

FRIENDLY CENTER, INC.
FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE
INFORMATION FOR 2015)

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INDEPENDENT AUDITORS' REPORT

To the Board of Board of Directors of
Friendly Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Friendly Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)

Auditors' Responsibility (Continued)

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 financial statements referred to above present fairly, in all material respects, the financial position of Friendly Center, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Friendly Center Inc.'s 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Guzman & Gray CPAs
Long Beach, CA
February 28, 2017

FRIENDLY CENTER, INC.
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016
(WITH COMPARATIVE SUMMARIZED TOTALS FOR 2015)

ASSETS					
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
Current Assets					
Cash & cash equivalents	\$ 909,775	\$ 11,873		\$ 921,648	\$ 837,992
Receivables	154,123			154,123	148,710
Prepaid expenses	-			-	3,221
	<u>1,063,898</u>	<u>11,873</u>		<u>1,075,771</u>	<u>989,923</u>
Investments-certificates of deposit	25,828	6,267	\$ 4,000	36,095	85,909
Property and Equipment, Net of Accumulated Depreciation					
Property and equipment					
Land	40,617			40,617	40,617
Building and building improvements	241,402			241,402	241,402
Leasehold improvements	27,723			27,723	27,723
Furniture and equipment	103,112			103,112	97,738
Transportation	13,463			13,463	6,663
	<u>426,317</u>			<u>426,317</u>	<u>414,143</u>
Less accumulated depreciation	<u>(366,706)</u>			<u>(366,706)</u>	<u>(355,152)</u>
	59,611			59,611	58,991
Other Assets					
Deposits	5,508			5,508	3,121
TOTAL ASSETS	<u>\$ 1,154,845</u>	<u>\$ 18,140</u>	<u>\$ 4,000</u>	<u>\$ 1,176,985</u>	<u>\$ 1,137,944</u>
LIABILITIES AND NET ASSETS					
	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
Current Liabilities					
Accounts payable	\$ 52,051			\$ 52,051	\$ 33,692
Tenant deposits	1,735			1,735	2,207
Deferred revenue	81,433			81,433	77,018
Accrued payroll and related	39,920			39,920	46,857
TOTAL LIABILITIES	<u>175,139</u>			<u>175,139</u>	<u>159,774</u>
Net Assets					
Unrestricted	979,706			979,706	952,903
Temporarily restricted		\$ 18,140		18,140	21,267
Permanently restricted			\$ 4,000	4,000	4,000
TOTAL NET ASSETS	<u>979,706</u>	<u>18,140</u>	<u>4,000</u>	<u>1,001,846</u>	<u>978,170</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,154,845</u>	<u>\$ 18,140</u>	<u>\$ 4,000</u>	<u>\$ 1,176,985</u>	<u>\$ 1,137,944</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

FRIENDLY CENTER, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

DECEMBER 31, 2016
(WITH COMPARATIVE SUMMARIZED TOTALS FOR 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
SUPPORT AND REVENUE					
Support					
United Way - Orange County	\$ -			\$ -	\$ -
Grants	861,965	\$ 10,277		872,242	649,300
Contributions, individuals	53,892			53,892	47,824
Contributions, churches and other organizations	58,299			58,299	80,645
Donated support	2,064,820			2,064,820	1,681,472
Release of restrictions	13,404	(13,404)		-	-
Total Support	3,052,380	(3,127)		3,049,253	2,459,241
Revenue					
Rent income	94,518			94,518	88,430
Interest income	2,246			2,246	2,230
Miscellaneous income	1,567			1,567	11,298
Fundraising, Net of donor benefit expense of \$24,522 and \$31,197	131,778			131,778	148,151
Total Revenue	230,109			230,109	250,109
TOTAL SUPPORT AND REVENUE	3,282,489	(3,127)		3,279,362	2,709,350
EXPENSES					
Program services	3,007,440			3,007,440	2,365,685
Support services	248,247			248,247	244,284
TOTAL EXPENSES	3,255,687			3,255,687	2,609,969
CHANGE IN NET ASSETS	26,802	(3,127)		23,675	99,381
NET ASSETS, BEGINNING OF YEAR	952,903	21,267	4,000	978,170	878,789
NET ASSETS, END OF YEAR	\$ 979,705	\$ 18,140	\$ 4,000	\$ 1,001,845	\$ 978,170

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

FRIENDLY CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE SUMMARIZED TOTALS FOR 2015)

	Program			Supporting			2016	2015
	General Programs	Housing	Total	Management and General	Fund Raising	Total		
Accounting and auditing	\$ 5,150	\$ 6,250	\$ 11,400			\$ -	\$ 11,400	\$ 10,900
Bad debts			-			-	-	178
Contract		5,536	5,536			-	5,536	6,000
Depreciation	\$ 8,214	3,341	11,555			-	11,555	6,436
Fundraising			-		\$ 25,366	25,366	25,366	25,377
In-kind facilities	325,212		325,212			-	325,212	254,196
In-kind food & other	1,730,405		1,730,405	2,403		2,403	1,732,808	1,423,686
Insurance	13,211	5,187	18,398			-	18,398	17,515
Professional fees	1,757	1,463	3,220	235	221	456	3,676	1,861
Repairs and maintenance	334	1,591	1,925	2,950		2,950	4,875	7,994
Miscellaneous		413	413	1,081	1,450	2,531	2,944	3,063
Office supplies	2,369	2,484	4,853	5,140		5,140	9,993	4,483
Membership dues			-	892		892	892	905
Salaries and wages	714,114	10,611	724,725	102,715	75,031	177,746	902,471	713,205
Employee benefits	16,979	-	16,979	2,988	3,823	6,811	23,790	17,666
Payroll taxes	65,692	1,034	66,726	8,678	6,620	15,298	82,024	66,905
Postage			-	1,319	580	1,899	1,899	2,012
Printing	6,232		6,232	3,153	3,090	6,243	12,475	13,289
Equipment	664		664			-	664	940
Program	50,531	6,000	56,531			-	56,531	15,592
Taxes		2,941	2,941			-	2,941	3,766
Transportation	2,171		2,171	89		89	2,260	1,571
Utilities	12,009	5,545	17,554	423		423	17,977	12,429
	<u>\$ 2,955,044</u>	<u>\$ 52,396</u>	<u>\$ 3,007,440</u>	<u>\$ 132,066</u>	<u>\$ 116,181</u>	<u>\$ 248,247</u>	<u>\$ 3,255,687</u>	<u>\$ 2,609,969</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

FRIENDLY CENTER, INC.
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE SUMMARIZED TOTALS FOR 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 23,675	\$ 99,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,555	6,436
(Increase) decrease in receivables	(5,413)	(91,770)
(Increase) decrease in prepaid expenses	3,221	2,200
(Increase) decrease in deposits	(2,387)	-
Increase (decrease) in accounts payable	18,359	19,430
Increase (decrease) in Accrued payroll and related	(6,937)	13,873
Increase (decrease) in tenant deposits	(472)	-
Increase (decrease) in deferred revenue	4,415	(21,518)
NET CASH FROM OPERATING ACTIVITIES	46,016	28,032
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(12,175)	(3,590)
Proceeds from sale of investments	49,814	-
Purchase of investments	-	(326)
NET CASH FROM INVESTING ACTIVITIES	37,639	(3,916)
NET INCREASE (DECREASE) IN CASH	83,655	24,116
CASH AT BEGINNING OF YEAR	837,992	813,876
CASH AT END OF YEAR	\$ 921,647	\$ 837,992
SUPPLEMENTAL DISCLOSURES		
INTEREST PAID	NONE	NONE
INCOME TAXES PAID	NONE	NONE
NON-CASH TRANSACTIONS		
Non-monetary contributions	\$ 2,064,820	\$ 1,681,472

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Friendly Center, Inc., (The Center) a not for profit multi-culture community center, was organized on February 16, 1967 for the primary purpose of providing information, referrals, emergency services, youth development programs, parenting classes, activity program, and 8 low-income housing units. These services are provided to the public who are economically or educationally disadvantaged.

Basis of Accounting

The Center uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates and Assumptions

In preparing financial statements in conformity with generally accepted accounting principles (GAAP), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Financial Statement Presentation

The financial statements of The Center have been prepared on the accrual basis of accounting. Net assets categorized as unrestricted, temporarily restricted, or permanently restricted, a description of which is as follows:

Unrestricted net assets is utilized to record contributions, special events, fees and other forms of unrestricted revenue and expenditures related to the general operations and special events efforts of the organization that are not restricted by the donor through uses or time restrictions.

Temporarily restricted net assets are utilized to record resources received that are temporarily restricted as to use or expiration of time. Contributions whose restrictions are met in the same reporting period are recorded as unrestricted.

Permanently restricted net assets are utilized to record resources received that are permanently restricted as to use by the donor or grantor.

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Center considers cash on hand, demand deposits and highly-liquid investments with original maturities of three months or less.

Pledge and Accounts Receivable

Pledges are recognized when legally enforceable and all conditions to the pledge have been met. Revenues earned but not received are recorded as a receivable.

No allowance for uncollectible pledges has been established as management believes the total amount to be fully collectible within the next year.

Grants

Revenues from grants are recorded when earned, in accordance with the terms of the grant. Grant funds earned, but not received, are accrued.

Property and Equipment

All property and equipment are recorded at cost if purchased, and at fair value, if donated. Depreciation is calculated on a straight-line basis. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

Donated Service and Support

Donated services are reflected as donations at their estimated fair value at the time the services are performed. Only those donated services that will otherwise be performed by salaried personnel, if donated services are not available for the organization to accomplish its purpose, are included in the financial statements. Donated support consists of food, clothing, toys, etc. These items are reflected at their estimated fair value at the time of receipt. Additionally, the Center has facility lease contracts with the cities of Orange, Garden Grove, Placentia, and Stanton to occupy for a nominal rent of \$1 a year. The Center records the use of the facilities as a donation, and reflects the donation at its estimated fair value.

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Functional Expenses

Operating expenses directly identified with a functional area are charged to that area. Expenses affecting more than one functional area are allocated to the respective areas on the basis of ratios estimated by management.

Fair Value of Financial Instruments

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date.

Tax Status

The Center has qualified for tax-exempt status under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). The organization is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes has been made. The Center recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for Federal and California state purposes is generally three and four years.

Reporting of Subsequent Events

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through February 28, 2017, the date the financial statements were available to issue.

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2014)

NOTE 2 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net as of December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 40,617	\$ 40,617
Building and Building Improvements	241,402	241,402
Leasehold Improvements	27,723	27,723
Furniture and Equipment	103,112	97,738
Transportation	<u>13,463</u>	<u>6,663</u>
Total	426,317	414,143
Less Accumulated Depreciation	<u>(366,706)</u>	<u>(355,152)</u>
Net	<u>\$ 59,611</u>	<u>\$ 58,991</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$11,555 and \$6,436, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended December 31, 2016 and 2015 totaled \$18,140 and \$21,267, respectively. Temporarily restricted net assets released from restrictions during the years ended December 31, 2016 and 2015 were \$13,404 and \$14,725, respectively.

NOTE 4 – PERMANENTLY RESTRICTED CASH

The Center holds a certificate of deposit that includes temporarily and permanently restricted cash. The original principal of the permanently restriction portion was a \$4,000 grant by the Kiwanis Club in 1989. The Center is not entitled to the \$4,000; however, it may draw the interest earned. The grant from Kiwanis is for an indefinite period of time. The total values for the certificate of deposit for each of the years ended December 31, 2016 and 2015 totaled \$6,846. No permanently restricted net assets were released during the years ended December 31, 2016 and 2015.

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

NOTE 5 – DONATED MATERIALS AND SERVICES

Donated materials and services for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Food, Gifts & other	\$ 1,713,235	\$1,403,191
Rent	325,212	254,196
Equipment	-	3,590
Services	<u>26,372</u>	<u>20,495</u>
	<u>\$2,064,820</u>	<u>\$1,681,472</u>

NOTE 6 – CONTINGENCIES AND CONCENTRATIONS

Support

The organization receives a substantial amount of its support from federal, state and local governments. A significant reduction in the level of this support may have an adverse effect on the Center's programs and activities. Management does not project significant reductions in the near future.

Grant Audit Contingencies

Under the terms of federal and state grants, periodic audits by the grantor agencies are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Previous audits of the organization by the grantor agencies have not resulted in disallowance.

NOTE 7 - LEASE OBLIGATIONS

The Center is obligated under the terms of an operating lease for the rental of equipment until January 11, 2021. Total rental payments were approximately \$6,162 and \$5,102 for the years ended December 31, 2016 and 2015, respectively. This amount is included in equipment expense in the accompanying statement of functional expenses. Future minimum rental payments are:

2017	\$ 5,448
2018	5,448
2019	5,448
2020	<u>5,448</u>
	\$ <u>21,792</u>

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Center operates in Orange, California and is dependent upon the local economy.

It is the Center's policy not to have cash deposits in financial institutions over the federally insured limits. As of December 31, 2016 and 2015, management does not believe they had a significant amount of uninsured cash. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences, respectively.

NOTE 9 – FUNDRAISING EVENTS

The Center conducted fundraising events to assist in funding program operations. All revenues received in excess of expenses from the events are used for the current program operations. The costs that are direct benefits to the donors are included in Donor Benefit Expenses.

The fundraising revenues and expenses are as follows for the year ended December 31, 2016:

	Gross <u>Revenue</u>	Donor Benefit <u>Expenses</u>	Revenue Net of Donor Benefit <u>Expenses</u>
Street Fair	\$ 50,815	\$ 10,557	\$ 40,258
Golf Tournament	31,975	7,059	24,916
Partnership Banquet	57,846	6,906	50,940
Other	15,664	-	15,664
	<u>\$ 156,300</u>	<u>\$ 24,522</u>	<u>\$ 131,778</u>

The fundraising revenues and expenses are as follows for the year ended December 31, 2015:

	Gross <u>Revenue</u>	Donor Benefit <u>Expenses</u>	Revenue Net of Donor Benefit <u>Expenses</u>
Street Fair	\$ 69,353	\$ 13,689	\$ 55,664
Golf Tournament	32,771	8,909	23,862
Partnership Banquet	64,730	8,057	56,673
Other	12,494	542	11,952
	<u>\$ 179,348</u>	<u>\$ 31,197</u>	<u>\$ 148,151</u>

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

NOTE 10 – FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Other observable inputs, which include quoted prices for similar assets and liabilities, and market support inputs. These inputs could include such items as interest rates, yield curves, auction prices for equipment or per square foot selling prices for real estate.

Level 3: Inputs that are unobservable inputs for assets and liabilities are based on the Organization's assumptions. These include inputs that are internally developed and estimated.

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair measurement in its entirety.

Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Certificates of deposit	<u>\$ 36,096</u>	<u>\$ 36,096</u>	<u>NONE</u>	<u>NONE</u>

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2015)

Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at December 31, 2015 are as follows:

	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Certificates of deposit	<u>\$ 85,909</u>	<u>\$ 85,909</u>	<u>NONE</u>	<u>NONE</u>

Fair values for certificates of deposit are determined by reference to quoted market prices and other relevant information generated by market transactions.

The carrying value of cash and cash equivalents, receivables, other assets, accounts payable, accrued expenses are reasonable estimates of fair value due to the short term nature of these financial instruments and consequently these instruments are not presented in the table shown above, as there are no changes in the valuation of any of these financial instruments.

NOTE 11 – RECLASSIFICATIONS

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform with the presentation in the current year's financial statements. The reclassifications in the current year had no effect on current or prior year's changes in net assets.