

**FRIENDSHIP ADULT DAY CARE CENTER, INC.**

Reviewed Financial Statements for year ended June 30, 2017

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**Independent Accountant's Review Report**

To the Board of Directors  
Friendship Adult Day Care Center, Inc.  
Santa Barbara, California

November 27, 2017

I have reviewed the accompanying financial statements of the Friendship Adult Day Care Center, Inc. (the "Center"), which comprise the balance sheet as of June 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

***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 the financial statements that are free from material misstatement whether due to fraud or error.

***Accountant's Responsibility***

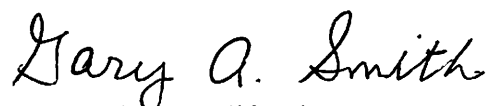
My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

***Accountant's Conclusion***

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The prior year comparative information has been derived from the Center's 2016 financial statements. Those financial statements were reviewed by me and in my report dated December 20, 2016 I stated I was not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

  
Santa Barbara, California

**FRIENDSHIP ADULT DAY CARE CENTER, INC.**

## Statement of Financial Position

June 30, 2017

(With comparative totals for 2016)

**ASSETS**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 348,318	\$ 236,655
Interest receivable	17,523	20,348
Accounts receivable	62,751	119,471
Grants receivable	34,303	19,570
Pledges and bequests receivable	300	330
Prepaid expenses	27,948	22,822
Investments (Note 3)	4,143,094	3,787,088
Charitable trust agreements (Note 2)	75,677	73,173
Property and equipment, net (Note 4)	82,401	138,500
Total assets	<u>\$ 4,792,315</u>	<u>\$ 4,417,957</u>

**LIABILITIES AND NET ASSETS****Liabilities:**

Accounts payable and accrued expenses	\$ 43,361	\$ 41,663
Accrued vacation	34,990	35,396
Deferred revenue	14,285	11,015
Total liabilities	<u>92,636</u>	<u>88,074</u>

**Net assets:****Unrestricted net assets:**

Undesignated	700,623	644,986
Board designated (Note 5)	2,517,007	2,313,198
Total unrestricted net assets	3,217,630	2,958,184
Temporarily restricted net assets (Note 6)	850,918	743,072
Permanently restricted net assets (Note 7)	631,131	628,627
Total net assets	4,699,679	4,329,883
Total liabilities and net assets	<u>\$ 4,792,315</u>	<u>\$ 4,417,957</u>

See notes to financial statements and accountant's review report.

# FRIENDSHIP ADULT DAY CARE CENTER, INC.

Statement of Activities  
For the year ended June 30, 2017  
(With comparative totals for 2016)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
Revenues, gains and support:					
Participant contributions	\$ 662,863	\$ -	\$ -	\$ 662,863	\$ 718,563
Donations and bequests	57,157			57,157	9,945
Memorials, trusts, and tributes	4,285			4,285	2,395
Annual fund	41,822			41,822	60,651
Government grants	61,348			61,348	68,378
Foundation contributions	214,342	29,992		244,334	242,492
United Way	7,000			7,000	7,500
Special events	70,836	5,000		75,836	90,589
In-kind contributions	7,450			7,450	5,600
Interest and dividends	71,007	29,435		100,442	76,476
Change in value of charitable trusts			2,504	2,504	(8,156)
Realized and unrealized gain (loss)					
on investments	157,161	97,419		254,580	(108,773)
Net assets released from					
restrictions (Note 9)	<u>54,000</u>	<u>(54,000)</u>			
Total	<u>1,409,271</u>	<u>107,846</u>	<u>2,504</u>	<u>1,519,621</u>	<u>1,165,660</u>
Expenses:					
Program services	891,878			891,878	935,018
Supporting services:					
Management and general	145,646			145,646	143,171
Fundraising	<u>112,301</u>			<u>112,301</u>	<u>116,560</u>
Total expenses	<u>1,149,825</u>	<u>-</u>	<u>-</u>	<u>1,149,825</u>	<u>1,194,749</u>
Change in net assets	259,446	107,846	2,504	369,796	(29,089)
Net assets, beginning of year	<u>2,958,184</u>	<u>743,072</u>	<u>628,627</u>	<u>4,329,883</u>	<u>4,358,972</u>
Net assets, end of year	<u>\$ 3,217,630</u>	<u>\$850,918</u>	<u>\$ 631,131</u>	<u>\$4,699,679</u>	<u>\$4,329,883</u>

See notes to financial statements and accountant's review report.

**FRIENDSHIP ADULT DAY CARE CENTER, INC.**

## Statement of Functional Expenses

For the year ended June 30, 2017

(With comparative totals for 2016)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
Salaries	\$ 497,349	\$ 60,740	\$ 66,904	\$ 624,993	\$ 638,579
Employee benefits and payroll taxes	<u>89,773</u>	<u>10,964</u>	<u>12,076</u>	<u>112,813</u>	<u>133,760</u>
	587,122	71,704	78,980	737,806	772,339
Special events			22,609	22,609	27,480
Volunteer services	7,077	373		7,450	5,600
Professional services	12,850	62,325		75,175	72,691
Food supplement	48,148			48,148	58,961
Depreciation	53,294	2,805		56,099	56,075
Vehicle operations and maintenance	6,313			6,313	11,895
Insurance	13,748	1,528		15,276	15,003
Office supplies and postage	13,022	2,442	814	16,278	12,891
Printing	693	965	7,030	8,688	6,563
Rent	51,391			51,391	39,833
Building repair and maintenance	27,015	1,422		28,437	33,311
Program activities	29,616			29,616	31,163
Advertising and publicity	14,340	1,912	2,868	19,120	22,208
Telephone and utilities	20,039			20,039	19,376
Staff travel and training	6,228			6,228	7,853
Miscellaneous expenses	<u>982</u>	<u>170</u>		<u>1,152</u>	<u>1,507</u>
Total	<u>\$ 891,878</u>	<u>\$ 145,646</u>	<u>\$ 112,301</u>	<u>\$1,149,825</u>	<u>\$ 1,194,749</u>

See notes to financial statements and accountant's review report.

**FRIENDSHIP ADULT DAY CARE CENTER, INC.**

## Statement of Cash Flows

For the year ended June 30, 2017

(With comparative totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 369,796	\$ (29,089)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	56,099	56,075
Realized and unrealized (gain) loss on investments	(254,580)	108,773
Change in value of charitable trusts	(2,504)	8,156
Change in operating assets and liabilities:		
(Increase) decrease in:		
Interest receivable	2,825	249
Accounts receivable	56,720	(53,423)
Grants receivable	(14,733)	(6,475)
Pledges and bequests receivable	30	113
Prepaid expenses	(5,126)	320
Increase (decrease) in:		
Accounts payable and accrued expenses	1,698	(20,168)
Accrued vacation	(406)	(5,465)
Deferred revenue	3,270	(7,735)
Net cash provided by operating activities	<u>213,089</u>	<u>51,331</u>
Cash flows from investing activities:		
Purchase of property and equipment		(1,295)
Purchase of investments	(1,431,796)	(1,302,406)
Sale of investments	1,330,370	1,145,949
Net cash used by investing activities	<u>(101,426)</u>	<u>(157,752)</u>
Net increase (decrease) in cash and equivalents	111,663	(106,421)
Cash and equivalents, beginning of fiscal year	<u>236,655</u>	<u>343,076</u>
Cash and equivalents, end of year	<u>\$ 348,318</u>	<u>\$ 236,655</u>

See notes to financial statements and accountant's review report.

# **FRIENDSHIP ADULT DAY CARE CENTER, INC.**

## **Notes to Financial Statements**

**June 30, 2017**

### **Note 1          Summary of significant accounting policies**

#### **General**

The Friendship Adult Care Center, Inc. (the "Center") is organized to preserve and enrich the quality of life for the frail elderly, and provide respite and support for caregivers in the Santa Barbara, California area. A significant amount of contributions come from participants and donors located in the area.

#### **Recognition of donor restrictions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are classified as unrestricted net assets.

#### **Cash and cash equivalents**

For the purposes of the statement of cash flows, the Center considers all temporary, short-term, highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

#### **Property and equipment**

Property and equipment is carried at cost or, if acquired by gift, at fair value at the date donated. Depreciation is computed using the straight-line method over the estimated useful life of the assets.

#### **Taxes**

The Center has been granted tax-exempt status by the Internal Revenue Service and Franchise Tax Board. Management believes that the tax positions taken are more likely than not to be sustained upon examination. The Center's tax returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

#### **Investments**

Investments are stated at fair value.

#### **Use of estimates**

The preparation of financial statements 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results will differ from those estimates.

#### **Concentration of credit risk**

Financial instruments that potentially subject the Center to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and receivables.

See accountant's review report.

The Center places its cash and cash equivalents with high credit quality financial institutions. These account balances may, at times, exceed federally insured limits. However, the Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

With respect to investments, the Center holds significant investments in the form of debt and equity securities with third party money managers. The Center has never sustained a loss on any investment due to non-performance by these third parties and does not anticipate any non-performance by these third parties in the future.

With respect to receivables, the Center routinely assesses their collectability and believes that credit risk exposure is limited.

#### Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

#### Note 2 Charitable trust agreements

These gifts are time-restricted contributions not available to the Center until after the death of the donors, who, while living receive an annual payouts from trusts based on a fixed percentage of the market value of the invested funds. The present value of the deferred gifts is computed using published IRS actuarial tables and discount rate of 2.4%.

#### Note 3 Fair value measurements

The Center measures the fair value of financial instruments in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. ASC 820 applies to financial instruments that are measured and reported on a fair value basis. The standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active or inactive markets for the same or similar assets. Level 2 measurements were not utilized in 2017 or 2016.

Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity.

Assets measured at fair value on a recurring basis as of June 30, 2017 are as follows:

Measured on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 357,343	\$ -	\$ -	\$ 357,343
Fixed income	1,588,174			1,588,174
Equities	1,942,208			1,942,208
Exchange traded funds	20,465			20,465
Bond funds	129,950			129,950
Alternative strategies and real estate funds	104,954			104,954
	4,143,094	-	-	4,143,094
Charitable trust agreements			75,677	75,677
Total	<u>\$4,143,094</u>	<u>\$ -</u>	<u>\$ 75,677</u>	<u>\$4,218,771</u>

See accountant's review report.



Assets measured at fair value on a recurring basis as of June 30, 2016 are as follows:  
Measured on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and money market funds	\$ 56,662	\$ -	\$ -	\$ 56,662
Fixed income	1,778,387			1,778,387
Equities	1,773,976			1,773,976
Bond funds	139,473			139,473
Alternative strategies and real estate funds	<u>38,590</u>			<u>38,590</u>
	3,787,088	-	-	3,787,088
Charitable trust agreements			<u>73,173</u>	<u>73,173</u>
Total	<u>\$3,787,088</u>	<u>\$ -</u>	<u>\$ 73,173</u>	<u>\$ 3,860,261</u>

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Level 3 balance at beginning of year	\$ 73,173	\$ 81,329
Change in value of charitable trusts	<u>2,504</u>	<u>(8,156)</u>
Level 3 balance at end of year	<u>\$ 75,677</u>	<u>\$ 73,173</u>

Note 4      Property and equipment  
Property and equipment is as follows:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 78,743	\$ 78,743
Vehicles	137,796	137,796
In-kind rent	270,000	270,000
Leasehold improvements	<u>314,252</u>	<u>314,252</u>
	800,791	800,791
Less accumulated depreciation	<u>(718,390)</u>	<u>(662,291)</u>
Total property and equipment	<u>\$ 82,401</u>	<u>\$ 138,500</u>

Note 5      Board designated net assets  
Designated net assets consist of funds received and set-aside by the Board of Directors for the following purposes:

	<u>2017</u>	<u>2016</u>
Endowment	\$2,317,007	\$2,113,198
Maintenance and leasehold improvements	<u>200,000</u>	<u>200,000</u>
	<u>\$2,517,007</u>	<u>\$2,313,198</u>

See accountant's review report.

Note 6 Temporarily restricted net assets  
Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Program activities	\$ 64,492	\$ 34,500
Special events	5,000	
Periods after June 30:		
In-kind rent	81,000	135,000
Portion of perpetual endowment funds subject to time restrictions under SPMIFA:		
Without purpose restrictions	<u>700,426</u>	<u>573,572</u>
	<u>\$ 850,918</u>	<u>\$ 743,072</u>

Note 7 Permanently restricted net assets  
Permanently restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Endowment (funds to be invested for perpetuity, the income is available for general use)	<u>\$ 637,131</u>	<u>\$ 628,627</u>

Note 8 Endowment

The Center's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of relevant law

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 Center 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 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 Center in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Center and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Center
- (7) The investment policies of the Center

See accountant's review report.

#### Return objectives and risk parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended, at a minimum, to equal or exceed the rate of inflation plus the annual endowment spending percentage set by the Board of Directors.

#### Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation to achieve its long-term return objectives, with a significant allocation to equities.

#### Spending policy and how the investment objectives relate to spending policy.

In order to avoid major fluctuations from year to year and in recognition of the volatility inherent in equity markets, the Center's spending policy is to withdraw in any given year no more than 7% of the average value of the Center's investment over a trailing three-year period, as determined from time to time by resolution of the Board of Directors. Absent such a resolution, the Spending Policy shall be not to withdraw any of the Center's investments. There were no withdrawals in 2017 and 2016.

#### Endowment net assets composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ -	\$ 700,426	\$ 631,131	\$ 1,331,557
Board designated endowment	<u>2,317,007</u>			<u>2,317,007</u>
	<u>\$ 2,317,007</u>	<u>\$ 700,426</u>	<u>\$ 631,131</u>	<u>\$ 3,648,564</u>

#### Change in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,113,198	\$ 573,572	\$ 628,627	\$ 3,315,397
Investment return:				
Interest and dividends	51,743	29,435		81,178
Realized and unrealized gain	171,249	97,419		268,668
Investment management fees	<u>(19,205)</u>			<u>(19,205)</u>
Total investment returns	203,787	126,854	-	330,641
Transfers to increase board- designated endowment funds	22			22
Change in value of charitable remainder trusts			<u>2,504</u>	<u>2,504</u>
Endowment net assets, end of year	<u>\$ 2,317,007</u>	<u>\$ 700,426</u>	<u>\$ 631,131</u>	<u>\$ 3,648,564</u>

See accountant's review report.

From time to time, the fair values of endowment assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, declines of this nature are reported as losses first in temporarily restricted net assets, if any are available, then in unrestricted net assets. As values recover, the increases are reported first as unrestricted gains, then as temporarily restricted gains, until the previous declines have been recovered. As of June 30, 2017 there were no such declines in value below the amount of the original endowments.

**Note 9 Net assets released from donor restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

**Time restrictions expired:**

Passage of specified time	
(In-kind rent)	<u>\$ 54,000</u>

**Note 10 Functional expenses**

Direct expenses are charged to the appropriate program or supporting function. Indirect expenses have been allocated to programs, administration and fundraising based upon estimates of the time spent on each function.

**Note 11 In-kind donations**

A significant number of volunteers have contributed their services to the Center. However, in accordance with generally accepted accounting principles, only those services provided by professionals in amount of \$7,450 have been valued and recorded in these financial statements. Also see Note 13 below.

**Note 12 Employee benefits plan**

The Center provides a 403 (b) retirement plan for employees working 20 hours or more a week. The Center makes matching contributions ranging from .5% to 5% of the employee's salary. This match amounted to \$9,979 and \$10,919 in 2017 and 2016 respectively.

**Note 13 Operating leases**

The Center leases its Montecito facilities under an agreement that was renewed in December 2013. The value of donated rent attributable to this lease is \$270,000. That amount is being released from time restrictions over a 5 year period. The Center pays \$5,000 per quarter on this lease. In addition, the Center pays \$1,745 per month for the purpose of defraying the expenses of maintenance, repairs and improvements of the premises. The Center leases its Goleta facilities for \$3,370 per month under an agreement that expires on December 31, 2018.

Future minimum payments under these leases are as follows:

<u>Year ended June 30,</u>	
2018	\$ 60,440
2019	<u>30,220</u>
	<u>\$ 90,660</u>

See accountant's review report

**Note 14          June 30, 2016 financial information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Note 15          Subsequent events**

Subsequent events have been evaluated through November 27, 2017 which is the date the financial statements were available to be issued.

See accountant's review report.