
FR1ENDS of the
CH1LDREN
Portland

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2016

and

Consolidating Information

with

Independent Auditors' Report

FRIENDS OF THE CHILDREN - PORTLAND

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Independent Auditors' Report

The Board of Directors
Friends of the Children - Portland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *Friends of the Children - Portland* and *Youth Resources, Inc.*, which comprise the consolidated statement of financial position as of August 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *Friends of the Children - Portland* and *Youth Resources, Inc.* as of August 31, 2016, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 18 and 19 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited *Friends of the Children - Portland* and *Youth Resources Inc.*'s 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
December 15, 2016

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Financial Position

August 31, 2016 <i>(With Comparative Amounts for 2015)</i>	2016	2015
ASSETS		
Cash and cash equivalents	\$ 1,646,866	1,446,534
Receivables - net <i>(Note 3)</i>	1,085,672	2,078,484
Prepaid expenses	100,633	111,122
Cash restricted for property acquisition	-	820,078
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation (Notes 9, 11, and 12)</i>	423,891	404,913
Property and equipment - net <i>(Note 4)</i>	<u>4,390,895</u>	<u>3,403,490</u>
Total assets	<u>\$ 7,647,957</u>	<u>\$ 8,264,621</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 447,204	\$ 916,828
Commitments <i>(Notes 4 and 13)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	4,390,895	899,583
Other undesignated	<u>1,942,705</u>	<u>1,621,254</u>
Total unrestricted	6,333,600	2,520,837
Temporarily restricted <i>(Note 5)</i>	823,629	4,786,132
Permanently restricted <i>(Notes 6 and 12)</i>	<u>43,524</u>	<u>40,824</u>
Total net assets	<u>7,200,753</u>	<u>7,347,793</u>
Total liabilities and net assets	<u>\$ 7,647,957</u>	<u>\$ 8,264,621</u>

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Activities

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

	Unrestricted	Temporarily	Permanently	Total	
		Restricted	Restricted	2016	2015
Public support and revenue:					
Contributions	\$1,515,737	\$ 338,219	\$ 2,700	\$1,856,656	\$3,660,691
Grants and contracts	1,236,009	16,196	-	1,252,205	1,095,330
Special events - net (Note 8)	2,098,009	-	-	2,098,009	1,963,408
In-kind contributions	105,352	-	-	105,352	197,222
Rental income	15,663	-	-	15,663	6,332
Gain on sale of property and equipment	-	-	-	-	288,292
Miscellaneous income	84	-	-	84	2,111
Net assets released from restrictions (Note 5)	4,317,689	(4,317,689)	-	-	-
Total public support and revenue	9,288,543	(3,963,274)	2,700	5,327,969	7,213,386
Expenses:					
Program services	4,192,954	-	-	4,192,954	4,080,273
Administrative	479,625	-	-	479,625	295,031
Development	674,212	-	-	674,212	556,002
Total expenses	5,346,791	-	-	5,346,791	4,931,306
Increase (decrease) in net assets before investment activity	3,941,752	(3,963,274)	2,700	(18,822)	2,282,080
Investment activity:					
Interest income	2,033	771	-	2,804	2,039
Net increase (decrease) in beneficial interest in assets held by Friends of the Children - Portland Foundation (Note 9)	18,978	-	-	18,978	(5,911)
Net investment activity	21,011	771	-	21,782	(3,872)
Transfer to Friends of the Children - Portland Foundation (Note 9)	(150,000)	-	-	(150,000)	(124,144)
Increase (decrease) in net assets	3,812,763	(3,962,503)	2,700	(147,040)	2,154,064
Net assets, beginning of year	2,520,837	4,786,132	40,824	7,347,793	5,193,729
Net assets, end of year	\$6,333,600	\$ 823,629	\$ 43,524	\$7,200,753	\$7,347,793

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Functional Expenses

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

	Program			Total	
	Services	Administrative	Development	2016	2015
Salaries and related expenses:					
Salaries and wages	\$ 2,415,900	\$ 324,128	\$ 471,315	\$ 3,211,343	\$ 2,944,208
Payroll taxes and benefits	554,200	73,437	90,753	718,390	681,413
Total salaries and related expenses	2,970,100	397,565	562,068	3,929,733	3,625,621
Children's activities	178,379	-	-	178,379	185,970
Friend transportation	198,253	-	-	198,253	202,654
Friends' activities	29,440	-	-	29,440	30,889
Friend communication	29,545	-	-	29,545	29,180
Scholarships	24,759	-	-	24,759	17,683
In-kind gifts for children and families	101,880	-	-	101,880	161,800
Research and evaluation	27,000	-	-	27,000	27,330
Travel and meetings	15,720	4,763	7,988	28,471	17,382
Community awareness	8,206	1,297	6,821	16,324	27,900
Staff development	32,816	19,471	15,197	67,484	66,435
Repairs and maintenance	86,411	6,419	6,649	99,479	74,742
Supplies	14,877	1,263	1,182	17,322	18,766
Payroll and banking fees	18,818	2,519	10,387	31,724	30,708
Business insurance	37,331	6,290	5,806	49,427	36,074
Utilities	51,334	4,538	4,274	60,146	44,312
Information technology	131,990	19,809	17,299	169,098	140,793
Professional fees	29,225	4,001	9,707	42,933	47,294
Chapter affiliation fees	15,000	2,400	2,600	20,000	15,000
Postage and printing	14,113	2,077	17,576	33,766	40,660
Depreciation	177,757	7,213	6,658	191,628	90,113
Total expenses	\$ 4,192,954	\$ 479,625	\$ 674,212	\$ 5,346,791	\$ 4,931,306

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

FRIENDS OF THE CHILDREN - PORTLAND

Consolidated Statement of Cash Flows

Year Ended August 31, 2016 <i>(With Comparative Totals for 2015)</i>	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (147,040)	\$ 2,154,064
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions restricted for property acquisition	(52,577)	(1,938,502)
Proceeds from contributions to permanent endowment	(2,700)	(3,750)
Depreciation	191,628	90,113
Gain on sale of property and equipment	-	(288,292)
Gain on investments	-	(661)
Net (increase) decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(18,978)	5,911
Transfer to <i>Friends of the Children - Portland Foundation</i>	150,000	124,144
Changes in:		
Receivables	60,666	207,056
Prepaid expenses	10,489	(13,534)
Accounts payable and accrued liabilities	(469,624)	51,864
Net cash provided (used) by operating activities	(278,136)	388,413
Cash flows from investing activities:		
Proceeds from sales of investments	-	6,925
Cash restricted for property acquisition	-	(50,100)
Proceeds from sale of property and equipment	-	382,837
Purchase of property and equipment	(358,955)	(1,952,501)
Purchase of beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	(410,824)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	(124,144)
Net cash used by investing activities	(508,955)	(2,147,807)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	984,723	1,938,502
Proceeds from contributions to permanent endowment	2,700	3,750
Net cash provided by financing activities	987,423	1,942,252
Net increase in cash and cash equivalents	200,332	182,858
Cash and cash equivalents, beginning of year	1,446,534	1,263,676
Cash and cash equivalents, end of year	\$ 1,646,866	\$ 1,446,534
Supplemental disclosure of noncash information:		
Construction in progress accrued in accounts payable	\$ -	\$ 537,695
Restricted cash used for property acquisition	820,078	-

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Friends of the Children - Portland (*Friends - Portland*) commits to standing alongside our community's youth as they work to overcome barriers to their success. Each child receives 1:1 support and guidance from a salaried, professional mentor (called a Friend), from kindergarten through high school graduation - 12½ years, no matter what. Friends work collaboratively with high-priority youth and their caregivers to set and achieve individualized goals, as well as advocate for them in the school, child welfare, healthcare, and other systems that impact them.

Youth in the Friends program face considerable challenges, including placement in the foster care system, under-resourced neighborhood schools, homelessness, hunger, and disparities in access to and quality of health care. Despite these barriers, program youth enter adulthood with strong foundations for continuing achievement: 83 percent graduate high school or earn a GED, 93 percent avoid the juvenile justice system, and 98 percent avoid teen parenting.

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

Summary of Significant Accounting Policies - The significant accounting policies followed by the *Friends - Portland* and its wholly controlled subsidiary, *Youth Resources, Inc.* (collectively the Organizations) are described below to enhance the usefulness of the consolidated financial statements to the reader.

Principles of Consolidation - The consolidated financial statements include the accounts of the Organizations. All inter-company balances and transactions have been eliminated in consolidation.

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

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organizations and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require they be maintained permanently by the Organizations. Generally, the donors of these assets permit the Organizations to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the consolidated financial statements for, among other things, the calculation of depreciation expense, determination of any required allowance for potentially uncollectible receivables, and functional allocation of expenses.

Cash and Cash Equivalents - The Organizations consider all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Beneficial Interest in Assets Held by *Friends of the Children - Portland Foundation* (the *Foundation*) - *Friends - Portland* has interest in assets invested by the *Foundation*. At August 31, 2016, assets totaled \$423,891 (*Note 9*).

Receivables - Accounts receivable from exchange transactions are recognized as services are provided. An allowance for uncollectible contributions receivable is recorded based on management's assessment of the specific amounts outstanding. Management will write off any balance that remains after it has exhausted all reasonable collection efforts.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value at date of donation. Depreciation of furniture, equipment, and vehicles is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years. Depreciation of buildings and improvements is calculated using the straight-line method over estimated useful lives ranging from 20 to 40 years.

Revenue Recognition - All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. For exchange transactions, amounts received but not yet earned are recorded as deferred revenue.

Contribution Recognition - Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Public support includes \$420,000 and \$305,000 for the years ended August 31, 2016 and 2015, respectively, from the *Foundation*.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

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

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

In-Kind Contributions - The Organizations receive contributed services from a small number of unpaid volunteers who assist in a range of fundraising and program activities. The values of such services, which the Organizations consider not practical to estimate, have not been recognized in the consolidated statement of activities. Significant services received that create or enhance a non-financial asset or require specialized skills the Organizations would have purchased if not donated are recognized in the consolidated statement of activities. The value of such services for the year ended August 31, 2016, totaled \$16,168 and consisted of dental services for program youth. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and the contributions are an essential part of the Organizations' activities.

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

GAAP prescribes a recognition threshold and measurement process for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe the Organizations have any uncertain tax positions. The Organizations file informational returns. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return. There are currently no tax examinations in progress for any periods. Interest or penalties assessed by taxing authorities, if any, would be included with administrative expenses.

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

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

Summarized Financial Information for 2015 - The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended August 31, 2015, from which the summarized information was derived.

2. Program and Supporting Services

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

Supporting Services

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

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

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

3. Receivables

Receivables consisted of the following at August 31:

	2016	2015
Pledges due within one year	\$ 620,795	\$ 1,288,310
Contract receivable	149,275	105,093
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	5,127	23
Receivable from <i>Friends of the Children - National</i> ^A	96,056	33,569
Other receivables	40,415	29,034
	911,668	1,456,029
Receivables due in less than one year		
Pledges due in one to five years	184,001	683,210
Allowance for doubtful accounts	(9,997)	(9,997)
Discount to present value (4 percent discount rate used)	-	(50,758)
	\$ 1,085,672	\$ 2,078,484

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

^AThese are related parties.

4. Property and Equipment

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

	2016	2015
Computer equipment	\$ 415,111	\$ 337,079
Office equipment and furniture	264,976	267,086
Vehicles	88,901	88,901
Building and improvements	4,391,247	1,049,118
Land	100,000	100,000
Construction in progress	-	2,434,970
	5,260,235	4,277,154
Less accumulated depreciation	(869,340)	(873,664)
Net property and equipment	\$ 4,390,895	\$ 3,403,490

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

4. Property and Equipment - Continued

The Organization entered into a 49 year ground lease, with an option to extend for 5 consecutive terms of 10 years each, with the City of Gresham for \$1 per year for use of certain land to operate a facility included above in building and improvements. The lease commenced during 2014.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2016, are available for the following purposes:

Back to School	\$ 42,700
Scholarships	108,539
Future periods	366,925
East County Building Operations	304,694
Unexpended endowment earnings (<i>Note 12</i>)	<u>771</u>
	<u><u>\$ 823,629</u></u>

During the year ended August 31, 2016, net assets of \$4,317,689 were released from restrictions due to the specific actions of *Friends - Portland* and/or the passage of time.

6. Permanently Restricted Net Assets

Permanently restricted net assets consist of \$43,524 at August 31, 2016, for the Fast Friends Scholarship Fund.

7. Retirement Plans

Friends - Portland has a retirement plan pursuant to Internal Revenue Code (IRC) Section 401(k), in which employees 18 years of age and older and with at least one month of service are eligible to participate. *Friends - Portland* also has a retirement plan under IRC Section 403(b) for certain eligible employees. Contributions to both plans are discretionary. Employer retirement expense totaled \$60,464 and \$61,191 for the years ended August 31, 2016 and 2015, respectively.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

8. Special Events

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

	2016	2015
Gross proceeds from events	\$ 2,310,160	\$ 2,133,247
Less direct costs of events	<u>(212,151)</u>	<u>(169,839)</u>
	<u><u>\$ 2,098,009</u></u>	<u><u>\$ 1,963,408</u></u>

9. Friends of the Children - Portland Foundation

During the year ended August 31, 2004, the *Foundation* was established to ensure the long-term sustainability of the *Friends - Portland* program. A discretionary transfer of assets is made at year end from *Friends - Portland* to the *Foundation* based on a vote by the Board of Directors. Grants from the *Foundation* to *Friends - Portland* help to support annual operations. The *Foundation* raises private donations and manages investments for *Friends - Portland*, but remains a separate 501(c)(3) organization that does not have a controlling financial interest sufficient to require consolidated financial statements.

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

	2016	2015
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 291,443	\$ 345,230
Receivable from <i>Friends of the Children - Portland</i>	150,000	90,000
<i>Investments:</i>		
Equity securities	3,776,295	4,255,742
Fixed income securities	1,656,760	1,177,961
Alternative assets	177,035	195,920
Prepaid expenses	<u>1,435</u>	<u>1,549</u>
<i>Total assets</i>	<u><u>\$ 6,052,968</u></u>	<u><u>\$ 6,066,402</u></u>
 <i>Liabilities and net assets:</i>		
Due to <i>Friends of the Children - Portland</i>	\$ 5,127	\$ 23
Funds held on behalf of <i>Friends of the Children - Portland</i>	423,891	404,913
<i>Net assets:</i>		
Unrestricted net assets	<u>5,623,950</u>	<u>5,661,466</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 6,052,968</u></u>	<u><u>\$ 6,066,402</u></u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

9. Friends of the Children - Portland Foundation - Continued

Activities:

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

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

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

	464,104	119,425
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Expenses:

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

Total expenses

	<u>501,620</u>	<u>383,664</u>
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Decrease in net assets

	<u>\$ (37,516)</u>	<u>\$ (264,239)</u>
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10. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the Organizations to concentrations of risk consist primarily of cash and cash equivalents and receivables. The Organizations typically maintain balances of cash and cash equivalents that are in excess of Federal Deposit Insurance Corporation (FDIC) limits. Concentrations of risk with respect to receivables are limited through various monitoring procedures. At August 31, 2016, 12 percent of net receivables was due from one donor.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

11. Fair Value Measurements

GAAP establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1:* Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments that would generally be included in Level 1 include listed securities.
- Level 2:* Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair value is determined through the use of models or other valuation methodologies. Investments generally included in this category include corporate bonds and loans.
- Level 3:* Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, and hedge funds.

Friends - Portland's assets measured at fair value on a recurring basis along with how fair value was determined, for the year ended August 31, 2016, are as follows:

	Level 1	Level 2	Total
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	<u>\$ 343,352</u>	<u>\$ 80,539</u>	<u>\$ 423,891</u>

Fair value of equity securities and fixed income securities is measured by reference to quoted prices as provided by the *Foundation's* investment broker.

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

12. Endowment Funds

GAAP require *Friends - Portland* to present its net assets and its revenue and gains based upon the existence or absence of donor imposed restrictions into these classes: unrestricted, temporarily restricted, and permanently restricted. Accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Accounting standards also provide for enhanced disclosure about endowment funds (both donor restricted endowment funds and quasi-endowment funds).

Interpretation of Relevant Law

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

Investment Strategy and Spending Policy

The endowment fund provides funding for scholarships for students who have completed the *Friends - Portland* program and are continuing their education in a traditional four year college, community college, or a trade or vocational school. Endowment assets are invested with the *Foundation* and are subject to the *Foundation's* investment policies. A formal spending policy has not been established.

Endowment net asset composition by type of fund as of August 31, 2016, is as follows:

	Unrestricted Deficit	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship Fund	<u>\$ -</u>	<u>\$ 771</u>	<u>\$ 43,524</u>	<u>\$ 44,295</u>

FRIENDS OF THE CHILDREN - PORTLAND

Notes to Consolidated Financial Statements - Continued

12. Endowment Funds - Continued

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

	Unrestricted Deficit	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship net assets, beginning of year	\$ (1,091)	\$ -	\$ 40,824	\$ 39,733
Contributions	-	-	2,700	2,700
Net investments return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i>	1,091	771	-	1,862
Fast Friends Scholarship net assets, end of year	\$ -	\$ 771	\$ 43,524	\$ 44,295

13. Lease Commitments

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

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

14. Subsequent Events

Management has evaluated subsequent events through December 15, 2016, the date the consolidated financial statements were available to be issued.

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Information

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Financial Position

August 31, 2016

	Friends - Portland	Youth Resources, Inc.	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 1,439,278	\$ 207,588	\$ -	\$ 1,646,866
Receivables - net	1,085,532	500	(360)	1,085,672
Prepaid expenses	99,958	675	-	100,633
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	41,596	382,295	-	423,891
Property and equipment - net	<u>3,672,512</u>	<u>718,383</u>	<u>-</u>	<u>4,390,895</u>
Total assets	<u>\$ 6,338,876</u>	<u>\$ 1,309,441</u>	<u>\$ (360)</u>	<u>\$ 7,647,957</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 444,257	\$ 3,307	\$ (360)	\$ 447,204
Net assets:				
Unrestricted	5,027,466	1,306,134	-	6,333,600
Temporarily restricted	823,629	-	-	823,629
Permanently restricted	<u>43,524</u>	<u>-</u>	<u>-</u>	<u>43,524</u>
Total net assets	<u>5,894,619</u>	<u>1,306,134</u>	<u>-</u>	<u>7,200,753</u>
Total liabilities and net assets	<u>\$ 6,338,876</u>	<u>\$ 1,309,441</u>	<u>\$ (360)</u>	<u>\$ 7,647,957</u>

FRIENDS OF THE CHILDREN - PORTLAND

Consolidating Schedule of Activities

Year Ended August 31, 2016

	Friends - Portland	Youth Resources, Inc.	Eliminations	Total
Public support and revenue:				
Contributions	\$ 1,856,656	\$ -	\$ -	\$ 1,856,656
Grants and contracts	1,252,205	-	-	1,252,205
Special events - net	2,098,009	-	-	2,098,009
In-kind contributions	105,352	-	-	105,352
Rental income	12,000	123,663	(120,000)	15,663
Miscellaneous income	84	-	-	84
Total public support and revenue	5,324,306	123,663	(120,000)	5,327,969
Expenses:				
Program services:				
Salaries and related expenses	2,970,100	-	-	2,970,100
Children's expenses	939,202	116,414	(90,000)	965,616
Friends' expenses	257,238	-	-	257,238
Total program services	4,166,540	116,414	(90,000)	4,192,954
Administrative	484,784	10,441	(15,600)	479,625
Development	677,525	11,087	(14,400)	674,212
Total expenses	5,328,849	137,942	(120,000)	5,346,791
Decrease in net assets before investment activity	(4,543)	(14,279)	-	(18,822)
Investment activity:				
Interest income	2,640	164	-	2,804
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	1,862	17,116	-	18,978
Net investment activity	4,502	17,280	-	21,782
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	-	-	(150,000)
Increase (decrease) in net assets	(150,041)	3,001	-	(147,040)
Net assets, beginning of year	6,044,660	1,303,133	-	7,347,793
Net assets, end of year	\$ 5,894,619	\$ 1,306,134	\$ -	\$ 7,200,753