FRIENDLY CENTER, INC.
FINANCIAL STATEMENTS

DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE
INFORMATION FOR 2016)

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Guzman & Gray

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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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 21, 2018

FRIENDLY CENTER, INC.
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Current Assets					
Cash and cash equivalents	$ 921,327	$ 88,508		$ 1,009,835	$ 921,648
Receivables	163,351			163,351	154,123
Prepaid expenses					
	1,084,678	88,508		1,173,186	1,075,771
Investments-certificates of deposit	25,552	6,593	$ 4,000	36,145	36,095
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	103,990			103,990	103,112
Transportation	13,463			13,463	13,463
	427,195			427,195	426,317
Less accumulated depreciation	(374,224)			(374,224)	(366,706)
	52,971			52,971	59,611
Other Assets					
Deposits	5,350			5,350	5,508
TOTAL ASSETS	$ 1,168,551	$ 95,101	$ 4,000	$ 1,267,652	$ 1,176,985

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Current Liabilities					
Accounts payable	$ 33,868			$ 33,868	$ 52,051
Tenant deposits	2,190			2,190	1,735
Deferred revenue	33,107			33,107	81,433
Accrued payroll and related	40,881			40,881	39,920
TOTAL LIABILITIES	110,046			110,046	175,139
Net Assets					
Unrestricted	1,058,505			1,058,505	979,706
Temporarily restricted		$ 95,101		95,101	18,140
Permanently restricted			$ 4,000	4,000	4,000
TOTAL NET ASSETS	1,058,505	95,101	4,000	1,157,606	1,001,846
TOTAL LIABILITIES AND NET ASSETS	$ 1,168,551	$ 95,101	$ 4,000	$ 1,267,652	$ 1,176,985

See Independent Auditors' Report and Accompanying Notes to Financial Statements

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

DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
SUPPORT AND REVENUE					
Support					
Grants	$ 796,059	$ 88,557		$ 884,616	$ 872,242
Contributions, individuals	109,783			109,783	53,892
Contributions, churches and other organizations	44,207			44,207	58,299
Donated support	2,053,187			2,053,187	2,064,820
Release of restrictions	11,596	(11,596)		-	-
Total Support	3,014,832	76,961		3,091,793	3,049,253
Revenue					
Rent income	96,702			96,702	94,518
Interest income	3,550			3,550	2,246
Miscellaneous income/(loss)	(467)			(467)	1,568
Fundraising, Net of donor benefit expense of $26,574 and $24,522	145,294			145,294	131,778
Total Revenue	245,079			245,079	230,110
TOTAL SUPPORT AND REVENUE	3,259,911	76,961		3,336,872	3,279,363
EXPENSES					
Program services	2,949,400			2,949,400	3,007,440
Support services	231,712			231,712	248,247
TOTAL EXPENSES	3,181,112			3,181,112	3,255,687
CHANGE IN NET ASSETS	78,799	76,961		155,760	23,676
NET ASSETS, BEGINNING OF YEAR	979,706	18,140	$ 4,000	1,001,846	978,170
NET ASSETS, END OF YEAR	$ 1,058,505	$ 95,101	$ 4,000	$ 1,157,606	$ 1,001,846

See Independent Auditors' Report and Accompanying Notes to Financial Statements

FRIENDLY CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	Program			Supporting				
	General Programs	Housing	Total	Management and General	Fund Raising	Total	2017	2016
Accounting and auditing	$ 5,425	$ 6,250	$ 11,675				$ 11,675	$ 11,400
Bank charges				$ 763		$ 763	763	
Bad debts		263	263				263	
Contract		7,678	7,678				7,678	5,536
Depreciation	4,177	3,341	7,518				7,518	11,555
Fundraising					$ 28,445	28,445	28,445	25,366
In-kind facilities	342,000		342,000				342,000	325,212
In-kind food & other	1,711,187		1,711,187				1,711,187	1,732,808
Insurance	13,676	4,850	18,526				18,526	18,398
Professional fees	1,509	1,587	3,096	202	191	393	3,489	3,676
Repairs and maintenance	284	1,173	1,457	2,508		2,508	3,965	4,875
Miscellaneous		3,374	3,374	755	1,012	1,767	5,141	2,944
Office supplies	1,392	1,385	2,777	3,019		3,019	5,796	9,993
Membership dues				968		968	968	892
Salaries and wages	651,032	11,129	662,161	93,642	68,401	162,043	824,204	902,471
Employee benefits	24,736		24,736	4,354	5,568	9,922	34,658	23,790
Payroll taxes	56,081	1,192	57,273	8,069	5,891	13,960	71,233	82,024
Postage				774	340	1,114	1,114	1,899
Printing	6,798		6,798	3,439	3,371	6,810	13,608	12,475
Equipment	281		281				281	664
Program	58,314	6,000	64,314				64,314	56,531
Taxes		1,987	1,987				1,987	2,941
Transportation	4,705		4,705				4,705	2,260
Utilities	11,985	5,609	17,594				17,594	17,977
	$ 2,893,582	$ 55,818	$ 2,949,400	$ 118,493	$ 113,219	$ 231,712	$ 3,181,112	$ 3,255,687

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

FRIENDLY CENTER, INC.
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 155,760	$ 23,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,518	11,555
Donated investments	(14,720)	
(Increase) decrease in:		
Receivables	(9,228)	(5,413)
Prepaid expenses		3,220
Deposits	158	(2,387)
Increase (decrease) in:		
Accounts payable	(18,183)	18,359
Accrued payroll and related	961	(6,937)
Tenant deposits	455	(472)
Deferred revenue	(48,326)	4,415
NET CASH FROM OPERATING ACTIVITIES	74,395	46,016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(879)	(12,175)
Reinvested dividends	(49)	
Proceeds from sale of investments	14,720	49,815
NET CASH FROM INVESTING ACTIVITIES	13,792	37,640
NET INCREASE IN CASH	88,187	83,656
CASH AT BEGINNING OF YEAR	921,648	837,992
CASH AT END OF YEAR	$ 1,009,835	$ 921,648
SUPPLEMENTAL DISCLOSURES		
INTEREST PAID	NONE	NONE
INCOME TAXES PAID	NONE	NONE
NON-CASH TRANSACTIONS		
Non-monetary contributions	$ 2,053,187	$ 2,064,820
Non-monetary contribution of donated stock	$ 14,720	NONE

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

FRIENDLY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2016)

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 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.

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 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.

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 21, 2018, the date the financial statements were available to issue.

Recently Issued Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.
The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles of the United States when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Recently Issued Accounting Pronouncements (Continued)
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.

In August 2016, the FASB released ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017. The Center is currently evaluating the impact of the adoption of the new standard on the financial statements.

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, 2016, from which the summarized information was derived.

NOTE 2 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Land	$ 40,617	$ 40,617
Building and Building Improvements	241,402	241,402
Leasehold Improvements	27,723	27,723
Furniture and Equipment	103,990	103,112
Transportation	13,463	13,463
Total	427,195	426,317
Less Accumulated Depreciation	(374,224)	(366,706)
Net	$ 52,971	$ 59,611

Depreciation expense for the years ended December 31, 2017 and 2016 was $7,518 and $11,555, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ended December 31, 2017 and 2016 totaled $95,101 and $18,140, respectively. Temporarily restricted net assets released from restrictions during the years ended December 31, 2017 and 2016 were $11,596 and $13,404, 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, 2017 and 2016 totaled $6,846. No permanently restricted net assets were released during the years ended December 31, 2017 and 2016.

NOTE 5 – DONATED MATERIALS AND SERVICES

Donated materials and services for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Food, Gifts & other	$ 1,691,707	$1,713,235
Rent	342,000	325,212
Services	19,480	26,373
	$2,053,187	$2,064,820

NOTE 6 – 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 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 $6,237 and $6,162 for the years ended December 31, 2017 and 2016, respectively. This amount is included in equipment expense in the accompanying statement of functional expenses. Future minimum rental payments are:

2018	5,448
2019	5,448
2020	5,448
	$ 16,344

NOTE 8 – 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, 2017 and 2016, the Center's uninsured cash balance total $15,109 and $76,076, respectively. 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, 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	70,112
Other	10,720	-	10,720
	$ 171,868	$ 26,574	$ 145,294

NOTE 9 – FUNDRAISING EVENTS (Continued)

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

	Gross Revenue	Donor Benefit Expenses	Revenue Net of Donor Benefit Expenses
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
	$ 156,300	$ 24,522	$ 131,778

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.

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

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 Measured on a Recurring Basis
Fair values of assets measured on a recurring basis at December 31, 2016 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	$ 36,095	NONE	$36,095	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.