

FRIENDSHIP FORCE INTERNATIONAL, INC.

**AUDITED FINANCIAL STATEMENTS
Together With Independent Auditors' Report**

DECEMBER 31, 2008 and 2007

FRIENDSHIP FORCE INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

TABLE OF CONTENTS

| | Page |
|-----------------------------------|-------------|
| Independent Auditors' Report | 1 |
| Financial Statements | |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statements of Cash Flows | 4 |
| Notes to the Financial Statements | 5-10 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Friendship Force International, Inc.

We have audited the accompanying statements of financial position of the Friendship Force International, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Friendship Force International, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization as of December 31, 2007, were audited by other auditors whose report dated May 30, 2008 expressed an unqualified opinion on those statements.

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 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 our audit provides 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 the Friendship Force International, 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 accounting principles generally accepted in the United States of America.

PJC Group, LLC

Atlanta, Georgia
June 10, 2009

FRIENDSHIP FORCE INTERNATIONAL, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008 and 2007**

ASSETS

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|
| Current Assets | | |
| Cash and Cash Equivalents | \$ 234,377 | \$ 318,376 |
| Deposits and Other Prepaid Costs | 40,293 | 29,278 |
| Grant and Other Receivables | 90,761 | 121,517 |
| Promotional Materials, Net | 21,340 | 1,683 |
| Total Current Assets | <u>386,771</u> | <u>470,854</u> |
| Fixed Assets | | |
| Furniture & Fixtures | 1,919 | 2,509 |
| Computer Equipment | 10,194 | 20,018 |
| Leasehold Improvements | 8,532 | 14,555 |
| Computer Network/Website Develop | 56,608 | 38,600 |
| Total Fixed Assets, net of depreciation | <u>77,253</u> | <u>75,682</u> |
| TOTAL ASSETS | <u><u>464,024</u></u> | <u><u>546,536</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|---|-----------------------|-----------------------|
| Current Liabilities | | |
| Accounts Payable | 22,971 | 38,774 |
| Other Liabilities | 43,981 | 10,603 |
| Total Current Liabilities | <u>66,952</u> | <u>49,377</u> |
| Net Assets | | |
| Unrestricted | 318,425 | 372,702 |
| Temporarily Restricted | 78,647 | 124,457 |
| Permanently Restricted | - | - |
| Total Net Assets | <u>397,072</u> | <u>497,159</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>464,024</u></u> | <u><u>546,536</u></u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

FRIENDSHIP FORCE INTERNATIONAL, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEARS ENDING DECEMBER 31, 2008 and 2007**

| | 2008 | | | 2007 | | | | |
|---|------------------|------------------------|------------------------|------------------|------------------|------------------------|------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUES AND OTHER SUPPORT | | | | | | | | |
| Exchange Fees | 1,302,351 | - | - | 1,302,351 | 3,197,496 | - | - | 3,197,496 |
| Magazine/ Membership Contributions, Including Prior Year Restricted | 95,108 | - | - | 95,108 | 108,397 | - | - | 108,397 |
| Legacy Fund Contributions | 45,810 | - | - | 45,810 | 95,692 | - | - | 95,692 |
| Grants | - | 43,631 | - | 43,631 | - | 124,457 | - | 124,457 |
| Interest | 334,712 | - | - | 334,712 | 365,688 | - | - | 365,688 |
| Other | 3,825 | - | - | 3,825 | 25,287 | - | - | 25,287 |
| Reclassified to Unrestricted Net Assets | 79,445 | - | - | 79,445 | 86,914 | - | - | 86,914 |
| | 89,441 | (89,441) | - | - | - | (92,332) | - | (92,332) |
| Total Revenues and Other Support | 1,950,692 | (45,810) | - | 1,904,882 | 3,879,474 | 32,125 | - | 3,911,599 |
| EXPENSES | | | | | | | | |
| Program Services | 1,773,490 | - | - | 1,773,490 | 3,404,110 | - | - | 3,404,110 |
| General and Administrative | 231,479 | - | - | 231,479 | 408,874 | - | - | 408,874 |
| Total Expenses | 2,004,969 | - | - | 2,004,969 | 3,812,984 | - | - | 3,812,984 |
| INCREASE (DECREASE) IN NET ASSETS | (54,277) | (45,810) | - | (100,087) | 66,490 | 32,125 | - | 98,615 |
| NET ASSETS AT BEGINNING OF YEAR | 372,702 | 124,457 | - | 497,159 | 306,212 | 92,332 | - | 398,544 |
| NET ASSETS AT END OF YEAR | 318,425 | 78,647 | - | 397,072 | 372,702 | 124,457 | - | 497,159 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

FRIENDSHIP FORCE INTERNATIONAL, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITY | | |
| Changes in net assets | (100,087) | 98,615 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 28,671 | 16,507 |
| Decrease in Grants and Other Receivables | 30,756 | (43,031) |
| Increase in Deposits and Other Prepaid Cost | (11,015) | 85,630 |
| Increase in Promotional Materials, Net | (19,657) | 5,365 |
| Decrease in Accounts Payable | (15,803) | (14,702) |
| Increase in Unearned Fees | 33,378 | (239,848) |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(53,757)</u> | <u>(91,464)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Fixed Assets | <u>(30,242)</u> | <u>(76,777)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(30,242)</u> | <u>(76,777)</u> |
| NET DECREASE IN CASH | (83,999) | (168,241) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>318,376</u> | <u>486,617</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>234,377</u></u> | <u><u>318,376</u></u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

NOTE 1 – ORGANIZATION

Friendship Force International, Inc. (FFI) is the International Headquarters for Friendship Force. FFI was incorporated on March 17, 1977 as a tax-exempt 501 (c) (3) organization in the State of Georgia. FFI is operated exclusively for international educational exchange and charitable purposes. The primary mission of the organization is to improve international understanding through the exchange of ordinary people, using short-term exchange visits involving “citizen ambassadors” who travel and are hosted by Friendship Force members in another country.

The main function of FFI is to develop and maintain a global network of local Friendship Force clubs, each of which is an independent, volunteer-led organization that operates in accordance with the policies established by the FFI Board of Directors. Each club receives an annual assignment from FFI to operate one or more exchanges with partner clubs. The FFI staff monitors and supports the efforts of the local exchange communities. In addition, FFI develops new clubs and evaluates exchange performance to ensure proper control.

Each club is responsible for conducting its exchange and for submitting appropriate administrative and membership fees to FFI. The accompanying financial statements do not reflect the activities of these local clubs or exchange committees, since, in the opinion of management, such activities do not come under Friendship Force International, Inc.’s financial accountability.

To supplement the exchanges sponsored by the Friendship Force club network, FFI develops partnerships with external organizations for the purpose of organizing goodwill exchanges for special groups. In 2008, Friendship Force continues the partnership with the following organizations; The Library of Congress Open World Program and the World Pilgrims Project.

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 generally accepted accounting principles in the United States of America.

FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with the requirements of the Financial Accounting Standards No. 117, “Financial Statements of Not-for-Profit Organizations”. Accordingly, net assets are reported in each of the following three classes: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. At December 31, 2008, FFI does not have any permanently restricted net assets.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use that may or will be met either by actions of the organization and/or the passage of time. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. Unrestricted net assets include amounts that are not subject to donor-imposed stipulations, which are used to account for resources available to carry out the purposes of FFI, in accordance with the limitations of its charter and bylaws. The principal sources of unrestricted funds are grants, contributions and investment income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires FFI’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Internal Revenue Service has notified FFI that it qualifies as a publicly supported charitable organization as described in section 501 (c) (3) of the Internal Revenue Code. Under this section, the Organization is not subject to federal income taxes, except for income from activities not related to the purpose of the Organization. The tax-exempt status of the Organization does not extend to the exchange committees, which must apply for their own tax exemptions. In the opinion of management, the Organization is in compliance with the applicable tax regulations and has no taxable income. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

**FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Promises to Give

FFI records promises to give in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made." Under SFAS No. 116, contributions are recognized when the donor makes a Promise to Give to the Organization that is, in substance, unconditional. There were no outstanding Promises to Give at December 31, 2008.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other 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 as unrestricted net assets. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. At December 31, 2008 and 2007, management determined that no allowance was necessary.

Fixed Assets

Property and equipment acquisitions are recorded at cost or fair market value when received. It is the policy to provide for depreciation in amounts sufficient to relate the cost of such assets over the estimated useful lives (three years for computer equipment and five years for office furniture and fixtures) by using annual rates applied on a straight-line method. Leasehold improvements are depreciated over the remaining term of the lease from the point in time that the improvements are placed into service; or for the estimated useful life of the asset, whichever is shorter.

FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Legacy Fund Contributions

The funds that are donated to the Legacy Fund are held as temporarily restricted funds until the Board of Directors approves the expenditure of the funds.

All funds donated in 2008 were paid to FFI by the donor in 2008. There was \$124,457 in temporarily restricted net assets at December 31, 2007, \$89,441 were authorized for 2008 expenditures by the Board of Directors and reclassified to unrestricted net assets. Temporarily restricted net assets, also designated as the Legacy Fund, at December 31, 2008 consist of \$78,647.

Exchange Fees

Exchange Fees received from ambassadors are recorded as revenue on a time table determined by the nature of the exchange. Amounts received from ambassadors that represent deposits on travel costs to be incurred by the ambassador that are more than just the FFI administrative fees are recorded along with the FFI fees as unearned income (short-term liabilities) until the exchange is completed. Amounts expended by FFI to prepay costs or make deposits on behalf of the ambassador traveling with the FFI exchange are recorded appropriately as deposits or prepayments (short-term assets). When the exchange is completed, the exchange accounts are closed out and the FFI administrative fee portion is recorded as income at that time.

Fees from exchanges that require ambassadors to remit only amounts that are FFI administrative fees are recorded as revenue when recorded, generally within 45 days of the travel date for the exchange. By this time, substantially all of the FFI costs associated with the exchange have been incurred and the FFI administrative fee is considered 100% earned and is recognized as exchange revenue; subject to any future refunds that may become necessary.

Direct Exchange Costs

As discussed in the previous section, airline and hotel deposits and payments made from exchange fees received from ambassadors are recorded as deposits and other prepaid costs until the month in which the exchange is completed, at which time they are expensed.

FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

NOTE 3 – LINE OF CREDIT

The Organization has a \$300,000 renewable unsecured line of credit with a bank to be drawn upon as needed, with an interest at the prime rate plus .25%. There was no balance due on the line at December 31, 2008 and 2007. \$0.00 of the line of credit had been drawn down and was outstanding as of December 31, 2008.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those resources currently available for use, but expendable only for purposes specified by the donor or grantor. Such resources originate from grants and contributions restricted for specific purposes. When a donor or grantor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2008, temporarily restricted net assets include donations for The Legacy Fund which was established by a Board of Director's in 2004 to provide a vehicle for FFI's developmental needs. In 2008, FFI continued to solicit donations for the Legacy Fund.

NOTE 5 - COMMITMENTS

The organization has entered into non-cancelable lease agreements for the rental of office space and equipment. At December 31, 2008, the annual future minimum payments under these agreements are as follows:

| | |
|---------------------|---------------|
| 2009 | \$ 67,458 |
| 2010 and thereafter | <u>34,936</u> |
| Total | \$ 102,394 |

The amount included in the accompanying financial statements for these expenditures of office space and equipment was \$60,375 and \$60,401 in 2008 and 2007, respectively.

NOTE 6 – CONCENTRATION OF REVENUE SOURCE

The exchange fee the Organization generates represents a significant part of their total revenue. As of December 31, 2008 and 2007, the percentage that represents the exchange fee portion of the total revenues generated is 70% and 82%, respectively.

**FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

NOTE 7 – EXPENSES

In accordance with Statement of Financial Accounting Standards No. 117, not for profit organizations are encouraged to report expenses by the natural classification.

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|--------------------|--------------------|
| Direct Exchange Costs | \$ 547,657 | \$2,360,702 |
| Salaries | 556,391 | 566,993 |
| Miscellaneous General Expenses | 125,274 | 103,306 |
| Employee Benefits | 129,969 | 137,662 |
| Professional Services | 10,459 | 15,225 |
| Printing, Publications and | | |
| Postage | 28,310 | 41,361 |
| Office Rent | 60,375 | 53,402 |
| Program Development | 162,664 | 113,911 |
| Depreciation | 28,671 | 16,507 |
| Telephone | 22,981 | 28,546 |
| Travel and Accommodations | 30,269 | 19,889 |
| System Development | 14,498 | 16,868 |
| Grant Expenses | <u>287,451</u> | <u>338,612</u> |
| | <u>\$2,004,969</u> | <u>\$3,812,984</u> |