 7,722 | 4,338 | 25,618 | 29,956 | 37,678 | 46,112 |
| Depreciation | 42,500 | 195,622 | 238,122 | 15,175 | 11,829 | 27,004 | 265,126 | 283,663 |
| Rent | - | - | - | - | - | - | - | 22,650 |
| Total expenses | \$ 7,834,449 | \$ 5,390,691 | \$ 13,225,140 | \$ 1,445,119 | \$ 1,078,761 | \$ 2,523,880 | \$ 15,749,020 | \$ 20,115,143 |

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, 2021 <i>(With Comparative Totals for 2020)</i> | 2021 | 2020 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ 6,944,091 | \$ (2,433,773) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Proceeds from contributions to permanent endowment | (119,965) | (114,147) |
| Depreciation | 265,126 | 283,663 |
| Gain on investments | (1,285,655) | (445,601) |
| Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | (98,160) | (6,925) |
| (Gain)/loss on equipment disposal | (239,088) | 2,994 |
| Donated property and equipment | - | (33,558) |
| Paycheck Protection Program loan forgiveness | (2,111,946) | - |
| Changes in: | | |
| Receivables | (1,339,162) | 1,417,538 |
| Prepaid expenses | 17,640 | (35,092) |
| Accounts payable and accrued liabilities | (28,211) | (68,700) |
| Grants and contributions payable | 540,199 | (160,703) |
| Refundable advances | 346,666 | (432,958) |
| Due to <i>Friends of the Children - SW Washington</i> | (1,123,331) | 1,125,957 |
| Net cash provided (used) by operating activities | 1,768,204 | (901,305) |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | 4,591,225 | 3,495,815 |
| Purchases of investments | (4,397,671) | (3,731,401) |
| Purchases of property and equipment | (40,476) | (90,779) |
| Proceeds from sale of property and equipment | 337,568 | - |
| Payments received on notes receivable | 56,924 | - |
| Net cash used by investing activities | 547,570 | (326,365) |
| Cash flows from financing activities: | | |
| Proceeds from contributions to permanent endowment | 119,965 | 114,147 |
| Proceeds from Paycheck Protection Program loan | 1,075,065 | 1,036,881 |
| Net cash provided by financing activities | 1,195,030 | 1,151,028 |
| Net increase (decrease) in cash and cash equivalents | 3,510,804 | (76,642) |
| Cash and cash equivalents and restricted cash, beginning of year | 5,707,730 | 5,784,372 |
| Cash and cash equivalents and restricted cash, end of year | \$ 9,218,534 | \$ 5,707,730 |
| Reconciliation to statement of financial position: | | |
| Cash and cash equivalents | \$ 9,218,034 | \$ 5,706,730 |
| Restricted cash | 500 | 1,000 |
| | \$ 9,218,534 | \$ 5,707,730 |

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, full-time professional salaried mentors (called *Friends*) to youth facing the greatest challenges for 12 years or more starting as early as age 4. The objectives of the national organization are to sustain and grow existing *Friends of the Children* chapters, expand and build new chapters, and enhance *Friends'* brand, awareness, position, and influence. The national organization also provides research and evaluation, training, program quality monitoring, data collection & analysis, 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 Organizations). 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 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

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 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.

Restricted Cash - Restricted cash consists of amounts held by *Friends - Portland* for donor restricted endowment funds totaling \$500 at August 31, 2021.

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 an interest in assets invested by *the Foundation*. At August 31, 2021, assets totaled \$165,479 (*Note 14*).

Receivables - Accounts receivable are recorded as related revenues are recognized. Pledges receivable are recognized when unconditionally promised by a donor. An allowance for uncollectible receivables 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.

Chapter Affiliation Fee Revenue Recognition - *Friends - National* chapter affiliation fees are based on specific agreements with the chapters. Services provided to chapters include general leadership support, database management, new chapter start-up fees, training and other services related to supporting chapter management. The performance obligations are satisfied over the fiscal year and revenue is recognized accordingly. Fees are paid in full by chapters annually and no further performance obligation existed at the end of the year.

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

Chapter Support Revenue Recognition - *Friends - National* provides services including development consulting, grant writing and other administrative services to chapters. Revenue is recognized at the time services are provided, which is when the performance obligations are satisfied.

Contribution Recognition - The Organizations recognize contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. At August 31, 2021, the Organizations had conditional contributions outstanding of \$132,500 conditioned on meeting certain matching goals. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

The Organizations consider all contributions 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.

Grants and Contracts Income - The Organizations' grant and contract income includes amounts derived from federal and local government grants which are considered conditional contributions and which are conditioned upon barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as revenue when the related barrier has been satisfied. At August 31, 2021, the Organizations had remaining available award balances of approximately \$2,401,000, which have not yet been reflected in the consolidated financial statements. These award balances will be recognized as revenue when the related barriers are satisfied.

Support for *Friends - Portland* from *the Foundation (Note 14)* of \$158,828 and \$222,815 for the years ended August 31, 2021 and 2020, respectively, is discretionary each year and approved by *the Foundation's* Board of Directors.

Conditional grants whose conditions are satisfied in the same reporting period in which the funding is received are reported as an increase in net assets without donor 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

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. 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, 2021, totaled \$65,608, and consisted of human resources services and staff training. During the year ended August 31, 2021, *Friends - National* received donated advertising space on billboards across the country. The fair value of this space has been estimated at \$290,181 and is included with in-kind contributions in the accompanying consolidated statement of activities.

Income Tax Status - Income taxes are not provided for in the consolidated financial statements because each organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) 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 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 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. The consolidated statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service function. Expenses are allocated based on estimates of time and effort attributable to each function.

Advertising - The Organizations charge to expense all advertising costs as they are incurred. Advertising expense for the year ended August 31, 2021, was \$290,181 (*Note 18*) (all in-kind expense).

New Accounting Pronouncement - The Organizations adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) effective September 2020. This ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The Organizations adopted ASU 2014-09 for chapter affiliation fees and chapter support revenue as presented in the accompanying statement of activities using the modified retrospective approach. Analysis of various provisions of this new standard resulted in no significant changes to the way the Organizations recognize these sources of revenue, and therefore, no changes to the previously reported net assets were required. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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

Summarized Financial Information for 2020 - 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, 2020, from which the summarized information was derived.

Reclassifications - Certain accounts in the 2020 summarized financial information have been reclassified, for comparative purposes, to conform with the 2021 presentation.

Subsequent Events - Management has evaluated subsequent events through February 2, 2022, the date the consolidated financial statements were available to be issued.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Program and Supporting Services

Program Services:

Affiliate Services - The Organizations provide 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* chapters and affiliates located in the following geographic areas in 2021:

Chapters

| | | |
|-----------------|-----------------------|----------------------|
| Austin, TX | Fargo-Moorhead, ND/MN | Portland, OR |
| Boston, MA | Klamath Basin, OR | San Francisco, CA |
| Central Oregon | Los Angeles, CA | Seattle, WA |
| Chicago, IL | New York, NY | Tampa Bay, FL |
| Tacoma, WA | Salt Lake City, Utah | Detroit, MI |
| Lane County, OR | SW Washington, WA | Colorado Springs, CO |
| Missoula, MT | | |

Affiliates

| | |
|---------------|--------------|
| Charlotte, NC | Cornwall, UK |
|---------------|--------------|

Friends - Portland - Program activities include the cost of day-to-day activities with children facing the greatest challenges 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, 2021, were \$5,436,691 for program expenses, \$1,043,785 for administrative expenses, and \$891,602 for fundraising expenses.

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.

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

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

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 at August 31, 2021:

| | |
|--|-----------------------------|
| Cash and cash equivalents | \$ 9,218,034 |
| Receivables due in less than one year | 1,950,936 |
| Investments | 8,683,348 |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | <u>165,479</u> |
| | 20,017,797 |
| Less amounts not available to be used for operations within one year: | |
| Agency funds held for <i>Friends - Southwest Washington</i> | (2,626) |
| Net assets with temporary donor restrictions to be met in over one year | (1,692,232) |
| Principal portion of endowment | <u>(6,693,894)</u> |
| | <u><u>\$ 11,629,045</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.

4. Investments

Investments included the following at August 31:

| | 2021 | 2020 |
|-----------------------------------|----------------------------|----------------------------|
| Equity securities | \$ 5,502,822 | \$ 4,755,015 |
| Fixed income securities | 2,253,124 | 1,420,201 |
| Money market funds | 276,594 | 811,410 |
| Real estate income fund | 607,732 | 556,794 |
| Note receivable (<i>Note 6</i>) | <u>43,076</u> | <u>104,751</u> |
| | <u><u>\$ 8,683,348</u></u> | <u><u>\$ 7,648,171</u></u> |

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Receivables

Receivables consisted of the following at August 31:

| | 2021 | 2020 |
|---|---------------------|---------------------|
| Pledges due within one year | \$ 1,537,920 | \$ 1,642,470 |
| Grants and contract receivable | 253,583 | 403,205 |
| Receivable from <i>Friends of the Children - Portland Foundation</i> ^A | 51,706 | 79,152 |
| Chapter support receivable | 91,627 | 46,773 |
| Other receivables | 16,100 | 25,017 |
| Receivables due in less than one year | 1,950,936 | 2,196,617 |
| Pledges due in one to five years | 1,913,000 | 221,048 |
| Discount to present value (4 percent rate used) | (118,801) | (10,283) |
| Allowance for doubtful accounts | (8,628) | (10,037) |
| Net receivables | \$ 3,736,507 | \$ 2,397,345 |

^A Related party.

6. Note Receivable

During 2019, *Friends - National* loaned \$100,000 to a chapter out of its unexpended endowment earnings (*Note 17*). The note calls for quarterly payments of \$14,286, including interest of 3 percent per annum, in principal plus any accrued interest beginning April 1, 2020, with the final payment due October 1, 2021.

During 2020, the agreement was amended and principal payments plus any accrued interest will begin October 1, 2020, with the final payment due April 1, 2022. *Friends - National* recognized interest income totaling \$2,324 under this note during the year ended August 31, 2021.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

7. Property and Equipment

| | 2021 | 2020 |
|--|----------------------------|----------------------------|
| Computer equipment and software | \$ 468,476 | \$ 441,571 |
| Office equipment and furniture | 294,906 | 293,872 |
| Vehicles | 88,901 | 88,901 |
| Buildings and improvements | 4,880,352 | 5,067,836 |
| Land | <u>100,000</u> | <u>100,000</u> |
| | 5,832,635 | 5,992,180 |
| Less accumulated depreciation and amortization | <u>(1,765,507)</u> | <u>(1,601,922)</u> |
| Net property and equipment | <u><u>\$ 4,067,128</u></u> | <u><u>\$ 4,390,258</u></u> |

During 2014 *Friends - Portland* 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.

8. Net Assets with Donor Restrictions

At August 31, 2021, net assets with donor restrictions were available for the following purposes:

| | |
|--|-----------------------------|
| Scholarships | \$ 61,673 |
| Chapter assistance | 481,000 |
| National IT Director | 67,211 |
| Program and technology enhancements | 100,000 |
| Family engagement | 10,000 |
| COVID-19 support | 25,000 |
| Technology education | 5,250 |
| Expansion to rural and tribal communities | 675,000 |
| Other program support | 66,549 |
| Future periods | 3,131,699 |
| Unexpended endowment earnings (<i>Note 17</i>) | 1,589,169 |
| Endowment principal (<i>Note 17</i>) | <u>6,693,894</u> |
| | <u><u>\$ 12,906,445</u></u> |

During the year ended August 31, 2021, net assets of \$2,247,347 were released from restrictions due to specific actions of the Organizations and/or the passage of time.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

9. Retirement Plans

Friends - Portland has a retirement plan pursuant to IRC Section 401(k), in which employees 18 years of age and older are eligible to participate starting the first day of their first full month after their hire date. *Friends - Portland* also has a retirement plan under IRC Section 403(b) for certain eligible employees. Contributions to both plans are discretionary.

Friends - National instituted a Safe Harbor 401(k) Plan in January 2018, for all eligible employees. Under the terms of the Plan, *Friends - National* will contribute 4 percent of employee compensation to the Plan on an annual basis.

Employer retirement expense totaled \$255,783 and \$165,962 for the years ended August 31, 2021 and 2020, respectively.

10. Paycheck Protection Program

In April 2020, *Friends - Portland* secured a \$1,036,881 loan from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136 “The CARES Act”). The Paycheck Protection Program (PPP) provides for full or partial loan forgiveness if loan proceeds are used for qualifying expenses and certain other conditions are satisfied. During the year ended August 31, 2021, *Friends - Portland* obtained full forgiveness for the loan and the balance has therefore been recognized within support and revenue in the consolidated statement of activities.

In January 2021, *Friends - Portland* received a second PPP draw totaling \$1,075,065. At August 31, 2021, *Friends - Portland* had met the criteria for forgiveness and received acknowledgement of such subsequent to August 31, 2021, therefore this amount has also been recognized within support and revenue in the consolidated statement of activities.

Also in February 2021, *Friends - National* received a second PPP draw totaling \$462,520. During the year ended August 31, 2021, *Friends - National* obtained full forgiveness for the loan and the balance has therefore been recognized within support and revenue in the consolidated statement of activities.

11. Special Events

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

| | 2021 | 2020 |
|-------------------------------------|---------------------|---------------------|
| Gross proceeds from special events | \$ 1,759,278 | \$ 1,982,711 |
| Less direct costs of special events | <u>(133,971)</u> | <u>(85,614)</u> |
| Net proceeds from special events | <u>\$ 1,625,307</u> | <u>\$ 1,897,097</u> |

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

12. Friends of the Children - Southwest Washington

During 2020, the level of funding needed to support a separate chapter to operate in Southwest Washington was reached. The new chapter is *Friends of the Children - Southwest Washington (Friends - SWWA)*. During 2020, *Friends - Portland* determined that restricted contributions previously received (and included in net assets with donor restrictions) of \$439,787 for work in SW Washington had been received. This amount was transferred to *Friends - SWWA* during 2020. Furthermore, *Friends - Portland* determined any new amounts received for SW Washington would be accounted for as agency transactions and not reflected on *Friends - Portland's* consolidated statement of activities. At August 31, 2021, \$2,626 remained to be transferred to *Friends - SWWA*.

13. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organizations to concentrations of risk consist primarily of cash and cash equivalents, investments, and receivables. The Organizations typically maintain 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, 2021, approximately 61 percent of gross contributions receivable was due from one donor, and for the year ended August 31, 2021, 19 percent of contribution revenue was provided by one donor.

14. Friends of the Children - Portland Foundation

In 2004, *the Foundation* was established to ensure the long-term sustainability of the *Friends - Portland* program. *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.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

14. Friends of the Children - Portland Foundation - Continued

Summarized unaudited financial information for *the Foundation* as of and for the years ended August 31 is as follows:

| | 2021 | 2020 |
|---|---------------------|---------------------|
| Financial position: | | |
| <i>Assets:</i> | | |
| Cash and cash equivalents | \$ 519,656 | \$ 812,245 |
| Contribution receivable | 25,000 | |
| Due from <i>Friends - Portland</i> | - | 25,000 |
| <i>Investments:</i> | | |
| Investments - general | 7,078,994 | 5,443,247 |
| Investments held on behalf of <i>Friends of the Children - Portland and Youth Resources, Inc.</i> | 165,479 | 67,319 |
| | <u>\$ 7,789,129</u> | <u>\$ 6,347,811</u> |
| <i>Total assets</i> | | |
| <i>Liabilities and net assets:</i> | | |
| Due to <i>Friends of the Children - Portland</i> | \$ 51,706 | \$ 79,152 |
| Funds held on behalf of <i>Friends of the Children - Portland</i> | 165,479 | 67,319 |
| Net assets without donor restrictions | 7,571,944 | 6,201,340 |
| | <u>\$ 7,789,129</u> | <u>\$ 6,347,811</u> |
| <i>Total liabilities and net assets without donor restrictions</i> | | |
| | <u>\$ 7,789,129</u> | <u>\$ 6,347,811</u> |

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

14. Friends of the Children - Portland Foundation - Continued

| | 2021 | 2020 |
|---|--------------------------------|------------------------------|
| Activities: | | |
| <i>Support, revenue, and other increases</i> | | |
| <i>in net assets:</i> | | |
| Contributions | \$ 25,357 | \$ 25,200 |
| Transfer from <i>Friends of the Children - Portland</i> | 337,568 | - |
| Net investment return | <u>1,222,520</u> | <u>480,678</u> |
| <i>Total support, revenue, and other increases in net assets</i> | 1,585,445 | 505,878 |
| <i>Expenses:</i> | | |
| Contribution to <i>Friends of the Children - Portland</i> | 158,828 | 222,815 |
| Outside services | 43,042 | 93,166 |
| Professional fees | 9,895 | 9,627 |
| Insurance expense | <u>3,076</u> | <u>2,856</u> |
| <i>Total expenses</i> | <u>214,841</u> | <u>328,464</u> |
| <i>Increase (decrease) in net assets without donor restrictions</i> | <u><u>\$ 1,370,604</u></u> | <u><u>\$ 177,414</u></u> |

15. Lease Commitments

The Organizations have entered into various leases and service contracts expiring through September 2025. Lease expense for the year ended August 31, 2021, was \$22,906. Minimum payments remaining under the non-cancelable operating leases are as follows at August 31, 2021:

| Years Ending August 31, | Amount |
|--------------------------------|-------------------------|
| 2022 | \$ 69,210 |
| 2023 | 3,984 |
| 2024 | 3,984 |
| 2025 | 3,984 |
| 2026 | <u>332</u> |
| | <u><u>\$ 81,494</u></u> |

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

16. 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 non-government 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

16. 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, 2021:

| | Level 1 | Level 2 | Total |
|---|---------------------|-------------------|---------------------|
| Equity securities: | | | |
| Common stock: | | | |
| Materials | \$ 140,545 | \$ - | \$ 140,545 |
| Industrials | 380,182 | - | 380,182 |
| Telecommunication services | 288,570 | - | 288,570 |
| Consumer discretionary | 443,749 | - | 443,749 |
| Consumer staples | 121,062 | - | 121,062 |
| Energy | 69,487 | - | 69,487 |
| Financials | 533,447 | - | 533,447 |
| Health care | 431,421 | - | 431,421 |
| Information technology | 770,741 | - | 770,741 |
| Utilities | 69,301 | - | 69,301 |
| Real estate | 22,789 | - | 22,789 |
| Equity mutual funds: | | | |
| Small cap | 170,828 | - | 170,828 |
| Mid cap | 1,027,665 | - | 1,027,665 |
| Large cap | 884,353 | - | 884,353 |
| International | 148,682 | - | 148,682 |
| Total equity securities | 5,502,822 | - | 5,502,822 |
| Fixed income securities: | | | |
| Nongovernment obligations | - | 435,535 | 435,535 |
| Foreign obligations | - | 53,250 | 53,250 |
| Corporate and government funds | 1,601,147 | - | 1,601,147 |
| Treasury and federal agencies | 163,192 | - | 163,192 |
| Total fixed income securities | 1,764,339 | 488,785 | 2,253,124 |
| Real estate income fund | 607,732 | - | 607,732 |
| Money market funds | 276,594 | - | 276,594 |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | 59,241 | 106,238 | 165,479 |
| | <u>\$ 8,210,728</u> | <u>\$ 595,023</u> | <u>\$ 8,805,751</u> |

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

17. 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 the Organizations have 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 Organizations classify as original principal: (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 Organizations 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. A portion of the endowment assets are held with *the Foundation* and are subject to *the Foundation's* investment policies. A formal spending policy has not been established.

Friends - National's permanent endowment was established to provide funding for continued operations of *Friends - National*. The primary objective of the *Friends - National* 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

17. Endowment Funds - Continued

The Organization’s endowment funds are composed entirely of funds arising from donor restrictions. Endowment net assets are held in the following assets as of August 31, 2021:

| | Accumulated Investment Earnings | Original Principal | Total |
|---|---------------------------------------|-----------------------|---------------------|
| <i>Friends - Portland :</i> | | | |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | \$ 39,379 | \$ 52,024 | \$ 91,403 |
| Included in restricted cash | - | 500 | 500 |
| <i>Friends - National program operations:</i> | | | |
| Included in investments | 1,506,933 | 6,641,370 | 8,148,303 |
| Note receivable | 42,857 | - | 42,857 |
| | <u>\$ 1,589,169</u> | <u>\$ 6,693,894</u> | <u>\$ 8,283,063</u> |

Changes in endowment net assets for the year ended August 31, 2021, are as follows:

| | Accumulated Investment Earnings | Original Principal | Total |
|--|---------------------------------------|-----------------------|---------------------|
| Endowment net assets, beginning of year | \$ 502,810 | \$ 6,573,929 | \$ 7,076,739 |
| Net investment return | 1,434,527 | - | 1,434,527 |
| Contributions | - | 119,965 | 119,965 |
| Appropriation of endowment assets for expenditure | (348,168) | - | (348,168) |
| Endowment net assets, end of year | <u>\$ 1,589,169</u> | <u>\$ 6,693,894</u> | <u>\$ 8,283,063</u> |

18. Joint Costs of Activities that Include Fundraising

Friends - National received donated billboard advertising for National Foster Care month and National Mentoring month in multiple locations across the country. The billboards include a reference to the Friends website, which provides guidance on foster care and mentoring, brings awareness to foster care and mentoring programs, and includes an opportunity to donate. These costs total \$290,181 and have been allocated \$281,476 to affiliate services and \$8,705 to fundraising in the accompanying consolidated statement of functional expenses.

FRIENDS OF THE CHILDREN

Consolidating and Supplementary Financial Information

FRIENDS OF THE CHILDREN
Consolidating Schedule of Financial Position

August 31, 2021

| | Friends - National | Friends - Portland | Eliminating Entries | Consolidated Total |
|---|-----------------------------|----------------------------|--------------------------|-----------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 6,546,173 | \$ 2,671,861 | \$ - | \$ 9,218,034 |
| Investments | 8,683,348 | - | - | 8,683,348 |
| Receivables - net | 2,477,919 | 1,262,926 | (4,338) | 3,736,507 |
| Prepaid expenses | 24,928 | 141,801 | - | 166,729 |
| Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | - | 165,479 | - | 165,479 |
| Property and equipment - net | 119,996 | 3,947,132 | - | 4,067,128 |
| Restricted cash | - | 500 | - | 500 |
| Total assets | <u>\$ 17,852,364</u> | <u>\$ 8,189,699</u> | <u>\$ (4,338)</u> | <u>\$ 26,037,725</u> |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 203,201 | \$ 413,435 | \$ (4,338) | \$ 612,298 |
| Grants and contributions payable | 1,074,509 | - | - | 1,074,509 |
| Due to <i>Friends of the Children - Southwest Washington</i> | - | 2,626 | - | 2,626 |
| Refundable advances | 663,333 | - | - | 663,333 |
| Total liabilities | 1,941,043 | 416,061 | (4,338) | 2,352,766 |
| Net assets: | | | | |
| Without donor restrictions | 4,102,973 | 6,675,541 | - | 10,778,514 |
| With donor restrictions | 11,808,348 | 1,098,097 | - | 12,906,445 |
| Total net assets | <u>15,911,321</u> | <u>7,773,638</u> | <u>-</u> | <u>23,684,959</u> |
| Total liabilities and net assets | <u>\$ 17,852,364</u> | <u>\$ 8,189,699</u> | <u>\$ (4,338)</u> | <u>\$ 26,037,725</u> |

FRIENDS OF THE CHILDREN
Consolidating Schedule of Activities

Year Ended August 31, 2021

| | Friends - National | Friends - Portland | Eliminating Entries | Consolidated Total |
|---|-----------------------|-----------------------|------------------------|-----------------------|
| Public support and revenue: | | | | |
| Contributions | \$ 8,759,072 | \$ 3,406,848 | \$ (52,020) | \$ 12,113,900 |
| Grants and contracts | 1,730,308 | 1,365,557 | (122,083) | 2,973,782 |
| Special events - net | - | 1,627,807 | (2,500) | 1,625,307 |
| Loss on uncollectible contributions receivable | - | (21,041) | - | (21,041) |
| In-kind contributions | 290,181 | 239,574 | - | 529,755 |
| Chapter affiliation fees | 431,300 | - | (46,000) | 385,300 |
| Chapter support revenue | 1,137,878 | - | (3,500) | 1,134,378 |
| Rental income | - | 36,000 | (36,000) | - |
| Paycheck Protection Program proceeds | 462,520 | 2,111,946 | - | 2,574,466 |
| Gain (loss) on disposal of assets | (695) | 239,784 | - | 239,089 |
| Other revenue | - | 23,853 | - | 23,853 |
| Total public support and revenue | 12,810,564 | 9,030,328 | (262,103) | 21,578,789 |
| Expenses: | | | | |
| Program services: | | | | |
| Affiliate services | 8,042,595 | - | (208,146) | 7,834,449 |
| <i>Friends - Portland</i> | - | 5,436,691 | (46,000) | 5,390,691 |
| Total program services | 8,042,595 | 5,436,691 | (254,146) | 13,225,140 |
| Administrative | 404,493 | 1,043,785 | (3,159) | 1,445,119 |
| Fundraising | 191,957 | 891,602 | (4,798) | 1,078,761 |
| Total expenses | 8,639,045 | 7,372,078 | (262,103) | 15,749,020 |
| Increase in net assets before investment activity | 4,171,519 | 1,658,250 | - | 5,829,769 |
| Investment activity: | | | | |
| Net investment return | 1,419,672 | 9,134 | - | 1,428,806 |
| Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> | - | 23,084 | - | 23,084 |
| Net investment activity | 1,419,672 | 32,218 | - | 1,451,890 |
| Transfer to <i>Friends of the Children - Portland Foundation</i> | - | (337,568) | - | (337,568) |
| Increase in net assets | 5,591,191 | 1,352,900 | - | 6,944,091 |
| Net assets, beginning of year | 10,320,130 | 6,420,738 | - | 16,740,868 |
| Net assets, end of year | \$ 15,911,321 | \$ 7,773,638 | - | \$ 23,684,959 |

FRIENDS OF THE CHILDREN - NATIONAL

Schedules of Financial Position - National

| August 31, | 2021 | 2020 |
|--|-----------------------------|-----------------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 6,546,173 | \$ 2,467,482 |
| Investments | 8,683,348 | 7,648,171 |
| Receivables - net | 2,477,919 | 1,125,629 |
| Prepaid expenses | 24,928 | 30,759 |
| Property and equipment - net | <u>119,996</u> | <u>169,198</u> |
| Total assets | <u>\$ 17,852,364</u> | <u>\$ 11,441,239</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 203,201 | \$ 238,882 |
| Grants and contributions payable | 1,074,509 | 565,560 |
| Refundable advances | <u>663,333</u> | <u>316,667</u> |
| Total liabilities | 1,941,043 | 1,121,109 |
| Net assets: | | |
| Without donor restrictions | 4,102,973 | 1,583,967 |
| With donor restrictions | <u>11,808,348</u> | <u>8,736,163</u> |
| Total net assets | <u>15,911,321</u> | <u>10,320,130</u> |
| Total liabilities and net assets | <u>\$ 17,852,364</u> | <u>\$ 11,441,239</u> |

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Activities - National

Year Ended August 31, 2021 *(With Comparative Totals for 2020)*

| | Without Donor Restrictions | With Donor Restrictions | Total | |
|---|-------------------------------|----------------------------|----------------------|----------------------|
| | | | 2021 | 2020 |
| Public support and revenue: | | | | |
| Contributions | \$ 5,297,994 | \$ 3,461,078 | \$ 8,759,072 | \$ 7,637,834 |
| Grants and contracts | 1,730,308 | - | 1,730,308 | 1,094,002 |
| In-kind contributions | 290,181 | - | 290,181 | 1,097,343 |
| Chapter affiliation fees | 431,300 | - | 431,300 | 209,450 |
| Chapter support revenue | 1,137,878 | - | 1,137,878 | 1,590,228 |
| Paycheck Protection Program proceeds | 462,520 | - | 462,520 | 424,545 |
| Loss on disposal of assets | (695) | - | (695) | - |
| Other revenue | - | - | - | 107 |
| Net assets released from restrictions | 1,796,793 | (1,796,793) | - | - |
| Total public support and revenue | 11,146,279 | 1,664,285 | 12,810,564 | 12,053,509 |
| Expenses: | | | | |
| Program services | 8,042,595 | - | 8,042,595 | 12,797,433 |
| Administrative | 404,493 | - | 404,493 | 271,763 |
| Fundraising | 191,957 | - | 191,957 | 193,105 |
| Total expenses | 8,639,045 | - | 8,639,045 | 13,262,301 |
| Increase (decrease) in net assets before investment activity | 2,507,234 | 1,664,285 | 4,171,519 | (1,208,792) |
| Net investment return | 11,772 | 1,407,900 | 1,419,672 | 594,604 |
| Increase (decrease) in net assets | 2,519,006 | 3,072,185 | 5,591,191 | (614,188) |
| Net assets, beginning of year | 1,583,967 | 8,736,163 | 10,320,130 | 10,934,318 |
| Net assets, end of year | \$ 4,102,973 | \$ 11,808,348 | \$ 15,911,321 | \$ 10,320,130 |

FRIENDS OF THE CHILDREN - NATIONAL

Schedules of Cash Flows - National

| Years Ended August 31, | 2021 | 2020 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ 5,591,191 | \$ (614,188) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | |
| Proceeds from contributions to permanent endowment | (119,465) | (113,147) |
| Depreciation | 48,506 | 52,821 |
| Gain on investments | (1,285,655) | (445,601) |
| Loss on disposal of assets | 696 | - |
| Changes in: | | |
| Receivables | (1,352,290) | 1,087,645 |
| Prepaid expenses | 5,831 | (7,135) |
| Accounts payable and accrued liabilities | (35,681) | (247,054) |
| Grants and contributions payable | 508,949 | (166,953) |
| Refundable advances | 346,666 | (432,958) |
| Net cash provided (used) by operating activities | 3,708,748 | (886,570) |
| Cash flows from investing activities: | | |
| Purchases of equipment | - | (24,135) |
| Purchases of investments | (4,397,671) | (3,731,401) |
| Proceeds from sale of investments | 4,591,225 | 3,495,815 |
| Payments received on note receivable | 56,924 | - |
| Net cash provided (used) by investing activities | 250,478 | (259,721) |
| Cash flows from financing activities: | | |
| Proceeds from contributions to permanent endowment | 119,465 | 113,147 |
| Net cash provided by financing activities | 119,465 | 113,147 |
| Net increase (decrease) in cash and cash equivalents | 4,078,691 | (1,033,144) |
| Cash and cash equivalents, beginning of year | 2,467,482 | 3,500,626 |
| Cash and cash equivalents, end of year | \$ 6,546,173 | \$ 2,467,482 |

FRIENDS OF THE CHILDREN - NATIONAL

Single Audit Reports

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2021

| Federal Grantor/Program | Federal CFDA Number | Passed Through to Subrecipients | Federal Expenditures |
|--|------------------------------------|--|---------------------------------|
| U.S. Department of Justice: | | | |
| Office of Juvenile Justice and Delinquency Prevention: | | | |
| Direct program: | | | |
| Juvenile Mentoring Program | 16.726 | <u>\$ 1,184,985</u> | <u>\$ 1,730,308</u> |
| Total U.S. Department of Justice and Expenditures of Federal Awards | | <u>\$ 1,184,985</u> | <u>\$ 1,730,308</u> |

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

FRIENDS OF THE CHILDREN - NATIONAL

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes all federal grant activity of *Friends of the Children - National* and is presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in the SEFA is presented in accordance with the requirements of Title 2 of U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Because the SEFA presents only a selected portion of the operations of *Friends of the Children - National*, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of *Friends of the Children - National*.

2. Expenditures

Expenditures reported on the SEFA are recognized following the cost principles in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Friends of the Children - National has elected to use the 10 percent de minimis indirect cost rate.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Friends of the Children - National

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of *Friends of the Children (Friends - National)*, *Friends of the Children - Portland (Friends - Portland)*, and *Youth Resources, Inc.*, which comprise the consolidated statement of financial position as of August 31, 2021, 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, and have issued our report thereon dated February 2, 2022. The financial statements of *Friends - Portland* and *Youth Resources, Inc.* were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with *Friends - Portland* and *Youth Resources, Inc.*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered *Friends - National's* internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Friends - National's* internal control. Accordingly, we do not express an opinion on the effectiveness of *Friends - National's* internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of *Friends - National's* consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting - Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Friends - National's* consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of *Friends - National's* internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Friends - National's* internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
February 2, 2022

**Independent Auditors' Report on Compliance for Each
Major Federal Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

The Board of Directors
Friends of the Children - National

Report on Compliance for Each Major Federal Program

We have audited *Friends of the Children - National's (Friends - National)* compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on *Friends - National's* major federal program for the year ended August 31, 2021. *Friends - National's* major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for *Friends - National's* major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *Friends - National's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of *Friends - National's* compliance.

Opinion on Major Federal Program

In our opinion, *Friends - National* complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2021.

Report on Internal Control over Compliance

Management of *Friends - National* is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered *Friends - National's* internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of *Friends - National's* internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
February 2, 2022

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Findings and Questioned Costs

Year Ended August 31, 2021

Section 1 - Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to consolidated financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of Major Programs

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 16.726 | Juvenile Mentoring Program |
| Dollar threshold used to distinguish between Type A and Type B programs | \$ <u> 750,000 </u> |
| Auditee qualified as low-risk auditee? | <u> X </u> Yes _____ No |

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Findings and Questioned Costs - Continued

Year Ended August 31, 2021

Section 2 - Consolidated Financial Statement Findings

There were no current year consolidated financial statement findings.

Section 3 - Federal Award Findings and Questioned Costs

There were no current year federal award findings or questioned costs.

FRIENDS OF THE CHILDREN - NATIONAL

Summary Schedule of Prior Audit Findings

Year Ended August 31, 2021

No findings were reported in the prior year.