FRIENDSHIP SHELTER, INC.
(A California Non-Profit Corporation)

FINANCIAL STATEMENTS

For The Year Ended December 31, 2014
(With Summarized Comparative Financial Information
For The Year Ended December 31, 2013)

with

INDEPENDENT AUDITORS' REPORT THEREON

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Independent Auditors' Report

Board of Directors
Friendship Shelter, Inc.

We have audited the accompanying financial statements of Friendship Shelter, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, 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 of 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 auditors' 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 Organization'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 Organization'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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2014, and the results of its operations 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 Organization's December 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KMJ Corbin & Company LLP

KMJ Corbin & Company LLP

Costa Mesa, California
May 20, 2015

FRIENDSHIP SHELTER, INC.
(A California Non-Profit Corporation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2014
(With Comparative Financial Information as of December 31, 2013)

ASSETS	December 31, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 580,920	$ 611,120
Investments	16,380	15,860
Receivables	49,630	76,000
Prepaid expenses and other current assets	30,680	5,830
Total current assets	677,610	708,810
Property, furniture and equipment, net	856,530	841,580
Deposits	21,490	16,580
Total assets	$ 1,555,630	$ 1,566,970
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 156,360	$ 105,250
Deferred revenue	14,540	-
Current portion of notes payable	18,500	46,000
Security deposits	1,550	1,200
Total current liabilities	190,950	152,450
Notes payable, net of current portion	245,470	266,310
Total liabilities	436,420	418,760
Net assets:		
Unrestricted	944,210	1,148,210
Temporarily restricted	175,000	-
Total net assets	1,119,210	1,148,210
Total liabilities and net assets	$ 1,555,630	$ 1,566,970

FRIENDSHIP SHELTER, INC.
(A California Non-Profit Corporation)

STATEMENTS OF ACTIVITIES

For The Year Ended December 31, 2014
(With Summarized Comparative Financial Information For The Year Ended December 31, 2013)

	2014 Unrestricted	2014 Temporarily Restricted	2014 Total	2013 Total
Revenues and support:				
Government, foundation and other private grants and contracts	$ 876,000	$ 175,000	$ 1,051,000	$ 715,940
Contributions, including material and services of $69,090 in 2014 and $74,590 in 2013	290,680	-	290,680	325,330
Special events, net	433,560	-	433,560	392,810
Program income and other	29,770	-	29,770	32,510
Forgiveness of note payable	30,000	-	30,000	-
Change in fair value of investments	520	-	520	1,720
	1,660,530	175,000	1,835,530	1,468,310
Expenses:				
Program services	1,673,530	-	1,673,530	1,383,160
General and administrative	121,920	-	121,920	135,350
Fundraising	69,080	-	69,080	13,990
	1,864,530	-	1,864,530	1,532,500
Change in net assets	(204,000)	175,000	(29,000)	(64,190)
Net assets, beginning of year	1,148,210	-	1,148,210	1,212,400
Net assets, end of year	$ 944,210	$ 175,000	$ 1,119,210	$ 1,148,210

STATEMENTS OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2014
(With Summarized Comparative Financial Information For The Year Ended December 31, 2013)

	2014				2013
	Program Services	General and Administrative	Fundraising	Total	Total
Salaries and benefits	$ 946,780	$ 81,600	$ 63,460	$ 1,091,840	$ 926,310
Apartment rent	142,230	-	-	142,230	-
Client services	122,800	-	-	122,800	117,600
Land lease	69,120	2,880	-	72,000	72,000
Depreciation and amortization	77,390	1,580	-	78,970	76,490
Donated services	33,350	-	-	33,350	36,590
Workers' compensation	63,440	630	600	64,670	64,910
Utilities	38,190	4,240	-	42,430	33,350
Repairs and maintenance	42,740	-	-	42,740	34,110
Donated materials	35,740	-	-	35,740	38,000
Professional fees	-	13,780	5,020	18,790	22,980
Interest	15,360	-	-	15,360	17,570
House supplies and equipment	14,350	-	-	14,350	13,540
Property taxes	14,740	300	-	15,040	13,200
Insurance	14,450	300	-	14,750	16,550
Office supplies and expense	2,470	9,860	-	12,330	11,970
Telephone	5,700	2,440	-	8,140	10,570
Transportation	17,780	-	-	17,780	8,120
Credit card processing fees	12,320	-	-	12,320	11,620
Miscellaneous expense	3,550	3,280	-	6,830	4,720
Postage	1,030	1,030	-	2,060	2,300
	$ 1,673,530	$ 121,920	$ 69,080	$ 1,864,530	$ 1,532,500

FRIENDSHIP SHELTER, INC.
(A California Non-Profit Corporation)

STATEMENTS OF CASH FLOWS

For The Year Ended December 31, 2014
(With Summarized Comparative Financial Information For The Year Ended December 31, 2013)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (29,000)	$ (64,190)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	78,970	76,490
Change in fair value of investments	(520)	(1,720)
Forgiveness of note payable	(30,000)	-
Change in operating assets and liabilities:		
Receivables	26,370	13,020
Prepaid expenses and other current assets	(24,850)	6,470
Deposits	(4,910)	(1,570)
Accounts payable and accrued expenses	51,110	4,030
Deferred revenue	14,540	-
Security deposits	350	(2,700)
Net cash provided by operating activities	82,060	29,830
Cash flows used in investing activities:		
Purchases of property, furniture and equipment	(93,920)	(23,590)
Cash flows used in financing activities:		
Principal payments on notes payable	(18,340)	(22,680)
Net change in cash and cash equivalents	(30,200)	(16,440)
Cash and cash equivalents at beginning of year	611,120	627,560
Cash and cash equivalents at end of year	$ 580,920	$ 611,120

NOTE 1 – BUSINESS HISTORY

Friendship Shelter, Inc. (the "Organization") was incorporated on January 20, 1987 as a not-for-profit public benefit corporation. The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California state income taxes under Section 23701(d) of the California Revenue and Taxation Code.

The Organization 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 Organization.

The Organization is primarily funded by contributions from the public, grant awards and special events.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, depending on the presence of donor restrictions. At December 31, 2014 and 2013, the Organization did not have permanently restricted net assets or contributions. At December 31, 2014, the Organization had one private foundation grant of $175,000 that is to be used for general operations through the end of 2016 that is reflected as a temporarily restricted contribution; no such contributions existed at December 31, 2013.

Cash and Cash Equivalents

Temporary, short-term and highly liquid investments that mature in less than three months from the date they are acquired are classified as cash and cash equivalents. The Organization maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per owner. Management believes that it has invested in high credit, quality institutions for which the Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these accounts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investments

Investments consist of a long-term investment pool which is carried at fair value.

Donated investments are recorded at fair value at the date of donation and thereafter carried at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized and unrealized gains or losses on those investments, is shown in the statement of activities.

Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market, or in the absence of a principal market, the most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs in priority that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities;

Level 2—Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, credit risks, and default rates) or other inputs that are principally derived from or corroborated by observable market data by correlation or by other means; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

See Note 3 for fair value disclosures.

Receivables

Receivables are primarily due from private and public granting agencies under grants and contracts. The Organization determines an allowance for uncollectible receivables based on historical experience. At December 31, 2014 and 2013, there was no allowance for uncollectible receivables.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property, Furniture and Equipment

Property, furniture and equipment are stated at cost. Contributed property and equipment are recorded 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 and amortization on buildings 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.

Long-Lived Assets

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of the asset group may not be recoverable. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-55, *Impairment or Disposal of Long-Lived Assets*, the evaluations address the estimated recoverability of the assets' carrying value. When the carrying value of an asset exceeds estimated recoverability, an impairment is recorded to reduce the carrying value to fair value. No impairments were required to be recorded during the years ended December 31, 2014 and 2013.

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 an integral part of the efforts of the Organization and would have to be performed by professional salaried personnel if the services had not been contributed are included in the financial statements.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the resident facilities that are not recorded. The Organization receives more than 5,000 of these volunteer hours each year.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Contributions, Grants and Contracts

Contributions and grants are recognized when the donor makes an unconditional promise to give to the Organization. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Certain grants are considered exchange contracts, with revenue recognized as the related costs are incurred. Amounts billed under exchange contracts prior to the related costs being incurred are recorded as deferred revenue.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Significant estimates embodied in these financial statements include the collectibility of receivables, the recoverability of long-lived assets and the allocation of expenses to program services, general and administrative expenses and fundraising expenses. Actual results could differ from those estimates.

Income Taxes

The Organization is a public charity that has obtained an exemption from Federal income taxes and California state income taxes. Accordingly, no provision has been made for Federal or California state income taxes in the accompanying financial statements. The Organization is subject, however, to Federal and California state income taxes on net unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended December 31, 2014 and 2013, the Organization had no unrelated business income.

The Organization annually evaluates tax positions as part of the preparation of its exempt tax return. This process includes an analysis of whether tax positions the Organization takes with regard to a particular item of income or deduction would meet the definition of an uncertain tax position under current accounting guidance. The Organization believes its tax positions are appropriate based on current facts and circumstances. The Organization's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At December 31, 2014 and 2013, the Organization did not have any unrecognized tax benefits. The Organization is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services, general and administrative expenses and fundraising expenses based upon estimated usage.

Risks and Uncertainties

Certain of the Organization’s services are governed by contracts with governmental and private agencies. All such contracts to which the Organization currently is a party are for fixed terms and expire at the end of those terms. As of December 31, 2014 and 2013, two and one of the Organization’s grantors accounted for approximately 85% and 91%, respectively, of receivables. For the years ended December 31, 2014 and 2013, two and one of the Organization’s grantors accounted for approximately 32% and 17%, respectively, of total revenues and support.

There can be no assurances that the Organization will be able to obtain future contracts as deemed necessary by management. The loss of some of the current contracts or the inability to obtain future contracts could cause the Organization to curtail or discontinue certain programs. Failure of the Organization to comply with applicable contract and regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties which could have an adverse effect on the Organization’s financial position and activities.

Subsequent Events

The Organization has evaluated and determined that no events have occurred subsequent to the statement of financial position date and through May 20, 2015, the date of issuance of these financial statements, which would require inclusion or disclosure in its financial statements, other than as disclosed in the accompanying notes.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Organization currently holds its investments in a long-term investment pool. In this investment, funds are invested to provide safety through diversification in a portfolio of common stocks, bonds, mutual funds, alternative investments and cash equivalents. The fair value of the Organization's investments in its long-term investment pool is based partially upon unobservable inputs that are significant to the fair value of the investments, as estimated by the investment manager using generally accepted valuation methodologies. These investments have been classified within Level 3 of the valuation hierarchy.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, December 31, 2012	$ 14,140
Change in fair value of investments	1,720
Balance, December 31, 2013	15,860
Change in fair value of investments	520
Balance, December 31, 2014	$ 16,380

NOTE 4 – PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment, net at December 31 consisted of the following:

	2014	2013
Land	$ 347,690	$ 347,690
Buildings	1,091,790	1,091,790
Construction in progress	46,936	-
Equipment, furnishings and improvements	495,144	448,160
	1,981,560	1,887,640
Less accumulated depreciation and amortization	(1,125,030)	(1,046,060)
	$ 856,530	$ 841,580

NOTE 5 – NOTES PAYABLE

Notes payable at December 31 consisted of the following:

	2014	2013
Note payable to bank, secured by real property	$ 263,970	$ 282,310
Note payable to City of San Clemente	-	30,000
	263,970	312,310
Less current portion	(18,500)	(46,000)
	$ 245,470	$ 266,310

The Organization has a note payable to a bank that is secured by a housing facility in San Clemente, California (the "City"). The terms of the note require monthly payments of principal and interest. The interest rate is 5.765%, the monthly payment is $2,780 and the note matures on February 1, 2017.

The Organization had a non-interest bearing note payable to the City. The note was secured by a housing facility in the City. This note did not require payments and the City agreed to forgive this note if the property was not sold before May 2012. As of December 31, 2014, the note was forgiven by the City. During 2014, management recognized income related to the forgiveness of this note as it was formally forgiven by the City in April 2014.

Future minimum annual principal payments on the note payable to bank are as follows:

Years Ending December 31,	
2015	$ 18,500
2016	19,570
2017	225,900
	$ 263,970

NOTE 6 – SPECIAL EVENTS

Special events include revenue and expenses from events sponsored and managed by the Organization. Income and expenses from special events for the years ended December 31 are as follows:

	2014	2013
Revenues	$ 586,560	$ 551,490
Expenses	(153,000)	(158,680)
	$ 433,560	$ 392,810

NOTE 7 – RELATED PARTY TRANSACTIONS

Various board members make contributions to the Organization through donations, fundraising events and volunteer time. For the years ended December 31, 2014 and 2013, cash contributions recorded from board members totaled approximately $121,000 and $117,000, respectively, which are recorded in both contributions and special events, net in the accompanying statements of activities.

The Organization's Board President owns the entity used by the Organization for the architectural fees related to the Henderson House project. During 2014, the Organization incurred fees related to such architect fees in the amount of $33,400 and are included in construction in progress and accounts payable and accrued expenses in the accompanying statement of financial position at December 31, 2014. Additionally, the Organization's Vice President owns an entity used by the Organization to purchase computers. During 2014, the Organization incurred fees of $8,270 related to such computer purchases, of which $7,030 is included in property, furniture and equipment in the accompanying statement of financial position and $1,240 is included in general and administrative expenses in the accompanying statement of activities at December 31, 2014.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Organization 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 $6,000. 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 2012. The minimum lease commitment based on the current lease amount is approximately $72,000 annually.

NOTE 8 – COMMITMENTS AND CONTINGENCIES, continued

Guarantees and Indemnities

The Organization has made certain indemnities, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The Organization indemnifies its directors, officers, employees and agents, as permitted under the laws of the State of California. In connection with its land lease, the Organization has indemnified its lessor for certain claims arising from the use of the land. The duration of the indemnities varies, and is generally tied to the life of the respective agreement. These indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. Historically, the Organization has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities in the accompanying statements of financial position.