
**FR1ENDS of the
CH1LDREN**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended August 31, 2015

and

Consolidating and Supplementary Financial Information

with

Independent Auditors' Report

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, 2015, 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 (GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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, 2015, and the changes in its consolidated net assets and its consolidated cash flows for the year then ended in accordance with GAAP.

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

Report on Summarized Comparative Information

We have previously audited *Friends of the Children's* 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Heuman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
January 14, 2016

FRIENDS OF THE CHILDREN
Consolidated Statement of Financial Position

August 31, 2015 (With Comparative Amounts for 2014)	2015	2014
ASSETS		
Cash and cash equivalents	\$ 2,552,059	\$ 1,650,209
Investments (Notes 3 and 12)	5,585,623	5,792,010
Receivables - net (Notes 4 and 11)	2,370,906	2,279,447
Prepaid expenses	118,622	104,196
Cash restricted for property acquisition (Note 5)	820,078	769,978
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i> (Notes 10, 12 and 13)	404,913	-
Property and equipment - net (Note 5)	<u>3,406,700</u>	<u>1,100,399</u>
Total assets	<u>\$ 15,258,901</u>	<u>\$ 11,696,239</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 984,466	\$ 408,412
Commitments (Note 14)		
Net assets:		
Unrestricted:		
Net investment in property and equipment	902,793	1,100,399
Other undesignated	<u>1,767,513</u>	<u>1,261,398</u>
Total unrestricted	2,670,306	2,361,797
Temporarily restricted (Note 6)	5,905,805	3,483,956
Permanently restricted (Notes 7 and 13)	<u>5,698,324</u>	<u>5,442,074</u>
Total net assets	<u>14,274,435</u>	<u>11,287,827</u>
Total liabilities and net assets	<u>\$ 15,258,901</u>	<u>\$ 11,696,239</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, 2015 (With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2015	2014
Public support and revenue:					
Contributions	\$ 1,444,696	\$ 2,843,435	\$ 256,250	\$ 4,544,381	\$ 9,276,525
Grants and contracts	1,033,728	842,602	-	1,876,330	1,037,893
Special events - net (Note 9)	1,941,408	20,000	-	1,961,408	2,095,268
In-kind contributions	197,222	-	-	197,222	193,641
Chapter affiliation fees	93,375	-	-	93,375	40,620
Chapter revenue sharing	42,577	-	-	42,577	67,727
Consulting income	133,600	-	-	133,600	127,000
Rental income	6,332	-	-	6,332	5,068
Gain on sale of property and equipment	288,292	-	-	288,292	-
Miscellaneous income	2,458	-	-	2,458	13,108
Net assets released from restrictions (Note 6)	1,112,764	(1,112,764)	-	-	-
Total public support and revenue	6,296,452	2,593,273	256,250	9,145,975	12,856,850
Expenses:					
Program services:					
Affiliate services	817,724	-	-	817,724	580,206
<i>Friends - Portland</i>	4,053,123	-	-	4,053,123	3,959,731
Total program services	4,870,847	-	-	4,870,847	4,539,937
Management and general	378,839	-	-	378,839	409,991
Fundraising	611,913	-	-	611,913	514,542
Total expenses	5,861,599	-	-	5,861,599	5,464,470
Increase in net assets before investment activity	434,853	2,593,273	256,250	3,284,376	7,392,380
Investment activity:					
Interest and dividends	3,050	112,976	-	116,026	77,141
Gain (loss) on investments, net (Note 3)	661	(284,400)	-	(283,739)	472,972
Net decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(5,911)	-	-	(5,911)	-
Net investment activity	(2,200)	(171,424)	-	(173,624)	550,113
Transfer to <i>Friends of the Children - Portland Foundation</i>	(124,144)	-	-	(124,144)	(33,000)
Increase in net assets	308,509	2,421,849	256,250	2,986,608	7,909,493
Net assets, beginning of year	2,361,797	3,483,956	5,442,074	11,287,827	3,378,334
Net assets, end of year	\$ 2,670,306	\$ 5,905,805	\$ 5,698,324	\$ 14,274,435	\$ 11,287,827

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, 2015 *(With Comparative Totals for 2014)*

	Program Services			Supporting Services			Total	
	Affiliate Services	Friends - Portland	Total	Administrative	Fundraising	Total	2015	2014
Salaries and related expenses:								
Salaries and wages	\$ 501,274	\$ 2,340,306	\$ 2,841,580	\$ 259,148	\$ 442,795	\$ 701,943	\$ 3,543,523	\$ 3,285,355
Payroll taxes and benefits	84,287	571,427	655,714	47,842	73,615	121,457	777,171	695,795
Total salaries and related expenses	585,561	2,911,733	3,497,294	306,990	516,410	823,400	4,320,694	3,981,150
Chapter support services	51,544	-	51,544	-	-	-	51,544	16,685
Children's activities	-	185,970	185,970	-	-	-	185,970	173,605
Friend transportation	-	202,654	202,654	-	-	-	202,654	187,798
Friends' activities	-	30,889	30,889	-	-	-	30,889	28,629
Friend communication	-	29,180	29,180	-	-	-	29,180	26,725
Scholarships	-	17,683	17,683	-	-	-	17,683	28,565
In-kind gifts for children and families	-	161,800	161,800	-	-	-	161,800	144,688
Research and evaluation	31,946	27,330	59,276	-	-	-	59,276	36,115
Travel and meetings	41,667	11,488	53,155	2,411	5,639	8,050	61,205	58,976
Community awareness	14,464	21,674	36,138	2,170	6,004	8,174	44,312	38,886
Staff development	15,994	35,851	51,845	17,034	14,430	31,464	83,309	94,550
Repairs and maintenance	-	65,813	65,813	3,579	5,350	8,929	74,742	85,345
Supplies	899	13,461	14,360	2,265	3,165	5,430	19,790	20,693
Payroll and banking fees	2,363	19,589	21,952	1,656	9,923	11,579	33,531	25,169
Business insurance	5,460	30,761	36,221	2,738	3,515	6,253	42,474	38,610
Utilities	-	39,098	39,098	2,085	3,128	5,213	44,311	42,609
Information technology	7,440	103,364	110,804	9,113	15,188	24,301	135,105	126,010
Professional fees	56,779	43,789	100,568	23,323	2,745	26,068	126,636	87,974
Postage and printing	1,737	19,573	21,310	1,794	21,077	22,871	44,181	33,670
Depreciation	1,870	81,423	83,293	3,681	5,339	9,020	92,313	84,518
East County Project	-	-	-	-	-	-	-	103,500
Total expenses	\$ 817,724	\$ 4,053,123	\$ 4,870,847	\$ 378,839	\$ 611,913	\$ 990,752	\$ 5,861,599	\$ 5,464,470

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, 2015 <i>(With Comparative Totals for 2014)</i>	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 2,986,608	\$ 7,909,493
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Proceeds from contributions restricted for property acquisition	(1,938,502)	(852,230)
Proceeds from contributions to permanent endowment	(256,250)	(5,229,312)
Depreciation and amortization	92,313	84,518
Gain on sale of property and equipment	(288,292)	-
(Gain) loss on investments	283,739	(472,972)
Net decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	5,911	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	124,144	33,000
Changes in:		
Receivables	(91,459)	(1,396,649)
Prepaid expenses	(14,426)	(65,913)
Accounts payable and accrued liabilities	38,359	(50,953)
Net cash provided (used) by operating activities	942,145	(41,018)
Cash flows from investing activities:		
Proceeds from sales of investments	2,506,262	622,063
Purchases of investments	(2,583,614)	(5,756,411)
Cash restricted for property acquisition	(50,100)	(769,978)
Proceeds from sale of property and equipment	382,837	-
Purchases of property and equipment	(1,955,464)	(190,265)
Purchase of beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	(410,824)	-
Transfer to <i>Friends of the Children - Portland Foundation</i>	(124,144)	(33,000)
Net cash used by investing activities	(2,235,047)	(6,127,591)
Cash flows from financing activities:		
Proceeds from contributions restricted for property acquisition	1,938,502	852,230
Proceeds from contributions to permanent endowment	256,250	5,229,312
Net cash provided by financing activities	2,194,752	6,081,542
Net increase (decrease) in cash and cash equivalents	901,850	(87,067)
Cash and cash equivalents, beginning of year	1,650,209	1,737,276
Cash and cash equivalents, end of year	\$ 2,552,059	\$ 1,650,209
Supplemental disclosure of non-cash information:		
Property and equipment accrued in accounts payable	\$ 537,695	\$ -

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 in first grade. The objectives of the national office 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 office 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.

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.

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

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 interest in assets invested by the Foundation. At August 31, 2015, assets totaled \$404,913 (*Note 10*).

Receivables - Accounts receivable from exchange transactions are recognized as services are provided. An allowance for uncollectible contributions receivable is recorded based on management's assessment of 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 three 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. Fees are recognized as revenue earned. 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 \$305,000 and \$408,500 for the years ended August 31, 2015 and 2014, respectively, from *Friends of the Children - Portland Foundation*.

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, 2015, totaled \$47,006 and consisted of donated 401(k) administrative services, maintenance services, and dental services for program youth. In-kind contributions of equipment and other materials are recorded where there is an objective basis on 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. 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.

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

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 2014 - 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 *Friends - National's* consolidated financial statements for the year ended August 31, 2014, from which the summarized information was derived.

Reclassifications - Certain reclassifications have been made to the 2014 consolidated financial statements for comparative purposes in order for them to conform to the 2015 presentation. Such reclassifications had no effect on previously reported net assets.

2. Program and Supporting Services

Program Services:

Affiliate Services - The organization provides a variety of services to help sustain and grow existing chapters, including 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 2015:

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

Total affiliate services expenses during the year ended August 31, 2015, were \$817,724.

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, 2015, were \$4,080,273 for program expenses, \$556,002 for development expenses, and \$295,031 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.

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

3. Investments

Investments included the following at August 31:

	2015	2014
Equity securities	\$ 3,960,451	\$ 4,500,539
Fixed income securities	1,068,991	918,766
Money market funds	364,517	76,532
Alternative assets	191,664	289,909
Bank stock	-	6,264
	<u>\$ 5,585,623</u>	<u>\$ 5,792,010</u>

Realized and unrealized loss on investments of \$283,739 for the year ended August 31, 2015, is presented net of investment management expenses of \$29,692.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

4. Receivables

Receivables consisted of the following at August 31:

	2015	2014
Pledges due within one year	\$ 1,564,251	\$ 1,303,687
Contract receivable	105,093	275,806
Receivable from <i>Friends of the Children - Portland Foundation</i> ^A	23	10,848
Other receivables	29,084	51,921
	1,698,451	1,642,262
Receivables due in less than one year		
Pledges due in one to five years	733,210	696,062
Allowance for doubtful accounts	(9,997)	(9,450)
Discount to present value (4 percent discount rate used)	(50,758)	(49,427)
	\$ 2,370,906	\$ 2,279,447
Net receivables	\$ 2,370,906	\$ 2,279,447

^A Related party.

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

5. Property and Equipment

	2015	2014
Computer equipment	\$ 345,091	\$ 226,085
Office equipment and furniture	267,086	248,983
Vehicles	88,901	88,901
Buildings and improvements	1,049,118	1,206,584
Land	100,000	100,000
Construction in progress	<u>2,434,970</u>	<u>84,370</u>
	4,285,166	1,954,923
Less accumulated depreciation and amortization	<u>(878,466)</u>	<u>(854,524)</u>
Net property and equipment	<u><u>\$ 3,406,700</u></u>	<u><u>\$ 1,100,399</u></u>

During 2014, the organization signed a 49-year ground lease, with an option to extend for five consecutive terms of 10 years each, with the City of Gresham for \$1 a year for the use of land to build and operate a new facility. During 2015, the lease commenced upon signing a \$2,475,542 contract with a general construction contractor. The total estimated cost of the project is \$5 million, including estimated construction and furnishing costs of \$3.1 million, the land lease valued at \$900,000, and the remaining funds to be used for ongoing facility operating costs. Management believes the project will be funded through capital campaign donations. At August 31, 2015, the organization had cash of \$820,078 and pledges receivable of \$1,239,033 restricted for use on this project.

6. Temporarily Restricted Net Assets

At August 31, 2015, temporarily restricted net assets are available for the following purposes:

Longitudinal study	\$ 75,000
Scholarships	106,373
Chapter assistance	118,383
Back to School	7,560
Future periods	1,525,044
Unexpended endowment earnings (<i>Note 13</i>)	48,123
East County Project	<u>4,025,322</u>
	<u><u>\$ 5,905,805</u></u>

During the year ended August 31, 2015, net assets of \$1,112,764 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, 2015, permanently restricted net assets consist of the following:

Fast Friends Scholarship fund	\$ 40,824
National program operations	<u>5,657,500</u>
	<u>\$ 5,698,324</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 \$68,128 and \$62,327 for the years ended August 31, 2015 and 2014, respectively.

9. Special Events

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

	2015	2014
Gross proceeds from special events	\$ 2,131,247	\$ 2,259,016
Less direct costs of special events	<u>(169,839)</u>	<u>(163,748)</u>
Net proceeds from special events	<u>\$ 1,961,408</u>	<u>\$ 2,095,268</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation

During the year ended August 31, 2004, *Friends of the Children - Portland Foundation* (the *Foundation*) was established. 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 data for the *Foundation* as of and for the years ended August 31 is as follows:

	2015	2014
Financial position:		
<i>Assets:</i>		
Cash and cash equivalents	\$ 345,230	\$ 214,081
Receivable from <i>Friends - Portland</i>	90,000	33,000
<i>Investments:</i>		
Equity securities	4,255,742	4,847,143
Fixed income securities	1,177,961	840,962
Alternative assets	195,920	-
Prepaid expenses	1,549	1,367
<i>Total assets</i>	<u>\$ 6,066,402</u>	<u>\$ 5,936,553</u>
 <i>Liabilities and net assets:</i>		
Accrued liabilities	\$ 23	\$ 10,848
Funds held on behalf of <i>Friends of the Children - Portland</i>	404,913	-
<i>Net assets:</i>		
Unrestricted net assets	5,661,466	5,925,705
<i>Total liabilities and net assets</i>	<u>\$ 6,066,402</u>	<u>\$ 5,936,553</u>

FRIENDS OF THE CHILDREN

Notes to Consolidated Financial Statements - Continued

10. Friends of the Children - Portland Foundation - Continued

	2015	2014
Activities:		
<i>Support, revenue, and other increases</i>		
<i>in net assets:</i>		
Contributions	\$ 141,860	\$ 101,720
Interest and dividends	113,143	106,382
Gain (loss) on investments	(259,722)	825,575
Transfer from Friends - Portland	124,144	33,000
	<u>119,425</u>	<u>1,066,677</u>
<i>Total support, revenue, and other increases</i>		
<i>in net assets</i>		
	119,425	1,066,677
<i>Expenses:</i>		
Contribution to Friends - Portland	305,000	408,500
Outside services	37,717	38,712
Investment fees	31,229	30,696
Marketing expenses	471	310
Accounting and compliance fees	8,996	8,786
Miscellaneous expenses	251	360
	<u>383,664</u>	<u>487,364</u>
<i>Total expenses</i>		
	383,664	487,364
<i>Increase (decrease) in net assets</i>	<u>\$ (264,239)</u>	<u>\$ 579,313</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, 2015, approximately 23 percent of net receivables were due from two donors.

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 nongovernment 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 that are measured at fair value on a recurring basis including how fair value was determined as of August 31, 2015:

	Level 1	Level 2	Total
Equity securities:			
Common stock:			
Materials	\$ 30,668	\$ -	\$ 30,668
Industrials	185,063	-	185,063
Telecommunication services	37,038	-	37,038
Consumer discretionary	327,019	-	327,019
Consumer staples	92,965	-	92,965
Energy	114,070	-	114,070
Financials	346,475	-	346,475
Health care	361,460	-	361,460
Information technology	518,334	-	518,334
Utilities	23,126	-	23,126
Equity mutual funds:			
Mid cap	580,785	-	580,785
Large cap	14,795	-	14,795
International	815,398	-	815,398
Enhanced yield equity	513,255	-	513,255
Total equity securities	3,960,451	-	3,960,451
Fixed income securities:			
Nongovernment obligations	-	642,484	642,484
Foreign obligations	-	52,740	52,740
Multi-strategy mutual fund	224,819	-	224,819
Daily accrual funds	148,948	-	148,948
Total fixed income securities	373,767	695,224	1,068,991
Alternative assets:			
Multi-strategy hedge fund	191,664	-	191,664
Money market funds	364,517	-	364,517
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	348,938	55,975	404,913
	\$ 5,047,673	\$ 751,199	\$ 5,990,536

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

During 2009, the Fast Friends Scholarship fund was established by a donor to provide funding for scholarships for students who have completed the *Friends - Portland* program and are continuing their education in a traditional four-year college, community college, or a trade or vocational school. Endowment assets are invested with *Friends of the Children - Portland Foundation* and are subject to the *Foundation's* investment policies. A formal spending policy has not been established. During the year ended August 31, 2015, the funds were invested with the *Foundation* on behalf of *Friends - Portland*.

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, 2015, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fast Friends Scholarship fund	\$ (1,091)	\$ -	\$ 40,824	\$ 39,733
National program operations	<u>-</u>	<u>48,123</u>	<u>5,657,500</u>	<u>5,705,623</u>
	<u>\$ (1,091)</u>	<u>\$ 48,123</u>	<u>\$5,698,324</u>	<u>\$5,745,356</u>

Changes in endowment net assets for the year ended August 31, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 380,746	\$5,442,074	\$5,822,820
Investment return:				
Interest and dividends	-	112,976	-	112,976
Loss on investments	-	(254,708)	-	(254,708)
Investment fees	-	(29,692)	-	(29,692)
Contributions	-	-	256,250	256,250
Net investments return of Fast Friends Scholarship funds held at <i>Friends of the Children - Portland Foundation</i>	(1,091)	-	-	(1,091)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(161,199)</u>	<u>-</u>	<u>(161,199)</u>
Endowment net assets, end of year	<u>\$ (1,091)</u>	<u>\$ 48,123</u>	<u>\$5,698,324</u>	<u>\$5,745,356</u>

From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires *Friends - Portland* to retain as a fund of perpetual duration (historic dollar value). Deficiencies of this nature reported in unrestricted net assets were \$1,091 as of August 31, 2015. These deficiencies resulted primarily from unfavorable market fluctuations.

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, 2015, was \$3,066. Future commitments due under the leases are as follows:

Years Ending August 31,	Amount
2016	\$ 2,950
2017	2,950
2018	2,664
2019	2,460
2020	<u>2,460</u>
	<u><u>\$ 13,484</u></u>

15. Subsequent Events

Management has evaluated subsequent events through January 14, 2016, 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, 2015

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 1,105,525	\$ 1,446,534	\$ -	\$ 2,552,059
Investments	5,585,623	-	-	5,585,623
Receivables - net	325,991	2,078,484	(33,569)	2,370,906
Prepaid expenses	7,500	111,122	-	118,622
Cash restricted for property acquisition	-	820,078	-	820,078
Beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	404,913	-	404,913
Property and equipment - net	3,210	3,403,490	-	3,406,700
Total assets	<u>\$ 7,027,849</u>	<u>\$ 8,264,621</u>	<u>\$ (33,569)</u>	<u>\$ 15,258,901</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 101,207	\$ 916,828	\$ (33,569)	\$ 984,466
Net assets:				
Unrestricted	149,469	2,520,837	-	2,670,306
Temporarily restricted	1,119,673	4,786,132	-	5,905,805
Permanently restricted	5,657,500	40,824	-	5,698,324
Total net assets	<u>6,926,642</u>	<u>7,347,793</u>	<u>-</u>	<u>14,274,435</u>
Total liabilities and net assets	<u>\$ 7,027,849</u>	<u>\$ 8,264,621</u>	<u>\$ (33,569)</u>	<u>\$ 15,258,901</u>

FRIENDS OF THE CHILDREN
Consolidating Schedule of Activities

Year Ended August 31, 2015

	Friends - National	Friends - Portland	Eliminating Entries	Consolidated Total
Public support and revenue:				
Contributions	\$ 883,690	\$ 3,660,691	\$ -	\$ 4,544,381
Grants and contracts	781,000	1,095,330	-	1,876,330
Special events - net	-	1,963,408	(2,000)	1,961,408
In-kind contributions	-	197,222	-	197,222
Chapter affiliation fees	122,775	-	(29,400)	93,375
Chapter revenue sharing	42,577	-	-	42,577
Consulting income	133,600	-	-	133,600
Rental income	-	6,332	-	6,332
Gain on sale of property and equipment	-	288,292	-	288,292
Miscellaneous income	347	2,111	-	2,458
Total public support and revenue	1,963,989	7,213,386	(31,400)	9,145,975
Expenses:				
Program services:				
Affiliate services	819,724	-	(2,000)	817,724
<i>Friends - Portland</i>	-	4,080,273	(27,150)	4,053,123
Total program services	819,724	4,080,273	(29,150)	4,870,847
Administrative	85,158	295,031	(1,350)	378,839
Development	56,811	556,002	(900)	611,913
Total expenses	961,693	4,931,306	(31,400)	5,861,599
Increase in net assets before investment activity	1,002,296	2,282,080	-	3,284,376
Investment activity:				
Interest and dividends	114,648	1,378	-	116,026
Gain (loss) on investments, net	(284,400)	661	-	(283,739)
Net decrease in beneficial interest in assets held by <i>Friends of the Children - Portland Foundation</i>	-	(5,911)	-	(5,911)
Net investment activity	(169,752)	(3,872)	-	(173,624)
Transfer to <i>Friends of the Children - Portland Foundation</i>	-	(124,144)	-	(124,144)
Increase in net assets	832,544	2,154,064	-	2,986,608
Net assets, beginning of year	6,094,098	5,193,729	-	11,287,827
Net assets, end of year	\$ 6,926,642	\$ 7,347,793	\$ -	\$ 14,274,435

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Financial Position

August 31, 2015 <i>(With Comparative Amounts for 2014)</i>	2015	2014
Assets:		
Cash and cash equivalents	\$ 1,105,525	\$ 386,533
Investments	5,585,623	5,785,746
Receivables - net	325,991	47,484
Prepaid expenses	7,500	6,608
Equipment - net	3,210	2,447
Total assets	<u>\$ 7,027,849</u>	<u>\$ 6,228,818</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 101,207	\$ 134,720
Net assets:		
Unrestricted	149,469	147,847
Temporarily restricted	1,119,673	541,251
Permanently restricted	5,657,500	5,405,000
Total net assets	<u>6,926,642</u>	<u>6,094,098</u>
Total liabilities and net assets	<u>\$ 7,027,849</u>	<u>\$ 6,228,818</u>

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Activities

Year Ended August 31, 2015 (With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2015	2014
Public support and revenue:					
Contributions	\$ 67,069	\$ 564,121	\$ 252,500	\$ 883,690	\$ 5,353,457
Grants and contracts	141,000	640,000	-	781,000	175,000
In-kind contributions	-	-	-	-	12,980
Chapter affiliation fees	122,775	-	-	122,775	50,620
Chapter revenue sharing	42,577	-	-	42,577	67,727
Consulting income	133,600	-	-	133,600	127,000
Miscellaneous income	347	-	-	347	6,462
Net assets released from restrictions	454,275	(454,275)	-	-	-
Total public support and revenue	961,643	749,846	252,500	1,963,989	5,793,246
Expenses:					
Program services	819,724	-	-	819,724	580,206
Administrative	85,158	-	-	85,158	35,511
Development	56,811	-	-	56,811	48,737
Total expenses	961,693	-	-	961,693	664,454
Increase (decrease) in net assets before investment activity	(50)	749,846	252,500	1,002,296	5,128,792
Investment activity:					
Interest and dividends	1,672	112,976	-	114,648	74,409
Gain (loss) on investments, net	-	(284,400)	-	(284,400)	476,564
Net investment activity	1,672	(171,424)	-	(169,752)	550,973
Increase in net assets	1,622	578,422	252,500	832,544	5,679,765
Net assets, beginning of year	147,847	541,251	5,405,000	6,094,098	414,333
Net assets, end of year	\$ 149,469	\$ 1,119,673	\$ 5,657,500	\$ 6,926,642	\$ 6,094,098

FRIENDS OF THE CHILDREN - NATIONAL

Schedule of Cash Flows

Year Ended August 31, 2015 <i>(With Comparative Totals for 2014)</i>	2015	2014
Cash flows from operating activities		
Increase in net assets	\$ 832,544	\$ 5,679,765
Adjustments to reconcile increase in net asset to net cash provided by operating activities:		
Proceeds from contribution to permanent endowment	(252,500)	(5,225,000)
Depreciation	2,200	1,555
(Gain) loss on investment	284,400	(476,564)
Changes in:		
Receivables	(278,507)	30,316
Prepaid expenses	(892)	(2,749)
Accounts payable and accrued liabilities	(33,513)	78,057
Net cash provided by operating activities	553,732	85,380
Cash flows from investing activities		
Purchases of equipment	(2,963)	(773)
Purchases of investments	(2,583,614)	(5,634,147)
Proceeds from sale of investment	2,499,337	473,142
Net cash used by investing activities	(87,240)	(5,161,778)
Cash flows from financing activities		
Proceeds from contribution to permanent endowment	252,500	5,225,000
Net cash provided by financing activities	252,500	5,225,000
Net increase in cash and cash equivalents	718,992	148,602
Cash and cash equivalents, beginning of year	386,533	237,931
Cash and cash equivalents, end of year	\$ 1,105,525	\$ 386,533