
FRI1**ENDS** of the
CH1**ILDREN**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2017

and

Consolidating and Supplementary Financial Information

with

Independent Auditors' Report

and

Single Audit Reports

FRIENDS OF THE CHILDREN

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Independent Auditors' Report

The Board of Directors
Friends of the Children

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *Friends of the Children*, which comprise the consolidated statement of financial position as of August 31, 2017, 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, 2017, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and supplementary financial information on pages 22 through 26 is presented for purposes of additional analysis of the consolidated financial 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 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* 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, 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 a report dated February 21, 2018, 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 & Schriber, P.C.

Lake Oswego, Oregon
February 21, 2018

FRIENDS OF THE CHILDREN
Consolidated Statement of Financial Position

August 31, 2017 (With Comparative Amounts for 2016)	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,726,665	\$ 2,818,391
Investments (Notes 3 and 12)	6,083,997	5,809,113
Receivables - net (Notes 4 and 11)	2,612,107	1,274,657
Prepaid expenses	121,239	113,352
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> (Notes 10, 12, and 13)	44,908	423,891
Property and equipment - net (Note 5)	<u>4,295,039</u>	<u>4,395,997</u>
Total assets	<u>\$ 16,883,955</u>	<u>\$ 14,835,401</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 433,428	\$ 414,943
Grants Payable	162,835	33,495
Deferred revenue	32,600	-
Funds due to <i>Friends of the Children - Portland Foundation</i>	<u>200,000</u>	<u>150,000</u>
Total liabilities	828,863	598,438
Commitments (Note 14)		
Net assets:		
Unrestricted:		
Net investment in property and equipment	4,295,039	4,395,997
Other undesignated	<u>2,358,140</u>	<u>2,139,705</u>
Total unrestricted	6,653,179	6,535,702
Temporarily restricted (Note 6)	3,446,889	1,750,237
Permanently restricted (Notes 7 and 13)	<u>5,955,024</u>	<u>5,951,024</u>
Total net assets	<u>16,055,092</u>	<u>14,236,963</u>
Total liabilities and net assets	<u>\$ 16,883,955</u>	<u>\$ 14,835,401</u>

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

FRIENDS OF THE CHILDREN
Consolidated Statement of Activities

Year Ended August 31, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Public support and revenue:					
Contributions	\$ 1,858,313	\$ 3,993,318	\$ 4,000	\$ 5,855,631	\$ 2,299,505
Grants and contracts	2,666,201	-	-	2,666,201	2,007,518
Special events - net (Note 9)	2,492,039	89,863	-	2,581,902	2,116,031
In-kind contributions	165,866	-	-	165,866	105,752
Chapter affiliation fees	65,600	-	-	65,600	53,600
Chapter revenue sharing	35,419	-	-	35,419	14,085
Consulting income	55,912	-	-	55,912	111,100
Rental income	5,600	-	-	5,600	3,663
Miscellaneous income	2,593	-	-	2,593	1,090
Net assets released from restrictions (Note 6)	2,928,680	(2,928,680)	-	-	-
Total public support and revenue	10,276,223	1,154,501	4,000	11,434,724	6,712,344
Expenses:					
Program services:					
Affiliate services	3,608,378	-	-	3,608,378	1,336,576
<i>Friends - Portland</i>	4,341,073	-	-	4,341,073	4,163,554
Total program services	7,949,451	-	-	7,949,451	5,500,130
Administrative	866,573	-	-	866,573	616,452
Fundraising	798,108	-	-	798,108	783,234
Total expenses	9,614,132	-	-	9,614,132	6,899,816
Increase (decrease) in net assets before investment activity	662,091	1,154,501	4,000	1,820,592	(187,472)
Investment activity:					
Interest and dividends	7,318	133,600	-	140,918	141,263
Gain (loss) on investments, net (Note 3)	(7)	330,238	-	330,231	139,759
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	23,075	3,313	-	26,388	18,978
Net investment activity	30,386	467,151	-	497,537	300,000
Transfer to <i>Friends of the Children - Portland Foundation</i>	(500,000)	-	-	(500,000)	(150,000)
Increase (decrease) in net assets	192,477	1,621,652	4,000	1,818,129	(37,472)
Net assets, beginning of year	6,460,702	1,825,237	5,951,024	14,236,963	14,274,435
Net assets, end of year	\$ 6,653,179	\$ 3,446,889	\$ 5,955,024	\$ 16,055,092	\$ 14,236,963

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, 2017 (With Comparative Totals for 2016)

	Program Services			Supporting Services			Total	
	Friends - National	Friends - Portland	Total	Administrative	Fundraising	Total	2017	2016
Salaries and related expenses:								
Salaries and wages	\$ 1,034,554	\$ 2,540,153	\$ 3,574,707	\$ 611,397	\$ 552,813	\$ 1,164,210	\$ 4,738,917	\$ 3,998,670
Payroll taxes and benefits	151,239	603,494	754,733	124,522	114,942	239,464	994,197	821,054
Total salaries and related expenses	1,185,793	3,143,647	4,329,440	735,919	667,755	1,403,674	5,733,114	4,819,724
Chapter grants	1,812,620	-	1,812,620	-	-	-	1,812,620	397,546
Children's activities	-	204,369	204,369	-	-	-	204,369	178,379
Friend transportation	-	183,642	183,642	-	-	-	183,642	198,253
Friends' activities	-	-	-	-	-	-	-	29,440
Friend communication	-	29,910	29,910	-	-	-	29,910	29,545
Scholarships	-	32,582	32,582	-	-	-	32,582	24,759
In-kind gifts for children and families	-	157,071	157,071	-	-	-	157,071	101,880
Travel and meetings	134,292	13,408	147,700	27,296	20,621	47,917	195,617	104,310
Community awareness	40,276	4,680	44,956	631	4,500	5,131	50,087	21,909
Staff development	-	43,510	43,510	-	-	-	43,510	75,100
Professional fees	355,246	-	355,246	27,947	17,679	45,626	400,872	199,565
Repairs and maintenance	-	87,712	87,712	7,727	7,552	15,279	102,991	103,072
Supplies	4,654	10,677	15,331	5,139	2,649	7,788	23,119	18,602
Payroll and banking fees	3,626	16,899	20,525	4,279	23,181	27,460	47,985	40,612
Business insurance	5,891	38,831	44,722	6,972	6,506	13,478	58,200	56,809
Utilities	10,616	57,974	68,590	6,097	5,256	11,353	79,943	60,146
Information technology	46,360	109,600	155,960	30,205	20,089	50,294	206,254	209,080
Postage and printing	3,358	12,621	15,979	3,782	15,958	19,740	35,719	36,386
Depreciation	3,809	193,940	197,749	10,302	6,249	16,551	214,300	193,758
Rent	1,837	-	1,837	277	113	390	2,227	-
Miscellaneous	-	-	-	-	-	-	-	941
Total expenses	\$ 3,608,378	\$ 4,341,073	\$ 7,949,451	\$ 866,573	\$ 798,108	\$ 1,664,681	\$ 9,614,132	\$ 6,899,816

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

FRIENDS OF THE CHILDREN
Consolidated Statement of Cash Flows

Year Ended August 31, 2017 (With Comparative Totals for 2016)	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 1,818,129	\$ (37,472)
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)
Proceeds from contributions to permanent endowment	(4,000)	(252,700)
Depreciation	214,300	193,758
Gain on investments	(330,231)	(139,759)
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(26,388)	(18,978)
Transfer to <i>Friends of the Children - Portland Foundation</i>	500,000	150,000
Changes in:		
Receivables	(1,457,625)	164,103
Prepaid expenses	(7,887)	5,270
Accounts payable and accrued liabilities	18,485	(446,028)
Grants payable	129,340	-
Deferred revenue	32,600	-
Funds due to <i>Friends of the Children - Portland Foundation</i>	50,000	60,000
Net cash provided (used) by operating activities	936,723	(374,383)
Cash flows from investing activities:		
Proceeds from sales of investments	292,947	2,328,577
Purchases of investments	(237,600)	(2,412,308)
Purchases of property and equipment	(113,342)	(362,977)
Transfer to <i>Friends of the Children - Portland Foundation</i>	(94,629)	(150,000)
Net cash used by investing activities	(152,624)	(596,708)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	120,175	984,723
Proceeds from contributions to permanent endowment	4,000	252,700
Net cash provided by financing activities	124,175	1,237,423
Net increase in cash and cash equivalents	908,274	266,332
Cash and cash equivalents, beginning of year	2,818,391	2,552,059
Cash and cash equivalents, end of year	\$ 3,726,665	\$ 2,818,391
Supplemental disclosure of non-cash information:		
Restricted cash used for property acquisition	\$ -	\$ 820,078

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

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - *Friends of the Children* is the only program in the nation that provides carefully screened, full-time professional salaried mentors (called *Friends*) to at-risk youth for 12 years starting 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:

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

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

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

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

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

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

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

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

Investments - Investments are carried at fair value. Net investment activity, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments as well as interest and dividend income, is reported in the consolidated statement of activities.

Beneficial Interest in Assets Held by *Friends of the Children - Portland Foundation (the Foundation)* - *Friends - Portland* has an interest in assets invested by *the Foundation*. At August 31, 2017, assets totaled \$44,908 (*Note 10*).

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

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

Contribution Recognition - Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At August 31, 2017, *Friends - Portland* had one outstanding conditional promise of \$25,000 requiring a wheelchair lift be installed at one of the facilities.

Public support includes \$536,176 and \$420,000 for the years ended August 31, 2017 and 2016, respectively, from the *Foundation (Note 10)*.

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

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

In-Kind Contributions - The Organization receives contributed services from a small number of unpaid volunteers who assist in a range of fundraising and program activities. The value of such services, which the Organization considers not practical to estimate, has not been recognized in the consolidated statement of activities. Significant services received that create or enhance a non-financial asset or require specialized skills the Organization would have purchased if not donated, are recognized in the consolidated statement of activities. The value of such services for the year ended August 31, 2017, totaled \$17,982 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 Organization's activities.

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

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions, and provide guidance on various related matters such as interest, penalties, and required disclosures. Management believes the Organization does not have any uncertain tax positions. The Organization files informational returns. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

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

Income Tax Status - Continued - 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.

Reclassifications - Certain information in the 2016 financial statements has been reclassified for comparative purposes to conform to the 2017 presentation.

Summarized Financial Information for 2016 - 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, 2016, from which the summarized information was derived.

2. Program and Supporting Services

Program Services:

Affiliate Services - The Organization provides a variety of services to help sustain and grow existing chapters, including grant awards, technical assistance and training in areas such as child assessment, planning, administration, fundraising, and Board development. *Friends of the Children* affiliates provided services to children located in the following geographic areas in 2017:

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

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

Total *Friends - Portland* expenses, prior to the effect of eliminating entries, during the year ended August 31, 2017, were \$4,376,347 for program expenses, \$720,979 for fundraising expenses, and \$692,497 for administrative expenses.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Program and Supporting Services - Continued

Supporting Services:

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

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

3. Investments

Investments included the following at August 31:

	2017	2016
Equity securities	\$ 3,905,372	\$ 3,800,204
Fixed income securities	1,668,768	1,601,768
Money market funds	333,127	233,952
Real estate income fund	176,730	173,189
	<u>\$ 6,083,997</u>	<u>\$ 5,809,113</u>

Realized and unrealized gain on investments of \$330,231 for the year ended August 31, 2017, is presented net of investment management expenses of \$29,977.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2017	2016
Pledges due within one year	\$ 1,108,798	\$ 814,002
Contract receivable	398,338	197,943
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	5,140	5,127
Other receivables	<u>65,571</u>	<u>43,674</u>
Receivables due in less than one year	1,577,847	1,060,746
Pledges due in one to five years	1,047,056	223,908
Allowance for doubtful accounts	<u>(12,796)</u>	<u>(9,997)</u>
Net receivables	<u>\$ 2,612,107</u>	<u>\$ 1,274,657</u>

^ARelated party.

Management has elected not to calculate any discount to present value on pledges due beyond one year, as of August 31, 2017, as such amount would not be material to the consolidated financial statements.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Property and Equipment

	2017	2016
Computer equipment and software	\$ 482,982	\$ 423,708
Office equipment and furniture	267,009	265,976
Vehicles	88,901	88,901
Buildings and improvements	4,444,282	4,391,247
Land	<u>100,000</u>	<u>100,000</u>
	5,383,174	5,269,832
Less accumulated depreciation and amortization	<u>(1,088,135)</u>	<u>(873,835)</u>
Net property and equipment	<u><u>\$ 4,295,039</u></u>	<u><u>\$ 4,395,997</u></u>

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

6. Temporarily Restricted Net Assets

At August 31, 2017, temporarily restricted net assets were available for the following purposes:

Scholarships	\$ 103,295
Chapter assistance	1,224,342
Back to School	28,950
Future periods	1,890,377
Unexpended endowment earnings <i>(Note 13)</i>	82,930
East County Building Operations	<u>116,995</u>
	<u><u>\$ 3,446,889</u></u>

During the year ended August 31, 2017, net assets of \$2,928,680 were released from restrictions due to specific actions of the organization and/or the passage of time.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

7. Permanently Restricted Net Assets

At August 31, 2017, permanently restricted net assets consist of the following:

Fast Friends Scholarship fund	\$	47,524
National Endowment		<u>5,907,500</u>
		<u><u>\$ 5,955,024</u></u>

8. Retirement Plans

Friends - Portland has a retirement plan pursuant to Internal Revenue Code (IRC) Section 401(k), in which employees 18 years of age and older and with at least one month of service are eligible to participate. *Friends - Portland* also has a retirement plan under IRC Section 403(b) for certain eligible employees. Contributions to both plans are discretionary.

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

Employer retirement expense totaled \$91,413 and \$68,587 for the years ended August 31, 2017 and 2016, respectively.

9. Special Events

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

	2017	2016
Gross proceeds from special events	\$ 2,775,855	\$ 2,328,182
Less direct costs of special events	<u>(193,953)</u>	<u>(212,151)</u>
Net proceeds from special events	<u><u>\$ 2,581,902</u></u>	<u><u>\$ 2,116,031</u></u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. 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 is as follows for *the Foundation* as of and for the years ended August 31 is as follows:

	2017	2016
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 189,547	\$ 291,443
Due from <i>Friends - Portland</i>	200,000	150,000
<i>Investments:</i>		
Equity securities	3,879,629	3,776,296
Fixed income securities	1,625,559	1,656,760
Alternative assets	182,506	177,034
Prepaid expenses	-	1,435
<i>Total assets</i>	<u>\$ 6,077,241</u>	<u>\$ 6,052,968</u>
 <i>Liabilities and net assets:</i>		
Due to <i>Friends of the Children - Portland</i>	\$ 5,140	\$ 5,127
Other liabilities	67	-
Funds held on behalf of <i>Friends of the Children - Portland</i>	44,908	423,891
<i>Net assets:</i>		
Unrestricted net assets	6,027,126	5,623,950
<i>Total liabilities and net assets</i>	<u>\$ 6,077,241</u>	<u>\$ 6,052,968</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

	2017	2016
Activities:		
<i>Support, revenue, and other increases</i>		
<i>in net assets:</i>		
Contributions	\$ 57,487	\$ 32,968
Interest and dividends	124,485	133,040
Gain on investments	344,989	148,096
Transfer from <i>Friends of the Children - Portland and Youth Resources, Inc.</i>	<u>500,000</u>	<u>150,000</u>
<i>Total support, revenue, and other increases in net assets</i>	<u>1,026,961</u>	<u>464,104</u>
<i>Expenses:</i>		
Contribution to <i>Friends of the Children - Portland</i>	536,176	420,000
Outside services	43,494	39,980
Banking and investment fees	31,977	31,488
Marketing expenses	368	388
Professional fees	11,517	9,515
Miscellaneous expenses	<u>253</u>	<u>249</u>
<i>Total expenses</i>	<u>623,785</u>	<u>501,620</u>
<i>Increase (decrease) in net assets</i>	<u>\$ 403,176</u>	<u>\$ (37,516)</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, 2017, approximately 70 percent of gross receivables were due from one donor and approximately 34 percent of total contributions was from one donor.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

12. Fair Value Measurements

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

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

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

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

Fair values of 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

12. Fair Value Measurements - Continued

The Organization's assets are measured at fair value on a recurring basis including how fair value was determined as of August 31, 2017:

	Level 1	Level 2	Total
Equity securities:			
Common stock:			
Materials	\$ 29,860	\$ -	\$ 29,860
Industrials	173,341	-	173,341
Consumer discretionary	265,590	-	265,590
Consumer staples	82,445	-	82,445
Energy	83,639	-	83,639
Financials	295,275	-	295,275
Health care	435,557	-	435,557
Information technology	548,748	-	548,748
Utilities	27,844	-	27,844
Real Estate	42,935	-	42,935
Equity mutual funds:			
Mid cap	694,363	-	694,363
Large cap	17,968	-	17,968
International	728,918	-	728,918
Enhanced yield equity	478,889	-	478,889
Total equity securities	3,905,372	-	3,905,372
Fixed income securities:			
Nongovernment obligations	-	836,593	836,593
Multi-strategy mutual fund	330,320	-	330,320
Daily accrual funds	150,139	-	150,139
Treasury and federal agencies	351,716	-	351,716
Total fixed income securities	832,175	836,593	1,668,768
Real estate income fund	176,730	-	176,730
Money market funds	333,127	-	333,127
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	37,706	7,202	44,908
	<u>\$ 5,285,110</u>	<u>\$ 843,795</u>	<u>\$ 6,128,905</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds

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

Interpretation of Relevant Law

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

Investment Strategy and Spending Policy

The Fast Friends Scholarship provides funding for scholarships for students who have completed the *Friends - Portland* program and are continuing their education in a traditional four-year college, community college, or a trade or vocational school. 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.

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

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

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

13. Endowment Funds - Continued

All endowment funds are composed of funds arising from donor restrictions. Endowment net asset composition by type of fund as of August 31, 2017, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship fund	\$ 4,084	\$ 47,524	\$ 51,608
National program operations	<u>78,846</u>	<u>5,907,500</u>	<u>5,986,346</u>
	<u>\$ 82,930</u>	<u>\$5,955,024</u>	<u>\$6,037,954</u>

Changes in endowment net assets for the year ended August 31, 2017, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 6,384	\$5,951,024	\$5,957,408
Investment return:			
Interest and dividends	133,600	-	133,600
Gain on investments	360,215	-	360,215
Investment fees	(29,977)	-	(29,977)
Contributions	-	4,000	4,000
Appropriation of endowment assets for expenditure	<u>(387,292)</u>	<u>-</u>	<u>(387,292)</u>
Endowment net assets, end of year	<u>\$ 82,930</u>	<u>\$5,955,024</u>	<u>\$6,037,954</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

14. Lease Commitments

The Organization leases office equipment under operating leases expiring through August 2020. Lease expense for the year ended August 31, 2017, was \$2,950. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2018	\$ 2,746
2019	2,460
2020	<u>2,460</u>
	<u><u>\$ 7,666</u></u>

15. Subsequent Events

Management has evaluated subsequent events through February 21, 2018, the date the consolidated financial statements were available for issue.

FRIENDS OF THE CHILDREN

Consolidating and Supplementary Financial Information

FRIENDS OF THE CHILDREN
Consolidating Schedule of Financial Position

August 31, 2017

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 1,407,022	\$ 2,319,643	\$ -	\$ 3,726,665
Investments	6,083,997	-	-	6,083,997
Receivables - net	1,886,931	828,176	(103,000)	2,612,107
Prepaid expenses	13,716	107,523	-	121,239
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	44,908	-	44,908
Property and equipment - net	39,695	4,255,344	-	4,295,039
Total assets	<u>\$ 9,431,361</u>	<u>\$ 7,555,594</u>	<u>\$ (103,000)</u>	<u>\$ 16,883,955</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 288,063	\$ 248,365	\$ (103,000)	\$ 433,428
Grants payable	162,835	-	-	162,835
Deferred revenue	-	32,600	-	32,600
Funds due to <i>Friends of the Children - Portland Foundation</i>	-	200,000	-	200,000
Total liabilities	450,898	480,965	(103,000)	828,863
Net assets:				
Unrestricted	179,617	6,473,562	-	6,653,179
Temporarily restricted	2,893,346	553,543	-	3,446,889
Permanently restricted	5,907,500	47,524	-	5,955,024
Total net assets	<u>8,980,463</u>	<u>7,074,629</u>	<u>-</u>	<u>16,055,092</u>
Total liabilities and net assets	<u>\$ 9,431,361</u>	<u>\$ 7,555,594</u>	<u>\$ (103,000)</u>	<u>\$ 16,883,955</u>

FRIENDS OF THE CHILDREN
Consolidating Schedule of Activities

Year Ended August 31, 2017

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Public support and revenue:				
Contributions	\$ 4,057,842	\$ 1,797,789	\$ -	\$ 5,855,631
Grants and contracts	1,345,225	1,571,283	(250,307)	2,666,201
Special events - net	-	2,579,474	2,428	2,581,902
In-kind contributions	-	165,866	-	165,866
Chapter affiliation fees	102,500	-	(36,900)	65,600
Chapter revenue sharing	37,847	-	(2,428)	35,419
Consulting income	59,912	-	(4,000)	55,912
Rental income	-	17,600	(12,000)	5,600
Miscellaneous income	682	1,911	-	2,593
Total public support and revenue	5,604,008	6,133,923	(303,207)	11,434,724
Expenses:				
Program services:				
Affiliate services	3,868,861	-	(260,483)	3,608,378
<i>Friends - Portland</i>	-	4,376,347	(35,274)	4,341,073
Total program services	3,868,861	4,376,347	(295,757)	7,949,451
Administrative	178,211	692,497	(4,135)	866,573
Fundraising	80,444	720,979	(3,315)	798,108
Total expenses	4,127,516	5,789,823	(303,207)	9,614,132
Increase in net assets before investment activity	1,476,492	344,100	-	1,820,592
Investment activity:				
Interest and dividends	137,530	3,388	-	140,918
Gain on investments, net	330,231	-	-	330,231
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	26,388	-	26,388
Net investment activity	467,761	29,776	-	497,537
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	(500,000)	-	(500,000)
Increase (decrease) in net assets	1,944,253	(126,124)	-	1,818,129
Net assets, beginning of year	7,036,210	7,200,753	-	14,236,963
Net assets, end of year	\$ 8,980,463	\$ 7,074,629	\$ -	\$ 16,055,092

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Financial Position

August 31, 2017 <i>(With Comparative Amounts for 2016)</i>	2017	2016
Assets:		
Cash and cash equivalents	\$ 1,407,022	\$ 1,171,525
Investments	6,083,997	5,809,113
Receivables - net	1,886,931	285,041
Prepaid expenses	13,716	12,719
Equipment - net	<u>39,695</u>	<u>5,102</u>
Total assets	<u>\$ 9,431,361</u>	<u>\$ 7,283,500</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 288,063	\$ 213,795
Grants payable	162,835	33,495
Net assets:		
Unrestricted	179,617	127,102
Temporarily restricted	2,893,346	1,001,608
Permanently restricted	<u>5,907,500</u>	<u>5,907,500</u>
Total net assets	<u>8,980,463</u>	<u>7,036,210</u>
Total liabilities and net assets	<u>\$ 9,431,361</u>	<u>\$ 7,283,500</u>

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Activities

Year Ended August 31, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Public support and revenue:					
Contributions	\$ 238,085	\$ 3,819,757	\$ -	\$ 4,057,842	\$ 442,849
Grants and contracts	1,345,225	-	-	1,345,225	852,301
In-kind contributions	-	-	-	-	400
Chapter affiliation fees	102,500	-	-	102,500	88,000
Chapter revenue sharing	37,847	-	-	37,847	45,107
Consulting income	59,912	-	-	59,912	111,100
Miscellaneous income	682	-	-	682	1,006
Net assets released from restrictions	2,391,857	(2,391,857)	-	-	-
Total public support and revenue	4,176,108	1,427,900	-	5,604,008	1,540,763
Expenses:					
Program services	3,868,861	-	-	3,868,861	1,455,564
Administrative	178,211	-	-	178,211	140,787
Fundraising	80,444	-	-	80,444	113,062
Total expenses	4,127,516	-	-	4,127,516	1,709,413
Increase (decrease) in net assets before investment activity	48,592	1,427,900	-	1,476,492	(168,650)
Investment activity:					
Interest and dividends	3,930	133,600	-	137,530	138,459
Gain (loss) on investments, net	(7)	330,238	-	330,231	139,759
Net investment activity	3,923	463,838	-	467,761	278,218
Increase in net assets	52,515	1,891,738	-	1,944,253	109,568
Net assets, beginning of year	127,102	1,001,608	5,907,500	7,036,210	6,926,642
Net assets, end of year	\$ 179,617	\$ 2,893,346	\$ 5,907,500	\$ 8,980,463	\$ 7,036,210

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Cash Flows

Year Ended August 31, 2017 <i>(With Comparative Totals for 2016)</i>	2017	2016
Cash flows from operating activities		
Increase in net assets	\$ 1,944,253	\$ 109,568
Adjustments to reconcile increase in net asset to net cash provided (used) by operating activities:		
Proceeds from contribution to permanent endowment	-	(250,000)
Depreciation	7,714	2,130
Gain on investments	(330,231)	(139,759)
Changes in:		
Receivables	(1,601,890)	40,950
Prepaid expenses	(997)	(5,219)
Accounts payable and accrued liabilities	74,268	146,083
Grants payable	129,340	-
Net cash provided (used) by operating activities	222,457	(96,247)
Cash flows from investing activities		
Purchases of equipment	(42,307)	(4,022)
Purchases of investments	(237,600)	(2,412,308)
Proceeds from sale of investments	292,947	2,328,577
Net cash provided (used) by investing activities	13,040	(87,753)
Cash flows from financing activities		
Proceeds from contribution to permanent endowment	-	250,000
Net cash provided by financing activities	-	250,000
Net increase in cash and cash equivalents	235,497	66,000
Cash and cash equivalents, beginning of year	1,171,525	1,105,525
Cash and cash equivalents, end of year	\$ 1,407,022	\$ 1,171,525

FRIENDS OF THE CHILDREN

Single Audit Reports

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2017

Federal Grantor/Program	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Justice:			
Office of Juvenile Justice and Delinquency Prevention:			
Direct programs:			
Juvenile Mentoring Program	16.726	<u>\$ 701,072</u>	<u>\$ 875,979</u>
Total U.S. Department of Justice		701,072	875,979
Corporation for National and Community Service:			
Direct programs:			
Social Innovation Fund	94.019	<u>140,003</u>	<u>469,246</u>
Total Corporation for National and Community Service		140,003	469,246
Total Expenditures of Federal awards		<u>\$ 841,075</u>	<u>\$ 1,345,225</u>

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

FRIENDS OF THE CHILDREN - NATIONAL

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

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

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

2. Expenditures

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

Friends of the Children 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 of the consolidated statement of financial position as of August 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 21, 2018. 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 the report does not include reporting on internal controls 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 the 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.

Hellman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
February 21, 2018

**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, 2017. *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, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
February 21, 2018

FRIENDS OF THE CHILDREN

Schedule of Findings and Questioned Costs

Year Ended August 31, 2017

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 \$ 750,000

Auditee qualified as low-risk auditee? _____ Yes X No

FRIENDS OF THE CHILDREN

Schedule of Findings and Questioned Costs - Continued

Year Ended August 31, 2017

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 cost.