
**FR1ENDS of the
CH1LDREN**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2018

and

Consolidating and Supplementary Financial Information

with

Independent Auditors' Report

and

Single Audit Reports

FRIENDS OF THE CHILDREN

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
Consolidating and Supplementary Financial Information	
Consolidating Schedule of Financial Position	22
Consolidating Schedule of Activities	23
Schedule of Financial Position - National	24
Schedule of Activities - National	25
Schedule of Cash Flows - National	26
Single Audit Reports	
Schedule of Expenditures of Federal Awards	27
Notes to Schedule of Expenditures of Federal Awards	28
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 <i>Government Auditing Standards</i>	29
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	31
Schedule of Findings and Questioned Costs	33

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, 2018, 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, 2018, 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* 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, 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 January 25, 2019, 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.

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
January 25, 2019

FRIENDS OF THE CHILDREN
Consolidated Statement of Financial Position

August 31, 2018 <i>(With Comparative Amounts for 2017)</i>	2018	2017
ASSETS		
Cash and cash equivalents	\$ 4,259,442	\$ 3,726,665
Investments <i>(Notes 3 and 12)</i>	6,342,554	6,083,997
Receivables - net <i>(Notes 4 and 11)</i>	2,572,024	2,612,107
Prepaid expenses	100,992	121,239
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation (Notes 10, 12, and 13)</i>	58,317	44,908
Property and equipment - net <i>(Note 5)</i>	<u>4,239,181</u>	<u>4,295,039</u>
Total assets	<u>\$ 17,572,510</u>	<u>\$ 16,883,955</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 571,585	\$ 433,428
Grants payable	487,228	162,835
Deferred revenue	-	32,600
Funds due to <i>Friends of the Children - Portland Foundation</i>	<u>150,000</u>	<u>200,000</u>
Total liabilities	1,208,813	828,863
Commitments <i>(Note 14)</i>		
Net assets:		
Unrestricted:		
Net investment in property and equipment	4,239,181	4,295,039
Other undesignated	<u>2,936,113</u>	<u>2,358,140</u>
Total unrestricted	7,175,294	6,653,179
Temporarily restricted <i>(Note 6)</i>	3,231,629	3,446,889
Permanently restricted <i>(Notes 7 and 13)</i>	<u>5,956,774</u>	<u>5,955,024</u>
Total net assets	<u>16,363,697</u>	<u>16,055,092</u>
Total liabilities and net assets	<u>\$ 17,572,510</u>	<u>\$ 16,883,955</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, 2018 (With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Public support and revenue:					
Contributions	\$ 2,123,680	\$ 2,708,663	\$ 1,750	\$ 4,834,093	\$ 5,855,631
Grants and contracts	4,034,715	-	-	4,034,715	2,666,201
Special events - net (Note 9)	2,754,232	54,816	-	2,809,048	2,581,902
In-kind contributions	239,828	-	-	239,828	165,866
Chapter affiliation fees	97,250	-	-	97,250	65,600
Chapter revenue sharing	364,517	-	-	364,517	35,419
Consulting income	655,632	-	-	655,632	55,912
Rental income	16,368	-	-	16,368	5,600
Miscellaneous income	3,055	-	-	3,055	2,593
Net assets released from restrictions (Note 6)	3,568,213	(3,568,213)	-	-	-
Total public support and revenue	13,857,490	(804,734)	1,750	13,054,506	11,434,724
Expenses:					
Program services:					
Affiliate services	6,610,754	-	-	6,610,754	3,608,378
<i>Friends - Portland</i>	4,818,614	-	-	4,818,614	4,341,073
Total program services	11,429,368	-	-	11,429,368	7,949,451
Administrative	905,824	-	-	905,824	866,573
Fundraising	860,671	-	-	860,671	798,108
Total expenses	13,195,863	-	-	13,195,863	9,614,132
Increase (decrease) in net assets before investment activity	661,627	(804,734)	1,750	(141,357)	1,820,592
Investment activity:					
Interest and dividends	10,488	137,318	-	147,806	140,918
Gain (loss) on investments, net (Note 3)	-	447,197	-	447,197	330,231
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	4,959	-	4,959	26,388
Net investment activity	10,488	589,474	-	599,962	497,537
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	-	-	(150,000)	(500,000)
Increase (decrease) in net assets	522,115	(215,260)	1,750	308,605	1,818,129
Net assets, beginning of year	6,653,179	3,446,889	5,955,024	16,055,092	14,236,963
Net assets, end of year	\$ 7,175,294	\$ 3,231,629	\$ 5,956,774	\$ 16,363,697	\$ 16,055,092

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, 2018 *(With Comparative Totals for 2017)*

	Program Services			Supporting Services			Total	
	Affiliate Services	Friends - Portland	Total	Administrative	Fundraising	Total	2018	2017
Salaries and related expenses:								
Salaries and wages	\$ 1,234,973	\$ 2,824,838	\$ 4,059,811	\$ 560,929	\$ 597,573	\$ 1,158,502	\$ 5,218,313	\$ 4,738,917
Payroll taxes and benefits	197,544	656,571	854,115	119,276	113,005	232,281	1,086,396	994,197
Total salaries and related expenses	1,432,517	3,481,409	4,913,926	680,205	710,578	1,390,783	6,304,709	5,733,114
Chapter grants	4,267,940	-	4,267,940	-	-	-	4,267,940	1,812,620
Children's activities	-	230,880	230,880	-	-	-	230,880	204,369
Friend transportation	-	203,069	203,069	-	-	-	203,069	183,642
Friend communication	-	30,994	30,994	-	-	-	30,994	29,910
Scholarships	-	707	707	-	-	-	707	32,582
In-kind gifts for children and families	-	209,263	209,263	-	-	-	209,263	157,071
Travel and meetings	167,141	17,454	184,595	7,106	12,553	19,659	204,254	195,617
Community awareness	58,485	27,986	86,471	968	8,769	9,737	96,208	50,087
Staff development	-	44,114	44,114	8,299	14,525	22,824	66,938	43,510
Professional fees	598,171	36,888	635,059	92,962	11,180	104,142	739,201	400,872
Repairs and maintenance	-	88,974	88,974	7,384	6,101	13,485	102,459	102,991
Supplies	9,164	12,391	21,555	6,134	2,929	9,063	30,618	23,119
Payroll and banking fees	3,123	19,040	22,163	8,532	19,132	27,664	49,827	47,985
Business insurance	-	38,083	38,083	14,672	6,113	20,785	58,868	58,200
Utilities	7,256	53,210	60,466	12,473	4,487	16,960	77,426	79,943
Information technology	57,238	118,192	175,430	33,549	28,845	62,394	237,824	206,254
Postage and printing	3,160	11,531	14,691	6,007	15,224	21,231	35,922	35,719
Depreciation	4,154	188,729	192,883	14,397	5,076	19,473	212,356	214,300
Rent	-	5,700	5,700	12,983	-	12,983	18,683	2,227
Bad debt	-	-	-	-	15,159	15,159	15,159	-
Miscellaneous	2,405	-	2,405	153	-	153	2,558	-
Total expenses	\$ 6,610,754	\$ 4,818,614	\$ 11,429,368	\$ 905,824	\$ 860,671	\$ 1,766,495	\$ 13,195,863	\$ 9,614,132

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, 2018 <i>(With Comparative Totals for 2017)</i>	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 308,605	\$ 1,818,129
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Proceeds from contributions to permanent endowment	(1,750)	(4,000)
Depreciation	212,356	214,300
Gain on investments	(447,197)	(330,231)
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(4,959)	(26,388)
Transfer to <i>Friends of the Children - Portland Foundation</i>	150,000	500,000
Loss on equipment disposal	1,171	-
Changes in:		
Receivables	(90,929)	(1,457,625)
Prepaid expenses	20,247	(7,887)
Accounts payable and accrued liabilities	138,157	18,485
Grants payable	324,393	129,340
Deferred revenue	(32,600)	32,600
Funds due to <i>Friends of the Children - Portland Foundation</i>	(50,000)	50,000
Net cash provided by operating activities	527,494	936,723
Cash flows from investing activities:		
Proceeds from sales of investments	325,958	292,947
Purchases of investments	(137,318)	(237,600)
Purchases of property and equipment	(157,669)	(113,342)
Purchase of beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(8,450)	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	(150,000)	(94,629)
Net cash used by investing activities	(127,479)	(152,624)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	131,012	120,175
Proceeds from contributions to permanent endowment	1,750	4,000
Net cash provided by financing activities	132,762	124,175
Net increase in cash and cash equivalents	532,777	908,274
Cash and cash equivalents, beginning of year	3,726,665	2,818,391
Cash and cash equivalents, end of year	\$ 4,259,442	\$ 3,726,665

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, 2018, assets totaled \$58,317 (*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.

Public support includes \$347,561 and \$536,176 for the years ended August 31, 2018 and 2017, 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, 2018, totaled \$27,444 and consisted of dental services for program youth and 401(k) plan administration. 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 provides guidance on various related matters such as interest, penalties, and required disclosures. Management believes the Organization does not have any uncertain tax positions. The Organization files informational returns. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return.

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.

Summarized Financial Information for 2017 - 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, 2017, 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* chapters and affiliates provided services to children located in the following geographic areas in 2018:

Chapters

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

Affiliates

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

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

2. Program and Supporting Services - Continued

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, 2018, were \$4,877,279 for program expenses, \$806,582 for fundraising expenses, and \$591,619 for administrative expenses.

Supporting Services:

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

Fundraising - Fundraising activities include conducting fundraising 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:

	2018	2017
Equity securities	\$ 3,965,420	\$ 3,905,372
Fixed income securities	1,702,309	1,668,768
Money market funds	314,428	333,127
Real estate income fund	360,397	176,730
	<u>\$ 6,342,554</u>	<u>\$ 6,083,997</u>

Realized and unrealized gain on investments of \$447,197 for the year ended August 31, 2018, is presented net of investment management expenses of \$31,288.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2018	2017
Pledges due within one year	\$ 921,652	\$ 1,108,798
Contract receivable	879,283	398,338
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	7,989	5,140
Other receivables	<u>174,474</u>	<u>65,571</u>
Receivables due in less than one year	1,983,398	1,577,847
Pledges due in one to five years	600,000	1,047,056
Discount to present value (4 percent rate used)	(7,986)	-
Allowance for doubtful accounts	<u>(3,388)</u>	<u>(12,796)</u>
Net receivables	<u><u>\$ 2,572,024</u></u>	<u><u>\$ 2,612,107</u></u>

^ARelated party.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Property and Equipment

	2018	2017
Computer equipment and software	\$ 504,209	\$ 482,982
Office equipment and furniture	276,705	267,009
Vehicles	88,901	88,901
Buildings and improvements	4,549,924	4,444,282
Land	100,000	100,000
Construction in progress	19,826	-
	5,539,565	5,383,174
Less accumulated depreciation and amortization	(1,300,384)	(1,088,135)
Net property and equipment	\$ 4,239,181	\$ 4,295,039

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, 2018, temporarily restricted net assets were available for the following purposes:

Scholarships	\$ 132,793
Chapter assistance	1,031,120
Back to School	42,103
Future periods	1,651,194
Unexpended endowment earnings <i>(Note 13)</i>	367,995
East County Building Operations	6,424
	\$ 3,231,629

During the year ended August 31, 2018, net assets of \$3,568,213 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, 2018, permanently restricted net assets consist of the following:

Fast Friends Scholarship fund	\$ 49,274
National Endowment	<u>5,907,500</u>
	<u><u>\$ 5,956,774</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 instituted a Safe Harbor 401(k) Plan in January 2018 for all eligible employees. Under the terms of the Plan, *Friends - National* will contribute 4 percent of employee compensation to the Plan on an annual basis.

Employer retirement expense totaled \$115,761 and \$91,413 for the years ended August 31, 2018 and 2017, respectively.

9. Special Events

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

	2018	2017
Gross proceeds from special events	\$ 3,063,690	\$ 2,775,855
Less direct costs of special events	<u>(254,642)</u>	<u>(193,953)</u>
Net proceeds from special events	<u><u>\$ 2,809,048</u></u>	<u><u>\$ 2,581,902</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 for *the Foundation* as of and for the years ended August 31 is as follows:

	2018	2017
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 355,813	\$ 189,547
Due from <i>Friends - Portland</i>	150,000	200,000
<i>Investments:</i>		
Equity securities	4,033,103	3,879,629
Fixed income securities	1,826,827	1,625,559
Alternative assets	122,281	182,506
<i>Total assets</i>	\$ 6,488,024	\$ 6,077,241
 <i>Liabilities and net assets:</i>		
Due to <i>Friends of the Children - Portland</i>	\$ 7,989	\$ 5,140
Other liabilities	-	67
Funds held on behalf of <i>Friends of the Children - Portland</i>	58,317	44,908
<i>Net assets:</i>		
Unrestricted net assets	6,421,718	6,027,126
<i>Total liabilities and net assets</i>	\$ 6,488,024	\$ 6,077,241

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

Activities:

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

Contributions	\$ 108,570	\$ 57,487
Interest and dividends	135,570	124,485
Gain on investments	491,814	344,989
Transfer from <i>Friends of the Children - Portland and Youth Resources, Inc.</i>	150,000	500,000

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

	885,954	1,026,961
--	---------	-----------

Expenses:

*Contribution to Friends of the Children -
Portland*

Outside services	347,561	536,176
Banking and investment fees	95,863	43,494
Marketing expenses	33,088	31,977
Professional fees	2,964	368
Miscellaneous expenses	11,886	11,517
	-	253

Total expenses

	491,362	623,785
--	---------	---------

Increase in net assets

	\$ 394,592	\$ 403,176
--	------------	------------

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, 2018, approximately 66 percent of gross contributions receivable was due from one donor and approximately 10 percent of total contribution revenue 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, 2018:

	Level 1	Level 2	Total
Equity securities:			
Common stock:			
Materials	\$ 59,098	\$ -	\$ 59,098
Industrials	178,156	-	178,156
Telecommunication services	20,142	-	20,142
Consumer discretionary	243,110	-	243,110
Consumer staples	39,576	-	39,576
Energy	86,675	-	86,675
Financials	266,404	-	266,404
Health care	378,251	-	378,251
Information technology	508,417	-	508,417
Utilities	23,134	-	23,134
Real Estate	46,824	-	46,824
Equity mutual funds:			
Mid cap	745,831	-	745,831
Large cap	22,225	-	22,225
International	892,818	-	892,818
Enhanced yield equity	454,759	-	454,759
Total equity securities	3,965,420	-	3,965,420
Fixed income securities:			
Nongovernment obligations	-	760,967	760,967
Foreign obligations	-	46,599	46,599
Multi-strategy mutual fund	327,793	-	327,793
Daily accrual funds	146,777	-	146,777
Treasury and federal agencies	420,173	-	420,173
Total fixed income securities	894,743	807,566	1,702,309
Real estate income fund	360,397	-	360,397
Money market funds	314,428	-	314,428
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	48,986	9,331	58,317
	<u>\$ 5,583,974</u>	<u>\$ 816,897</u>	<u>\$ 6,400,871</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, 2018, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship fund	\$ 9,043	\$ 49,274	\$ 58,317
National program operations	<u>358,952</u>	<u>5,907,500</u>	<u>6,266,452</u>
	<u>\$ 367,995</u>	<u>\$ 5,956,774</u>	<u>\$ 6,324,769</u>

Changes in endowment net assets for the year ended August 31, 2018, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 82,930	\$ 5,955,024	\$ 6,037,954
Investment return:			
Interest and dividends	138,165	-	138,165
Gain on investments	482,597	-	482,597
Investment fees	(31,288)	-	(31,288)
Contributions	-	1,750	1,750
Appropriation of endowment assets for expenditure	<u>(304,409)</u>	<u>-</u>	<u>(304,409)</u>
Endowment net assets, end of year	<u>\$ 367,995</u>	<u>\$ 5,956,774</u>	<u>\$ 6,324,769</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, 2018, was \$2,460. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2019	\$ 2,460
2020	<u>2,460</u>
	<u><u>\$ 4,920</u></u>

15. Subsequent Events

Management has evaluated subsequent events through January 25, 2019, 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, 2018

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 1,509,725	\$ 2,749,717	\$ -	\$ 4,259,442
Investments	6,342,554	-	-	6,342,554
Receivables - net	1,971,976	650,872	(50,824)	2,572,024
Prepaid expenses	98	100,894	-	100,992
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	58,317	-	58,317
Property and equipment - net	37,893	4,201,288	-	4,239,181
Total assets	<u>\$ 9,862,246</u>	<u>\$ 7,761,088</u>	<u>\$ (50,824)</u>	<u>\$ 17,572,510</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 307,496	\$ 277,413	\$ (13,324)	\$ 571,585
Grants payable	524,728	-	(37,500)	487,228
Funds due to <i>Friends of the Children - Portland Foundation</i>	-	150,000	-	150,000
Total liabilities	832,224	427,413	(50,824)	1,208,813
Net assets:				
Unrestricted	682,450	6,492,844	-	7,175,294
Temporarily restricted	2,440,072	791,557	-	3,231,629
Permanently restricted	5,907,500	49,274	-	5,956,774
Total net assets	<u>9,030,022</u>	<u>7,333,675</u>	<u>-</u>	<u>16,363,697</u>
Total liabilities and net assets	<u>\$ 9,862,246</u>	<u>\$ 7,761,088</u>	<u>\$ (50,824)</u>	<u>\$ 17,572,510</u>

FRIENDS OF THE CHILDREN
Consolidating Schedule of Activities

Year Ended August 31, 2018

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Public support and revenue:				
Contributions	\$ 2,527,532	\$ 2,306,561	\$ -	\$ 4,834,093
Grants and contracts	2,910,775	1,309,146	(185,206)	4,034,715
Special events - net	-	2,803,735	5,313	2,809,048
In-kind contributions	2,007	237,821	-	239,828
Chapter affiliation fees	139,820	-	(42,570)	97,250
Chapter revenue sharing	369,830	-	(5,313)	364,517
Chapter support revenue	736,105	-	(80,473)	655,632
Rental income	-	16,368	-	16,368
Miscellaneous income	2,705	350	-	3,055
Total public support and revenue	6,688,774	6,673,981	(308,249)	13,054,506
Expenses:				
Program services:				
Affiliate services	6,795,960	-	(185,206)	6,610,754
<i>Friends - Portland</i>	-	4,877,279	(58,665)	4,818,614
Total program services	6,795,960	4,877,279	(243,871)	11,429,368
Administrative	346,394	591,619	(32,189)	905,824
Fundraising	86,278	806,582	(32,189)	860,671
Total expenses	7,228,632	6,275,480	(308,249)	13,195,863
Increase (decrease) in net assets before investment activity	(539,858)	398,501	-	(141,357)
Investment activity:				
Interest and dividends	142,220	5,586	-	147,806
Gain on investments, net	447,197	-	-	447,197
Net increase in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	4,959	-	4,959
Net investment activity	589,417	10,545	-	599,962
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	(150,000)	-	(150,000)
Increase in net assets	49,559	259,046	-	308,605
Net assets, beginning of year	8,980,463	7,074,629	-	16,055,092
Net assets, end of year	\$ 9,030,022	\$ 7,333,675	\$ -	\$ 16,363,697

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Financial Position

August 31, 2018 <i>(With Comparative Amounts for 2017)</i>	2018	2017
Assets:		
Cash and cash equivalents	\$ 1,509,725	\$ 1,407,022
Investments	6,342,554	6,083,997
Receivables - net	1,971,976	1,886,931
Prepaid expenses	98	13,716
Equipment - net	<u>37,893</u>	<u>39,695</u>
Total assets	<u>\$ 9,862,246</u>	<u>\$ 9,431,361</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 307,496	\$ 288,063
Grants payable	<u>524,728</u>	<u>162,835</u>
Total liabilities	832,224	450,898
Net assets:		
Unrestricted	682,450	179,617
Temporarily restricted	2,440,072	2,893,346
Permanently restricted	<u>5,907,500</u>	<u>5,907,500</u>
Total net assets	<u>9,030,022</u>	<u>8,980,463</u>
Total liabilities and net assets	<u>\$ 9,862,246</u>	<u>\$ 9,431,361</u>

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Activities

Year Ended August 31, 2018 *(With Comparative Totals for 2017)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Public support and revenue:					
Contributions	\$ 488,707	\$ 2,038,825	\$ -	\$ 2,527,532	\$ 4,057,842
Grants and contracts	2,910,775	-	-	2,910,775	1,345,225
In-kind contributions	2,007	-	-	2,007	-
Chapter affiliation fees	139,820	-	-	139,820	102,500
Chapter revenue sharing	369,830	-	-	369,830	37,847
Chapter support revenue	736,105	-	-	736,105	59,912
Miscellaneous income	2,705	-	-	2,705	682
Net assets released from restrictions	3,076,614	(3,076,614)	-	-	-
Total public support and revenue	7,726,563	(1,037,789)	-	6,688,774	5,604,008
Expenses:					
Program services	6,795,960	-	-	6,795,960	3,868,861
Administrative	346,394	-	-	346,394	178,211
Fundraising	86,278	-	-	86,278	80,444
Total expenses	7,228,632	-	-	7,228,632	4,127,516
Increase (decrease) in net assets before investment activity	497,931	(1,037,789)	-	(539,858)	1,476,492
Investment activity:					
Interest and dividends	4,902	137,318	-	142,220	137,530
Gain on investments, net	-	447,197	-	447,197	330,231
Net investment activity	4,902	584,515	-	589,417	467,761
Increase (decrease) in net assets	502,833	(453,274)	-	49,559	1,944,253
Net assets, beginning of year	179,617	2,893,346	5,907,500	8,980,463	7,036,210
Net assets, end of year	\$ 682,450	\$ 2,440,072	\$ 5,907,500	\$ 9,030,022	\$ 8,980,463

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Cash Flows

Year Ended August 31, 2018 <i>(With Comparative Totals for 2017)</i>	2018	2017
Cash flows from operating activities		
Increase in net assets	\$ 49,559	\$ 1,944,253
Adjustments to reconcile increase in net asset to net cash provided (used) by operating activities:		
Depreciation	13,052	7,714
Gain on investments	(447,197)	(330,231)
Loss on equipment disposa	1,171	-
Changes in:		
Receivables	(85,045)	(1,601,890)
Prepaid expenses	13,618	(997)
Accounts payable and accrued liabilities	19,433	74,268
Grants payable	361,893	129,340
Net cash provided (used) by operating activities	(73,516)	222,457
Cash flows from investing activities		
Purchases of equipment	(12,421)	(42,307)
Purchases of investments	(137,318)	(237,600)
Proceeds from sale of investments	325,958	292,947
Net cash provided by investing activities	176,219	13,040
Net increase in cash and cash equivalents	102,703	235,497
Cash and cash equivalents, beginning of year	1,407,022	1,171,525
Cash and cash equivalents, end of year	\$ 1,509,725	\$ 1,407,022

FRIENDS OF THE CHILDREN

Single Audit Reports

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Expenditures of Federal Awards

Year Ended August 31, 2018

Federal Grantor/Program	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Justice:			
Office of Juvenile Justice and Delinquency Prevention:			
Direct program:			
Juvenile Mentoring Program	16.726	<u>\$ 519,427</u>	<u>\$ 631,268</u>
Total U.S. Department of Justice		519,427	631,268
Corporation for National and Community Service:			
Direct program:			
Social Innovation Fund	94.019	<u>1,322,072</u>	<u>2,188,668</u>
Total Corporation for National and Community Service		<u>1,322,072</u>	<u>2,188,668</u>
Total Expenditures of Federal awards		<u>\$ 1,841,499</u>	<u>\$ 2,819,936</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, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 25, 2019. 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 & Schmitz, P.C.

Lake Oswego, Oregon
January 25, 2019

**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, 2018. *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, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Hellman, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
January 25, 2019

FRIENDS OF THE CHILDREN

Schedule of Findings and Questioned Costs

Year Ended August 31, 2018

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>
94.019	Social Innovation Fund

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, 2018

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.