FRIENDLY CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE
INFORMATION FOR 2017)

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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. (the "Center") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and change in net assets, functional expenses, and cash flows 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.

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 the Organization as of December 31, 2018, 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 the Friendly Center's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Guzman & Gray

Guzman & Gray CPAs
Long Beach, CA
March 1, 2019

FRIENDLY CENTER, INC.
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

ASSETS

	Without Donor Restrictions	With Donor Restictions	2018	2017
Current Assets				
Cash and cash equivalents	$ 862,283	$ 69,122	$ 931,405	$ 1,009,835
Receivables	128,840		128,840	163,351
	991,123	69,122	1,060,245	1,173,186
Investments-certificates of deposit	126,576	10,593	137,169	36,145
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	99,772		99,772	103,990
Transportation	13,463		13,463	13,463
	422,977		422,977	427,195
Less accumulated depreciation	(367,551)		(367,551)	(374,224)
	55,426		55,426	52,971
Other Assets				
Deposits	5,526		5,526	5,350
TOTAL ASSETS	$ 1,178,651	$ 79,715	$ 1,258,366	$ 1,267,652

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restictions	2018	2017
Current Liabilities				
Accounts payable	$ 42,645		$ 42,645	$ 33,868
Tenant deposits	2,193		2,193	2,190
Deferred revenue	21,401		21,401	33,107
Accrued payroll and related	33,997		33,997	40,881
TOTAL LIABILITIES	100,236		100,236	110,046
Net Assets				
Without donor restiction	1,078,415		1,078,415	1,058,505
With donor restriction		$ 79,715	79,715	95,101
Perpetual purpose			-	4,000
TOTAL NET ASSETS	1,078,415	79,715	1,158,130	1,157,606
TOTAL LIABILITIES AND NET ASSETS	$ 1,178,651	$ 79,715	$ 1,258,366	$ 1,267,652

See Independent Auditors' Report and Accompanying Notes to Financial Statements

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

DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	Without Donor Restrictions	With Donor Restrictions	2018	2017
SUPPORT AND REVENUE				
Support				
Grants	$ 630,566	$ 45,000	$ 675,566	$ 884,616
Contributions, individuals	86,740		86,740	109,783
Contributions, churches and other organizations	99,059		99,059	44,207
Donated support	2,898,444		2,898,444	2,053,187
Release of restrictions	64,386	(64,386)	-	-
Total Support	3,779,195	(19,386)	3,759,809	3,091,793
Revenue				
Rent income	99,115		99,115	96,702
Interest income	4,743		4,743	3,550
Miscellaneous income/(loss)	4,254		4,254	(467)
Fundraising, Net of donor benefit expense of $26,574 and $24,522	119,484		119,484	145,294
Total Revenue	227,596		227,596	245,079
TOTAL SUPPORT AND REVENUE	4,006,791	(19,386)	3,987,405	3,336,872
EXPENSES				
Program services	3,733,427		3,733,427	2,949,400
Support services	253,451		253,451	231,712
TOTAL EXPENSES	3,986,878		3,986,878	3,181,112
CHANGE IN NET ASSETS	19,910	(19,386)	524	155,760
NET ASSETS, BEGINNING OF YEAR	1,058,505	99,101	1,161,606	1,001,846
NET ASSETS, END OF YEAR	$ 1,078,415	$ 79,715	$ 1,162,130	$ 1,157,606

FRIENDLY CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	Program			Supporting					
	General Programs	Housing	Total	Management and General	Fund Raising	Cost of Goods Sold	Total	2018	2017
Accounting and auditing		$ 3,240	$ 3,240	$ 8,710			$ 8,710	$ 11,950	$ 11,675
Bank charges			$ -	$ 626			$ 626	$ 626	763
Bad debts		$ -	$ -				$ -	$ -	263
Contract		$ 4,187	$ 4,187				$ -	$ 4,187	7,678
Depreciation	$ 4,267	$ 3,341	$ 7,608				$ -	$ 7,608	7,518
Fundraising			$ -		$ 30,151		$ 30,151	$ 30,151	28,445
In-kind facilities	$ 324,000		$ 324,000				$ -	$ 324,000	342,000
In-kind food & other	$ 2,574,444		$ 2,574,444				$ -	$ 2,574,444	1,711,187
Insurance	$ 14,224	$ 6,886	$ 21,110				$ -	$ 21,110	18,526
Professional fees	$ 4,364	$ 1,745	$ 6,109	$ 584	$ 552		$ 1,136	$ 7,245	3,489
Repairs and maintenance	$ 375	$ 1,773	$ 2,148	$ 3,311			$ 3,311	$ 5,459	3,965
Miscellaneous		$ 225	$ 225	$ 3,293	$ 1,621		$ 4,914	$ 5,139	5,141
Office supplies	$ 1,871	$ 1,080	$ 2,951	$ 4,057			$ 4,057	$ 7,008	5,796
Membership dues			$ -	$ 1,278			$ 1,278	$ 1,278	968
Salaries and wages	$ 586,542	$ 12,262	$ 598,804	$ 82,465	$ 84,917		$ 167,382	$ 766,186	824,204
Employee benefits	$ 23,745		$ 23,745	$ 4,179	$ 5,346		$ 9,525	$ 33,270	34,658
Payroll taxes	$ 51,850	$ 1,114	$ 52,964	$ 7,460	$ 5,446		$ 12,906	$ 65,870	71,233
Postage			$ -	$ 994	$ 437		$ 1,431	$ 1,431	1,114
Printing	$ 8,012		$ 8,012	$ 4,052	$ 3,972		$ 8,024	$ 16,036	13,608
Equipment	$ 6,129		$ 6,129				$ -	$ 6,129	281
Program	$ 67,904	$ 6,000	$ 73,904				$ -	$ 73,904	64,314
Taxes		$ 1,911	$ 1,911				$ -	$ 1,911	1,987
Cost of direct benefits to donors						$ 26,574	$ 26,574	$ 26,574	24,522
Transportation	$ 3,999		$ 3,999				$ -	$ 3,999	4,705
Utilities	$ 12,249	$ 5,688	$ 17,937				$ -	$ 17,937	17,594
Total expenses by function	$ 3,683,975	$ 49,452	$ 3,733,427	$ 121,009	$ 132,442	$ 26,574	$ 280,025	$ 4,013,452	$ 3,205,634
Less expenses included with revenues on the statement of activities Cost of direct benefit to donors	-	-	-	-	-	(26,574)	$ (26,574)	(26,574)	(24,522)
Total expenses included in the expense section on the statement of activities	3,683,975	49,452	3,733,427	121,009	132,442	-	253,451	3,986,878	3,181,112

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

FRIENDLY CENTER, INC.
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 524	$ 155,760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,608	7,518
Donated investments		(14,720)
(Increase) decrease in:		
Receivables	34,511	(9,228)
Prepaid expenses		
Deposits	(176)	158
Increase (decrease) in:		
Accounts payable	8,777	(18,183)
Accrued payroll and related	(6,884)	961
Tenant deposits	3	455
Deferred revenue	(11,706)	(48,326)
NET CASH FROM OPERATING ACTIVITIES	32,657	74,395
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(10,063)	(879)
Reinvested dividends	(101,024)	(49)
Proceeds from sale of investments		14,720
NET CASH FROM INVESTING ACTIVITIES	(111,087)	13,792
NET INCREASE IN CASH	(78,430)	88,187
CASH AT BEGINNING OF YEAR	1,009,835	921,648
CASH AT END OF YEAR	$ 931,405	$ 1,009,835
SUPPLEMENTAL DISCLOSURES		
INTEREST PAID	NONE	NONE
INCOME TAXES PAID	NONE	NONE
NON-CASH TRANSACTIONS		
Non-monetary contributions	$ 2,898,444	$ 2,053,187
Non-monetary contribution of donated stock	NONE	14,720

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

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. Friendly Center's primary purpose is to provide 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 accompanying financial statements of the Center are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenue, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets are classified and reported as:

> Without Donor Restrictions – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources. Designated amounts represent those net assets that the board has set aside for a particular purpose
>
> With Donor Restrictions – Those resources subject to donor-imposed restrictions that will be satisfied by action of the Center or by the passage of time

The Center has elected to present contributions with donor restrictions that are fulfilled in the same period within the net assets without donor restrictions class.

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 and Placentia 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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

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, respectively.

Reporting of Subsequent Events

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through March 1, 2019, the date the financial statements were available to issue.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Center is currently evaluating the impact of the adoption of the new standard on the financial statements.

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

Summarized Comparative Totals

The financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

NOTE 2 - NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with donor restrictions are restricted as follows:

	2018	2017
Subject to expenditure for programs	$75,715	$95,101
Subject to endowment spending policy	4,000	4,000
Total Net Assets with donor restrictions	$79,715	$99,101

Net Assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

Satisfaction of purpose restrictions	$$64,386	$13,699

NOTE 3 - ENDOWMENT

The Endowment consist of $4,000 established by a donor to provide annual funding for programs. The Board of Directors has interpreted the Uniform Prudent Management of institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity the original value of initial and subsequent gift amounts. The Endowment is invested in a certificate of deposit.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Land	$ 40,617	$ 40,617
Building and Building Improvements	241,402	241,402
Leasehold Improvements	27,723	27,723
Furniture and Equipment	99,772	103,990
Transportation	13,463	13,463
Total	422,977	427,195
Less Accumulated Depreciation	(367,551)	(374,224)
Net	$ 55,426	$ 52,971

Depreciation expense for the years ended December 31, 2018 and 2017 was $7,608 and $7,518, respectively.

NOTE 5 – LIQUIDITY AND AVAILABILITY

The Organization maintains and manages adequate operating funds per policies set by the board of directors.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	$ 862,283
Accounts receivable	128,840
Operating investments	126,576
Total	$ 1,117,699

Our endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

NOTE 6 – DONATED MATERIALS AND SERVICES

Donated materials and services for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Food, Gifts & other	$ 2,517,957	$1,691,707
Rent	324,000	342,000
Services	56,484	19,480
	$2,898,444	$2,053,187

NOTE 7 – CONTINGENCIES AND CONCENTRATIONS

Support

The Center 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 8 - 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 $5,448 and $6,237 for the years ended December 31, 2018 and 2017, respectively. This amount is included in equipment expense in the accompanying statement of functional expenses. Future minimum rental payments are:

2019	$ 5,448
2020	5,448
	$ 10,896

NOTE 9 – CONCENTRATION OF CREDIT RISK

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

The Center maintains cash balances at several financial institutions located in Southern California. The balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2018 and 2017, the Center's uninsured cash balance total $5,006 and $15,109, respectively. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences, respectively.

NOTE 10 – 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, 2018:

	Gross Revenue	Donor Benefit Expenses	Revenue Net of Donor Benefit Expenses
Street Fair	$ 37,207	$ 9,735	$ 27,472
Golf Tournament	20,422	7,200	13,222
Partnership Banquet	76,819	9,549	67,270
Other	11,500	-	11,500
	$ 145,948	$ 26,485	$ 119,464

NOTE 10 – FUNDRAISING EVENTS (Continued)

The fundraising revenues and expenses are as follows for the year ended December 31, 2017:

	Gross Revenue	Donor Benefit Expenses	Revenue Net of Donor Benefit Expenses
Street Fair	$ 50,569	$ 11,905	$ 38,664
Golf Tournament	32,781	6,983	25,798
Partnership Banquet	77,798	7,686	50,112
Other	10,720	-	10,720
	$ 171,868	$ 26,574	$ 145,294

NOTE 11 – 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.

NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

	Fair Market Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Certificates of deposit	$ 137,169	NONE	$137,169	NONE

Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair Market Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Certificates of deposit	$ 36,145	NONE	$36,145	NONE

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.