

FRIENDSHIP SHELTER, INC.
(a California nonprofit corporation)

FINANCIAL STATEMENTS

December 31, 2008 and 2007

with

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

**COGDILL
& STIRLING** CERTIFIED PUBLIC ACCOUNTANTS
ACCOUNTANCY CORPORATION

May 21, 2009

Board of Directors
Friendship Shelter, Inc.
Laguna Beach, CA

We have audited the accompanying statements of financial position of Friendship Shelter, Inc. (a California nonprofit corporation) as of December 31, 2008 and 2007, and the related statements of activities, and of cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friendship Shelter, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Cogdill & Stirling

FRIENDSHIP SHELTER, INC.
(a California nonprofit corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2008	2007
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 716,880	\$ 546,000
Grants receivable	101,340	39,600
Prepaid expenses and other current assets	5,830	5,830
Total current assets	824,050	591,430
Fixed assets, at cost, less accumulated depreciation of \$702,990 and \$652,260	902,400	867,130
Deposits	6,400	6,400
Total assets	\$1,732,850	\$1,464,960
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accrued expenses and accounts payable	\$ 59,980	\$ 73,170
Note payable, current portion	9,040	8,530
Security deposits	3,600	4,600
Total current liabilities	72,620	86,300
Notes payable after one year	402,800	390,340
Total liabilities	475,420	476,640
Net assets, unrestricted, per accompanying statement	1,257,430	988,320
Total liabilities and net assets	\$1,732,850	\$1,464,960

See accompanying notes to financial statements.

FRIENDSHIP SHELTER, INC.
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STATEMENTS OF ACTIVITIES

For the year ended

December 31

2008

2007

Changes in net assets:

Revenues and support:

Program revenue	\$ 329,640	\$ 244,620
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Contributions, including materials and services of \$77,760 in 2008 and \$89,040 in 2007	<u>906,920</u>	<u>758,500</u>
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	<u>1,236,560</u>	<u>1,003,120</u>
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Expenses:

Direct program expenses	720,880	663,370
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General and administrative expenses	211,920	175,940
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Fundraising expenses	<u>24,080</u>	<u>39,330</u>
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	<u>956,880</u>	<u>878,640</u>
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Increase in net assets from operations	279,680	124,480
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Other revenues and expenses:

Interest income	11,720	21,190
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Interest expense	<u>(22,290)</u>	<u>(23,200)</u>
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Increase in net assets	269,110	122,470
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Net assets at beginning of year	<u>988,320</u>	<u>865,850</u>
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Net assets at end of year	<u>\$1,257,430</u>	<u>\$ 988,320</u>
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See accompanying notes to financial statements.

FRIENDSHIP SHELTER, INC.
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STATEMENTS OF CASH FLOWS
Decrease in Cash and Cash Equivalents

	For the year ended	
	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase in net assets	<u>\$269,110</u>	<u>\$122,470</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	50,730	44,400
Decrease (increase) in grants receivable	(61,740)	22,920
Increase in prepaid expenses and other current assets		(4,660)
Increase (decrease) in accrued expenses and accounts payable	(13,190)	37,390
Increase (decrease) in security deposits	<u>(1,000)</u>	<u>800</u>
Total adjustments	<u>(25,200)</u>	<u>100,850</u>
Net cash provided by operating activities	<u>243,910</u>	<u>223,320</u>
Cash flow from investing activities:		
Purchase of building improvements	<u>(86,000)</u>	<u>(7,420)</u>
Net cash used in investing activities	<u>(86,000)</u>	<u>(7,420)</u>
Cash flows from financing activities:		
Proceeds from loan	30,000	
Repayment of notes payable	<u>(17,030)</u>	<u>(16,130)</u>
Net cash provided by (used in) financing activities	<u>12,970</u>	<u>(16,130)</u>
Net increase in cash	170,880	199,770
Cash at beginning of year	<u>546,000</u>	<u>346,230</u>
Cash at end of year	<u>\$716,880</u>	<u>\$546,000</u>

See accompanying notes to financial statements.

FRIENDSHIP SHELTER, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BUSINESS, HISTORY AND ACCOUNTING POLICIES

Friendship Shelter, Inc. was incorporated on January 20, 1987 as a not-for-profit public benefit corporation. Friendship Shelter, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Friendship Shelter, Inc. is based in Laguna Beach, California and provides shelter and services for the temporarily homeless, and/or mentally or psychologically distressed individuals. A Board of Directors comprised of volunteer members governs the shelter.

The following is a summary of significant accounting policies:

Financial statement presentation

Friendship Shelter, Inc. presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 requires that net assets and revenue, gains, expenses and losses be classified as unrestricted, temporarily restricted and permanently restricted based on the following criteria:

Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.

Temporarily restricted net assets consist of contributed funds subject to specific donor restrictions contingent upon specific performance of a future event or a specific passage of time before the funds can be spent. Temporarily restricted net assets are reclassified to unrestricted net assets when the donor restrictions are satisfied.

Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for generating investment income to fund current operations.

Contributed services and materials

Contributed services are recorded at the estimated fair value at the time the services were performed. Only those contributed services that are a significant and integral part of the efforts of the Friendship Shelter and would have to be performed by professional salaried personnel if the services had not been contributed are included in the financial statements.

NOTE 1 – BUSINESS, HISTORY AND ACCOUNTING POLICIES (Continued)

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the resident facilities. The Organization receives more than 5,000 of these volunteer hours each year.

Contributed materials are recorded at their estimated value at the date of receipt.

Cash equivalents

Friendship Shelter considers its investments in certificates of deposit with various maturity dates to be highly liquid and, therefore, cash equivalents. These investments are carried at market value.

Capitalization and depreciation

Property, furniture and equipment are carried at cost. Contributed property and equipment are carried at estimated fair value at the time of contribution. Significant additions or improvements that extend asset lives are capitalized; normal maintenance and repair costs are expensed as incurred. Depreciation on the building and improvements is computed over 29.5 years using the straight-line method with regard to the facility in Laguna Beach and over 27.5 years with regard to the facilities in San Clemente. Depreciation on the furniture and equipment is provided over estimated useful lives of three or four years using the straight-line method.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – GRANT REVENUE

Reconciliation of grants receivable and grant revenue received is as follows:

Grants receivable at January 1, 2007	\$ 62,520
Awards during the year ended December 31, 2007	
included in program revenue	141,560
Reimbursements received during 2007	<u>(164,480)</u>
Grants receivable at December 31, 2007	39,600
Awards during the year ended December 31, 2008	
included in program revenue	329,640
Reimbursements received during 2008	<u>(267,900)</u>
Grants receivable at December 31, 2008	<u>\$101,340</u>

NOTE 3 – FIXED ASSETS

Fixed assets are as follows:

	December 31	
	2008	2007
Land	\$ 347,690	\$ 347,690
Buildings	1,091,790	1,091,790
Equipment, furnishings and improvements	<u>165,910</u>	<u>79,910</u>
	1,605,390	1,519,390
Accumulated depreciation	<u>702,990</u>	<u>652,260</u>
	<u>\$ 902,400</u>	<u>\$ 867,130</u>

Depreciation expense in 2008 and 2007 is \$50,730 and \$44,400, respectively.

NOTE 4 – FUNCTIONAL EXPENSES – SUPPLEMENTARY SCHEDULE

Functional expenses are as follows:

	For the year ended December 31, 2008			December 31, 2007	
	Program Services	General and administrative	Fundraising	Total	
Salaries and benefits	\$375,130	\$160,770		\$535,900	\$442,980
Land lease	67,200	2,800		70,000	57,000
Depreciation	49,720	1,010		50,730	44,400
Donated services	38,930			38,930	20,790
Donated materials	38,840			38,840	68,260
Client services	34,190			34,190	48,350
Utilities	28,140	3,130		31,270	30,160
Repairs & maintenance	26,960			26,960	21,250
Fundraising expense			\$24,080	24,080	39,330
Worker's comp insurance	15,390	6,590		21,980	24,190
Office supplies & expense	2,610	14,800		17,410	13,390
Professional fees		14,300		14,300	10,140
Property taxes	12,570	260		12,830	12,580
Insurance	10,770	220		10,990	14,940
House supplies & equipment	10,620			10,620	13,600
Telephone	4,340	4,330		8,670	8,120
Miscellaneous expense	2,910	2,680		5,590	5,800
Postage	1,040	1,030		2,070	1,380
Transportation	<u>1,520</u>			<u>1,520</u>	<u>1,980</u>
	<u>\$720,880</u>	<u>\$211,920</u>	<u>\$24,080</u>	<u>\$956,880</u>	<u>\$878,640</u>

NOTE 5 – NOTE PAYABLE

Note payable is as follows:

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Note payable to a bank, secured by real property	\$381,840	\$398,870
Note payable to City of San Clemente	<u>30,000</u>	<u> </u>
	411,840	398,870
Less current portion	<u>9,040</u>	<u>8,530</u>
	<u>\$402,800</u>	<u>\$390,340</u>

Friendship Shelter has a note payable to a bank of \$381,840 and \$398,870 at December 31, 2008 and 2007, respectively. The note is secured by a housing facility in San Clemente, California. The terms of the note require monthly payments of principal and interest. The interest rate is 5.8% and the monthly payment is \$2,780.

Friendship Shelter has a note payable to the City of San Clemente. The note is secured by a housing facility in San Clemente, California. This note does not require payments and the City has agreed to forgive this note if the property is not sold before May 2012. Management has elected not to recognize income related to the forgiveness of this note until the date the note is forgiven.

The aggregate maturity for the note payable for the five years after December 31, 2008 is \$9,040, \$9,570, \$10,140, \$10,740 and \$11,380, respectively.

NOTE 6 – LEASE COMMITMENT

Friendship Shelter leases land in Laguna Beach, California on which a shelter facility is located under a lease that expires in 2061. The lease requires monthly payments of \$5,830. The lease provides that the real property be appraised every five years. The annual rent is then adjusted to 8% of the appraised value. The last appraisal was performed in June 2007. The minimum lease commitment based on the current lease amount is \$70,000 annually.