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**FRI**1**ENDS** of the  
**CH**1**ILDREN**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended August 31, 2019**

**and**

**Consolidating and Supplementary Financial Information**

**with**

**Independent Auditors' Report**

**and**

**Single Audit Reports**

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# 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*, which comprise the consolidated statement of financial position as of August 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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* as of August 31, 2019, 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) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and supplementary financial information on pages 22 through 26 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 27, 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 subject 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* 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020, 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.

*Heuman, Stewart & Schmirer, P.C.*

Lake Oswego, Oregon  
January 27, 2020

**FRIENDS OF THE CHILDREN**  
**Consolidated Statement of Financial Position**

<b>August 31, 2019</b> <i>(With Comparative Amounts for 2018)</i>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,784,372	\$ 4,259,442
Investments <i>(Notes 4 and 14)</i>	6,966,984	6,342,554
Receivables - net <i>(Notes 5 and 11)</i>	3,814,883	2,572,024
Prepaid expenses	149,277	100,992
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation (Notes 12, 14, and 15)</i>	60,394	58,317
Property and equipment - net <i>(Note 7)</i>	<u>4,552,578</u>	<u>4,239,181</u>
<b>Total assets</b>	<b><u>\$ 21,328,488</u></b>	<b><u>\$ 17,572,510</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 709,209	\$ 571,585
Grants and contributions payable	695,013	487,228
Refundable advances	749,625	-
Funds due to <i>Friends of the Children - Portland Foundation (Note 12)</i>	<u>-</u>	<u>150,000</u>
<b>Total liabilities</b>	<b>2,153,847</b>	<b>1,208,813</b>
Commitments <i>(Notes 9 and 13)</i>		
<b>Net assets:</b>		
Without donor restrictions:		
Net investment in property and equipment	4,552,578	4,239,181
Other undesignated	<u>2,676,338</u>	<u>2,936,113</u>
Total without donor restrictions	7,228,916	7,175,294
With donor restrictions <i>(Notes 8 and 15)</i>	<u>11,945,725</u>	<u>9,188,403</u>
<b>Total net assets</b>	<b><u>19,174,641</u></b>	<b><u>16,363,697</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 21,328,488</u></b>	<b><u>\$ 17,572,510</u></b>

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

**FRIENDS OF THE CHILDREN**  
**Consolidated Statement of Activities**

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

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
<b>Public support and revenue:</b>				
Contributions	\$ 1,646,708	\$ 7,146,269	\$ 8,792,977	\$ 4,834,093
Grants and contracts	3,739,745	-	3,739,745	4,034,715
Special events - net (Note 10)	2,268,982	246,931	2,515,913	2,809,048
In-kind contributions	415,225	-	415,225	239,828
Chapter affiliation fees	137,000	-	137,000	97,250
Chapter revenue sharing	110,875	-	110,875	364,517
Chapter support revenue	615,953	-	615,953	655,632
Rental income	5,094	-	5,094	16,368
Miscellaneous income	6,100	-	6,100	3,055
Net assets released from restrictions (Note 8)	4,835,430	(4,835,430)	-	-
<b>Total public support and revenue</b>	<b>13,781,112</b>	<b>2,557,770</b>	<b>16,338,882</b>	<b>13,054,506</b>
<b>Expenses:</b>				
Program services:				
Affiliate services	6,546,408	-	6,546,408	6,610,754
<i>Friends - Portland</i>	5,071,641	-	5,071,641	4,818,614
Total program services	11,618,049	-	11,618,049	11,429,368
Administrative	997,128	-	997,128	905,824
Fundraising	1,150,581	-	1,150,581	860,671
<b>Total expenses</b>	<b>13,765,758</b>	<b>-</b>	<b>13,765,758</b>	<b>13,195,863</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>15,354</b>	<b>2,557,770</b>	<b>2,573,124</b>	<b>(141,357)</b>
<b>Investment activity:</b>				
Net investment return	38,268	197,475	235,743	595,003
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	2,077	2,077	4,959
Net investment activity	38,268	199,552	237,820	599,962
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	-	-	(150,000)
<b>Increase in net assets</b>	<b>53,622</b>	<b>2,757,322</b>	<b>2,810,944</b>	<b>308,605</b>
Net assets, beginning of year	7,175,294	9,188,403	16,363,697	16,055,092
<b>Net assets, end of year</b>	<b>\$ 7,228,916</b>	<b>\$ 11,945,725</b>	<b>\$ 19,174,641</b>	<b>\$ 16,363,697</b>

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

	Program Services			Supporting Services			Total	
	Affiliate Services	Friends - Portland	Total	Administrative	Fundraising	Total	2019	2018
<b>Salaries and related expenses:</b>								
Salaries and wages	\$ 1,658,403	\$ 2,795,477	\$ 4,453,880	\$ 659,820	\$ 783,462	\$ 1,443,282	\$ 5,897,162	\$ 5,218,313
Payroll taxes and benefits	318,567	679,855	998,422	123,723	125,912	249,635	1,248,057	1,086,396
<b>Total salaries and related expenses</b>	<b>1,976,970</b>	<b>3,475,332</b>	<b>5,452,302</b>	<b>783,543</b>	<b>909,374</b>	<b>1,692,917</b>	<b>7,145,219</b>	<b>6,304,709</b>
Chapter grants	3,905,881	-	3,905,881	-	-	-	3,905,881	4,267,940
Children's activities	-	226,368	226,368	-	-	-	226,368	230,880
Friend transportation	-	216,765	216,765	-	-	-	216,765	203,069
Friend communication	-	29,000	29,000	-	-	-	29,000	30,994
Scholarships	-	19,500	19,500	-	-	-	19,500	707
In-kind gifts for children and families	-	198,854	198,854	-	-	-	198,854	209,263
Travel and meetings	149,584	19,365	168,949	26,256	31,039	57,295	226,244	204,254
Community awareness	13,864	145,237	159,101	3,298	36,969	40,267	199,368	96,208
Staff development	-	51,535	51,535	22,098	17,525	39,623	91,158	66,938
Professional fees	349,965	54,734	404,699	73,448	28,092	101,540	506,239	739,201
Repairs and maintenance	-	104,897	104,897	9,500	9,383	18,883	123,780	102,459
Supplies	7,296	11,626	18,922	3,447	2,585	6,032	24,954	30,618
Payroll and banking fees	9,193	18,252	27,445	5,632	21,786	27,418	54,863	49,827
Business insurance	5,498	39,681	45,179	6,353	5,709	12,062	57,241	58,868
Utilities	9,985	58,180	68,165	5,584	5,101	10,685	78,850	77,426
Information technology	93,914	173,076	266,990	45,804	38,098	83,902	350,892	237,824
Postage and printing	5,223	10,729	15,952	3,480	22,976	26,456	42,408	35,922
Depreciation	19,035	195,710	214,745	8,685	7,481	16,166	230,911	212,356
Rent	-	22,800	22,800	-	-	-	22,800	18,683
Bad debt	-	-	-	-	14,463	14,463	14,463	15,159
Miscellaneous	-	-	-	-	-	-	-	2,558
<b>Total expenses</b>	<b>\$ 6,546,408</b>	<b>\$ 5,071,641</b>	<b>\$ 11,618,049</b>	<b>\$ 997,128</b>	<b>\$ 1,150,581</b>	<b>\$ 2,147,709</b>	<b>\$ 13,765,758</b>	<b>\$ 13,195,863</b>

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

**FRIENDS OF THE CHILDREN**  
**Consolidated Statement of Cash Flows**

<b>Year Ended August 31, 2019</b> <i>(With Comparative Totals for 2018)</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 2,810,944	\$ 308,605
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Proceeds from contributions to permanent endowment	(501,258)	(1,750)
Proceeds from contributions restricted for acquisition of property and equipment	(220,307)	-
Depreciation	230,911	212,356
Gain on investments	(75,596)	(447,197)
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(2,077)	(4,959)
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	150,000
Loss on equipment disposal	-	1,171
Donated property and equipment	(37,436)	-
Changes in:		
Receivables	(1,242,859)	(90,929)
Prepaid expenses	(48,285)	20,247
Accounts payable and accrued liabilities	137,624	138,157
Grants and contributions payable	207,785	324,393
Refundable advances	749,625	(32,600)
Funds due to <i>Friends of the Children - Portland Foundation</i>	(150,000)	(50,000)
<b>Net cash provided by operating activities</b>	<b>1,859,071</b>	<b>527,494</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	3,595,820	325,958
Purchases of investments	(4,044,654)	(137,318)
Purchases of property and equipment	(506,872)	(157,669)
Purchase of beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	(8,450)
Additions to note receivable	(100,000)	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	(150,000)
<b>Net cash used by investing activities</b>	<b>(1,055,706)</b>	<b>(127,479)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for property acquisition	220,307	131,012
Proceeds from contributions to permanent endowment	501,258	1,750
<b>Net cash provided by financing activities</b>	<b>721,565</b>	<b>132,762</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,524,930</b>	<b>532,777</b>
Cash and cash equivalents, beginning of year	4,259,442	3,726,665
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,784,372</b>	<b>\$ 4,259,442</b>

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

# FRIENDS OF THE CHILDREN

## Notes to Consolidated Financial Statements

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### 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 at age 4 through 6. 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*' image, awareness, position, and influence. The national organization 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:

*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 Organization 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 Organization 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

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

**Use of Estimates** - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the consolidated financial statements for, among other things, the calculation of depreciation expense, the determination of any required allowance for uncollectible receivables, and the functional allocation of certain 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 an interest in assets invested by *the Foundation*. At August 31, 2019, assets totaled \$60,394 (*Note 12*).

**Receivables** - Accounts receivable from exchange transactions are recognized as services are provided. Contributions receivable are recorded when unconditionally promised. An allowance for uncollectible receivables 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. Revenue from contracts and other exchange transactions is recognized as the applicable performance requirements are satisfied. For exchange transactions, amounts received but not yet earned are recorded as deferred revenue.

## FRIENDS OF THE CHILDREN

### Notes to Consolidated Financial Statements - Continued

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

**Contribution Recognition** - 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. Conditional contributions received in advance of the Organization, meeting those conditions are included in refundable advances

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2019, totaled \$43,152, and consisted of human resources services, staff training, and services capitalized as a part of building improvements. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and the contributions are an essential part of the Organization's activities.

## FRIENDS OF THE CHILDREN

### Notes to Consolidated Financial Statements - Continued

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

**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 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 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.

**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.

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

**Summarized Financial Information for 2018** - The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended August 31, 2018, from which the summarized information was derived.

**Subsequent Events** - Management has evaluated subsequent events through January 27, 2020, the date the consolidated financial statements were available for issue.

**FRIENDS OF THE CHILDREN**

**Notes to Consolidated Financial Statements - Continued**

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**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* chapters and affiliates provided services to children located in the following geographic areas in 2019:

*Chapters*

Austin, TX	Fargo-Moorhead, ND	Portland, OR
Boston, MA	Klamath Basin	San Francisco, CA
Central Oregon	Los Angeles, CA	Seattle, WA
Chicago, IL	New York, NY	Tampa Bay, FL

*Affiliates*

Charlotte, NC	Cornwall, UK
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**Friends - Portland** - Program 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, 2019, were \$5,114,201 for program expenses, \$735,952 for administrative expenses, and \$979,068 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 Organization's financial assets available for general expenditure within one year of the consolidated statement of financial position date consist of the following:

Financial assets at August 31, 2019:	
Cash and cash equivalents	\$ 5,784,372
Receivables due in less than one year	2,580,969
Investments	6,966,984
Note receivable - current portion	28,571
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	60,394
	15,421,290
Less amounts not available to be used for operations within one year:	
Net assets with temporary donor restrictions to be met in over one year	(1,813,780)
Principal portion of endowment	(6,459,782)
	\$ 7,147,728

As part of the Organization's 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:

	<b>2019</b>	<b>2018</b>
Equity securities	\$ 4,342,941	\$ 3,965,420
Fixed income securities	1,623,997	1,702,309
Money market funds	402,231	314,428
Real estate income fund	497,815	360,397
Note receivable ( <i>Note 6</i> )	100,000	-
	\$ 6,966,984	\$ 6,342,554

**FRIENDS OF THE CHILDREN**

**Notes to Consolidated Financial Statements - Continued**

**5. Receivables**

Receivables consisted of the following at August 31:

	<b>2019</b>	<b>2018</b>
Pledges due within one year	\$ 1,905,353	\$ 921,652
Contract receivable	428,670	879,283
Receivable from <i>Friends of the Children - Portland Foundation</i> <sup>A</sup>	163,089	7,989
Other receivables	<u>83,857</u>	<u>174,474</u>
<b>Receivables due in less than one year</b>	<b>2,580,969</b>	<b>1,983,398</b>
Pledges due in one to five years	1,262,166	600,000
Discount to present value (4 percent rate used)	(22,976)	(7,986)
Allowance for doubtful accounts	<u>(5,276)</u>	<u>(3,388)</u>
<b>Net receivables</b>	<b><u>\$ 3,814,883</u></b>	<b><u>\$ 2,572,024</u></b>

<sup>A</sup>Related party.

**6. Note Receivable**

During 2019, *Friends - National* loaned \$100,000 to a chapter out of its unexpended endowment earnings (*Note 15*). 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. *Friends - National* recognized interest income totaling \$1,742 during the year ended August 31, 2019.

**FRIENDS OF THE CHILDREN**

**Notes to Consolidated Financial Statements - Continued**

**7. Property and Equipment**

	<b>2019</b>	<b>2018</b>
Computer equipment and software	\$ 532,218	\$ 504,209
Office equipment and furniture	290,380	276,705
Vehicles	88,901	88,901
Buildings and improvements	5,069,651	4,549,924
Land	100,000	100,000
Construction in progress	-	19,826
	6,081,150	5,539,565
Less accumulated depreciation and amortization	<u>(1,528,572)</u>	<u>(1,300,384)</u>
Net property and equipment	<u>\$ 4,552,578</u>	<u>\$ 4,239,181</u>

During 2014 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.

**8. Net Assets with Donor Restrictions**

At August 31, 2019, net assets with donor restrictions were available for the following purposes:

Scholarships	\$ 114,813
Chapter assistance	1,599,660
Evaluation	40,000
Southwest Washington expansion	1,171,182
Family engagement	106,250
Pre-apprenticeship and apprenticeship programs	43,750
Technology education	25,000
Other program support	37,065
Future periods	2,082,045
Unexpended endowment earnings ( <i>Note 15</i> )	266,178
Endowment principal ( <i>Note 15</i> )	6,459,782
	<u>\$ 11,945,725</u>

During the year ended August 31, 2019, net assets of \$4,835,430 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

#### 9. 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* 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 \$140,851 and \$115,761 for the years ended August 31, 2019 and 2018, respectively.

#### 10. Special Events

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

	2019	2018
Gross proceeds from special events	\$ 2,717,420	\$ 3,063,690
Less direct costs of special events	<u>(201,507)</u>	<u>(254,642)</u>
Net proceeds from special events	<u>\$ 2,515,913</u>	<u>\$ 2,809,048</u>

#### 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, 2019, approximately 58 percent of gross contributions receivable was due from two donors and approximately 49 percent of total contribution revenue was from three donors.

**FRIENDS OF THE CHILDREN**

**Notes to Consolidated Financial Statements - Continued**

**12. 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.

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

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

**FRIENDS OF THE CHILDREN**

**Notes to Consolidated Financial Statements - Continued**

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

**Activities:**

*Support, revenue, and other increases*

*in net assets:*

Contributions	\$ 27,092	\$ 108,570
Net investment return	202,303	594,346
Transfer from <i>Friends of the Children - Portland and Youth Resources, Inc.</i>	-	150,000
	-	150,000

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

	229,395	852,916
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*Expenses:*

Contribution to <i>Friends - Portland</i>	502,879	347,561
Outside services	109,178	95,863
Taxes and fees	50	50
Marketing expenses	3,225	2,964
Professional fees	9,142	11,886
Insurance expense	2,713	-
	627,187	458,324

*Total expenses*

	627,187	458,324
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*Increase (decrease) in net assets  
without donor restrictions*

	\$ (397,792)	\$ 394,592
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**13. Lease Commitments**

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

## FRIENDS OF THE CHILDREN

### Notes to Consolidated Financial Statements - Continued

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#### 14. 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**

**14. 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, 2019:

	Level 1	Level 2	Total
Equity securities:			
Common stock:			
Materials	\$ 83,592	\$ -	\$ 83,592
Industrials	224,144	-	224,144
Telecommunication services	177,879	-	177,879
Consumer discretionary	279,391	-	279,391
Consumer staples	51,013	-	51,013
Energy	104,173	-	104,173
Financials	359,076	-	359,076
Health care	363,067	-	363,067
Information technology	555,767	-	555,767
Utilities	13,364	-	13,364
Real Estate	31,076	-	31,076
Equity mutual funds:			
Mid cap	806,148	-	806,148
Large cap	197,632	-	197,632
International	655,123	-	655,123
Enhanced yield equity	441,496	-	441,496
Total equity securities	4,342,941	-	4,342,941
Fixed income securities:			
Nongovernment obligations	-	741,648	741,648
Foreign obligations	-	51,436	51,436
Multi-strategy mutual fund	282,330	-	282,330
Daily accrual funds	265,346	-	265,346
Treasury and federal agencies	283,237	-	283,237
Total fixed income securities	830,913	793,084	1,623,997
Real estate income fund	497,815	-	497,815
Money market funds	402,231	-	402,231
Beneficial interest in assets held by <i>Friends of the Children -   Portland Foundation</i>	53,147	7,247	60,394
	<u>\$ 6,127,047</u>	<u>\$ 800,331</u>	<u>\$ 6,927,378</u>

## FRIENDS OF THE CHILDREN

### Notes to Consolidated Financial Statements - Continued

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#### 15. Endowment Funds

Financial accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)

##### *Interpretation of Relevant Law*

The Board of Directors of 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 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 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. 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**

**15. 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, 2019:

	<b>Accumulated Investment Earnings</b>	<b>Original Principal</b>	<b>Total</b>
<b><i>Friends - Portland :</i></b>			
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	\$ 11,120	\$ 49,274	\$ 60,394
Included in receivables	-	1,750	1,750
<b><i>Friends - National program operations:</i></b>			
Included in investments	155,058	6,408,758	6,563,816
Note receivable	100,000	-	100,000
	<u>\$ 266,178</u>	<u>\$ 6,459,782</u>	<u>\$ 6,725,960</u>

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

	<b>Accumulated Investment Earnings</b>	<b>Original Principal</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 367,995	\$ 5,956,774	\$ 6,324,769
Net investment return	199,551	-	199,551
Contributions	-	503,008	503,008
Appropriation of endowment assets for expenditure	(301,368)	-	(301,368)
	<u>\$ 266,178</u>	<u>\$ 6,459,782</u>	<u>\$ 6,725,960</u>

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**FRIENDS OF THE CHILDREN**

**Consolidating and Supplementary Financial Information**

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**FRIENDS OF THE CHILDREN**  
**Consolidating Schedule of Financial Position**

**August 31, 2019**

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 3,500,626	\$ 2,283,746	\$ -	\$ 5,784,372
Investments	6,966,984	-	-	6,966,984
Receivables - net	2,213,274	1,674,655	(73,046)	3,814,883
Prepaid expenses	23,624	125,653	-	149,277
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	60,394	-	60,394
Property and equipment - net	197,884	4,354,694	-	4,552,578
<b>Total assets</b>	<b><u>\$ 12,902,392</u></b>	<b><u>\$ 8,499,142</u></b>	<b><u>\$ (73,046)</u></b>	<b><u>\$ 21,328,488</u></b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 485,936	\$ 258,819	\$ (35,546)	\$ 709,209
Grants and contributions payable	732,513	-	(37,500)	695,013
Refundable advances	749,625	-	-	749,625
<b>Total liabilities</b>	<b>1,968,074</b>	<b>258,819</b>	<b>(73,046)</b>	<b>2,153,847</b>
<b>Net assets:</b>				
Without donor restrictions	763,842	6,465,074	-	7,228,916
With donor restrictions	10,170,476	1,775,249	-	11,945,725
<b>Total net assets</b>	<b><u>10,934,318</u></b>	<b><u>8,240,323</u></b>	<b><u>-</u></b>	<b><u>19,174,641</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 12,902,392</u></b>	<b><u>\$ 8,499,142</u></b>	<b><u>\$ (73,046)</u></b>	<b><u>\$ 21,328,488</u></b>

**FRIENDS OF THE CHILDREN**  
**Consolidating Schedule of Activities**

**Year Ended August 31, 2019**

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
<b>Public support and revenue:</b>				
Contributions	\$ 5,416,615	\$ 3,418,065	\$ (41,703)	\$ 8,792,977
Grants and contracts	2,494,528	1,371,467	(126,250)	3,739,745
Special events - net	-	2,505,395	10,518	2,515,913
In-kind contributions	15,971	399,254	-	415,225
Chapter affiliation fees	179,560	-	(42,560)	137,000
Chapter revenue sharing	110,875	-	-	110,875
Chapter support revenue	620,268	-	(4,315)	615,953
Rental income	-	23,094	(18,000)	5,094
Miscellaneous income	6,100	-	-	6,100
<b>Total public support and revenue</b>	<b>8,843,917</b>	<b>7,717,275</b>	<b>(222,310)</b>	<b>16,338,882</b>
<b>Expenses:</b>				
Program services:				
Affiliate services	6,724,095	-	(177,687)	6,546,408
<i>Friends - Portland</i>	-	5,114,201	(42,560)	5,071,641
Total program services	6,724,095	5,114,201	(220,247)	11,618,049
Administrative	262,482	735,952	(1,306)	997,128
Fundraising	172,270	979,068	(757)	1,150,581
<b>Total expenses</b>	<b>7,158,847</b>	<b>6,829,221</b>	<b>(222,310)</b>	<b>13,765,758</b>
<b>Increase in net assets before investment activity</b>	<b>1,685,070</b>	<b>888,054</b>	<b>-</b>	<b>2,573,124</b>
<b>Investment activity:</b>				
Net investment return	219,226	16,517	-	235,743
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	2,077	-	2,077
Net investment activity	219,226	18,594	-	237,820
<b>Increase in net assets</b>	<b>1,904,296</b>	<b>906,648</b>	<b>-</b>	<b>2,810,944</b>
Net assets, beginning of year	9,030,022	7,333,675	-	16,363,697
<b>Net assets, end of year</b>	<b>\$ 10,934,318</b>	<b>\$ 8,240,323</b>	<b>\$ -</b>	<b>\$ 19,174,641</b>

**FRIENDS OF THE CHILDREN - NATIONAL**

**Schedules of Financial Position**

<b>August 31,</b>	<b>2019</b>	<b>2018</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 3,500,626	\$ 1,509,725
Investments	6,966,984	6,342,554
Receivables - net	2,213,274	1,971,976
Prepaid expenses	23,624	98
Property and equipment - net	<u>197,884</u>	<u>37,893</u>
<b>Total assets</b>	<b><u>\$ 12,902,392</u></b>	<b><u>\$ 9,862,246</u></b>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 485,936	\$ 307,496
Grants and contributions payable	732,513	524,728
Refundable advances	<u>749,625</u>	<u>-</u>
<b>Total liabilities</b>	<b>1,968,074</b>	<b>832,224</b>
<b>Net assets:</b>		
Without donor restrictions	763,842	682,450
With donor restrictions	<u>10,170,476</u>	<u>8,347,572</u>
<b>Total net assets</b>	<b><u>10,934,318</u></b>	<b><u>9,030,022</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 12,902,392</u></b>	<b><u>\$ 9,862,246</u></b>

**FRIENDS OF THE CHILDREN - NATIONAL**

**Schedule of Activities**

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

	Without Donor Restrictions	With Donor Restrictions	Total	
			2019	2018
<b>Public support and revenue:</b>				
Contributions	\$ 249,147	\$ 5,167,468	\$ 5,416,615	\$ 2,527,532
Grants and contracts	2,494,528	-	2,494,528	2,910,775
In-kind contributions	15,971	-	15,971	2,007
Chapter affiliation fees	179,560	-	179,560	139,820
Chapter revenue sharing	110,875	-	110,875	369,830
Chapter support revenue	620,268	-	620,268	736,105
Miscellaneous income	6,100	-	6,100	2,705
Net assets released from restrictions	3,542,039	(3,542,039)	-	-
<b>Total public support and revenue</b>	<b>7,218,488</b>	<b>1,625,429</b>	<b>8,843,917</b>	<b>6,688,774</b>
<b>Expenses:</b>				
Program services	6,724,095	-	6,724,095	6,795,960
Administrative	262,482	-	262,482	346,394
Fundraising	172,270	-	172,270	86,278
<b>Total expenses</b>	<b>7,158,847</b>	<b>-</b>	<b>7,158,847</b>	<b>7,228,632</b>
<b>Increase (decrease) in net assets before investment activity</b>	<b>59,641</b>	<b>1,625,429</b>	<b>1,685,070</b>	<b>(539,858)</b>
Net investment return	21,751	197,475	219,226	589,417
<b>Increase in net assets</b>	<b>81,392</b>	<b>1,822,904</b>	<b>1,904,296</b>	<b>49,559</b>
Net assets, beginning of year	682,450	8,347,572	9,030,022	8,980,463
<b>Net assets, end of year</b>	<b>\$ 763,842</b>	<b>\$ 10,170,476</b>	<b>\$ 10,934,318</b>	<b>\$ 9,030,022</b>

**FRIENDS OF THE CHILDREN - NATIONAL**

**Schedules of Cash Flows**

<b>Years Ended August 31,</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 1,904,296	\$ 49,559
Adjustments to reconcile increase in net asset to net cash provided (used) by operating activities:		
Proceeds from contributions to permanent endowment	(501,258)	-
Proceeds from contributions restricted for acquisition of property and equipment	(163,304)	-
Depreciation	21,499	13,052
Gain on investments	(75,596)	(447,197)
Loss on equipment disposal	-	1,171
Donated property and equipment	(14,459)	-
Changes in:		
Receivables	(241,298)	(85,045)
Prepaid expenses	(23,526)	13,618
Accounts payable and accrued liabilities	178,440	19,433
Grants and contributions payable	207,785	361,893
Refundable advances	749,625	-
<b>Net cash provided (used) by operating activities</b>	<b>2,042,204</b>	<b>(73,516)</b>
<b>Cash flows from investing activities</b>		
Purchases of equipment	(167,031)	(12,421)
Purchases of investments	(4,044,654)	(137,318)
Proceeds from sale of investments	3,595,820	325,958
Issuance of note receivable	(100,000)	-
<b>Net cash provided (used) by investing activities</b>	<b>(715,865)</b>	<b>176,219</b>
<b>Cash flows from financing activities</b>		
Proceeds from contributions to permanent endowment	501,258	-
Proceeds from contributions restricted for acquisition of property and equipment	163,304	-
<b>Net cash provided by financing activities</b>	<b>664,562</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,990,901</b>	<b>102,703</b>
Cash and cash equivalents, beginning of year	1,509,725	1,407,022
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,500,626</b>	<b>\$ 1,509,725</b>

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**FRIENDS OF THE CHILDREN - NATIONAL**

**Single Audit Reports**

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**FRIENDS OF THE CHILDREN - NATIONAL**

**Schedule of Expenditures of Federal Awards**

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**Year Ended August 31, 2019**

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<b>Federal Grantor/Program</b>	<b>Federal CFDA Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Justice:</b>			
Office of Juvenile Justice and Delinquency Prevention:			
Direct program:			
Juvenile Mentoring Program	16.726	<u>\$ 822,104</u>	<u>\$ 1,149,322</u>
<b>Total U.S. Department of Justice</b>		<b>822,104</b>	<b>1,149,322</b>
<b>Corporation for National and Community Service:</b>			
Direct program:			
Social Innovation Fund	94.019	<u>982,302</u>	<u>1,345,206</u>
<b>Total Corporation for National and Community Service</b>		<b>982,302</b>	<b>1,345,206</b>
<b>Total Expenditures of Federal awards</b>		<b><u>\$ 1,804,406</u></b>	<b><u>\$ 2,494,528</u></b>

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*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

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#### 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 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, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 27, 2020. We conducted our audit 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 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 instances of reportable noncompliance 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) to determine the 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 the internal control. Accordingly, we do not express an opinion on the effectiveness of the *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 the entity'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 determination of consolidated financial statement amounts. 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.

*Hickman, Stewart & Schmitt, P.C.*

Lake Oswego, Oregon  
January 27, 2020

**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, 2019. *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, 2019.

## 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  
January 27, 2020

**FRIENDS OF THE CHILDREN - NATIONAL**

**Schedule of Findings and Questioned Costs**

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**Year Ended August 31, 2019**

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**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**

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**Year Ended August 31, 2019**

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**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**

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**Year Ended August 31, 2019**

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No findings were reported in the prior year.