

FRIENDSHIP FORCE INTERNATIONAL, INC.

FINANCIAL STATEMENTS
Together with
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018 AND 2017

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<u>TABLE OF CONTENTS</u>	<u>Page</u>
• Independent Auditor's Report	3
FINANCIAL STATEMENTS	
• Statements of Financial Position	4
• Statement of Activities - 2018	5
• Statement of Activities - 2017	6
• Statements of Functional Expenses	7
• Statements of Cash Flows	8
• Notes to Financial Statements	9-17



June 12, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Friendship Force International, Inc.

We have audited the accompanying financial statements of Friendship Force International, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditor's 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 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.

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 Friendship Force International, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Long & Company, P.C.
Long & Company, P.C.

- 3 -

FRIENDSHIP FORCE INTERNATIONAL, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

Assets	2018	Restated 2017
Current Assets:		
Cash and cash equivalents	\$ 512,537	\$ 301,670
Grants receivable	71,989	9,827
Other receivables	-	324
Prepaid expenses	28,145	141,114
Promotional materials	-	1,419
Total Current Assets	612,671	454,354
Property & Equipment, Net	78,461	138,145
Other Assets:		
Deposits	6,008	6,008
Total Other Assets	6,008	6,008
Total Assets	\$ 697,140	\$ 598,507
Liabilities And Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 84,786	\$ 58,603
Deferred revenue	317,054	192,253
Sublease liability - current portion	4,431	4,373
Total Liabilities	406,271	255,229
Long-Term Liabilities		
Sublease refundable deposit	4,608	4,608
Sublease liability	13,599	18,030
Total Long-Term Liabilities	18,207	22,638
Total Liabilities	424,478	277,867
Net Assets		
Without donor restrictions	206,493	285,432
With donor restrictions	66,169	35,208
Total Net Assets	272,662	320,640
Total Liabilities And Net Assets	\$ 697,140	\$ 598,507

See accompanying notes which are an integral part of these financial statements

FRIENDSHIP FORCE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Journey fees	\$ 791,238	\$ -	\$ 791,238
Club affiliation fees	181,752	-	181,752
Annual Fund contributions	-	42,454	42,454
Government grants	119,457	-	119,457
Investment return	87	-	87
Other income	48,079	-	48,079
Gain on sublease	-	-	-
Gain on disposal of property & equipment	480	-	480
Net assets released from restrictions	11,493	(11,493)	-
Total Revenue, Gains and Other Support	1,152,586	30,961	1,183,547
Expenses and Losses			
Program Services	888,347	-	888,347
Supporting Services:			
Management and general	251,646	-	251,646
Fundraising	91,532	-	91,532
Total Supporting Services	343,178	-	343,178
Total Expenses	1,231,525	-	1,231,525
Loss on Disposal of Property & Equipment	-	-	-
Total Expenses and Losses	1,231,525	-	1,231,525
Change In Net Assets	(78,939)	30,961	(47,978)
Net Assets-Beginning of Year - as Restated	285,432	35,208	320,640
Net Assets-End of Year	\$ 206,493	\$ 66,169	\$ 272,662

See accompanying notes which are an integral part of these financial statements

FRIENDSHIP FORCE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Restated		Total
	Without Donor Restrictions	With Donor Restrictions	
Revenues, Gains, and Other Support			
Journey fees	\$ 795,446	\$ -	\$ 795,446
Club affiliation fees	185,571	-	185,571
Annual Fund contributions	6,934	35,208	42,142
Government grants	108,992	-	108,992
Investment return	432	-	432
Other income	56,117	-	56,117
Gain on sublease	2,365	-	2,365
Gain on disposal of property & equipment	-	-	-
Net assets released from restrictions	142,265	(142,265)	-
Total Revenue, Gains and Other Support	1,298,122	(107,057)	1,191,065
Expenses and Losses			
Program Services	903,842	-	903,842
Supporting Services:			
Management and general	310,280	-	310,280
Fundraising	83,402	-	83,402
Total Supporting Services	393,682	-	393,682
Total Expenses	1,297,524	-	1,297,524
Loss on Disposal of Property & Equipment	4,699	-	4,699
Total Expenses and Losses	1,302,223	-	1,302,223
Change In Net Assets	(4,101)	(107,057)	(111,158)
Net Assets-Beginning of Year	289,533	142,265	431,798
Net Assets-End of Year	<u>\$ 285,432</u>	<u>\$ 35,208</u>	<u>\$ 320,640</u>

See accompanying notes which are an integral part of these financial statements

FRIENDSHIP FORCE INTERNATIONAL, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				Restated 2017			
	Supporting Services			2018 Total	Supporting Services			2017 Total
	Program Services	Management & General	Fundraising		Program Services	Management & General	Fundraising	
Salaries	\$ 389,518	\$ 101,110	\$ 38,503	\$ 529,131	\$ 449,592	\$ 100,813	\$ 43,314	\$ 593,719
Fringe benefits	126,414	32,815	12,498	171,727	103,683	25,012	10,126	138,821
Bank and credit card fees	-	24,757	-	24,757	-	39,397	-	39,397
Depreciation	43,935	11,405	4,344	59,684	25,616	12,808	4,269	42,693
Insurance	5,277	469	117	5,863	7,991	710	178	8,879
Miscellaneous general expenses	930	82	20	1,032	6,733	22,154	2,064	30,951
Office rent	8,653	2,246	855	11,754	34,157	2,228	743	37,128
Printing, publications, & postage	999	5,207	666	6,872	1,042	10,455	695	12,192
Professional services	-	32,066	-	32,066	-	57,656	-	57,656
Professional services-external staff	188,572	-	-	188,572	116,497	-	-	116,497
Program development	23,367	-	-	23,367	69,474	-	-	69,474
Public relations	26,319	52	26,308	52,679	14,018	286	13,961	28,265
Supplies	4,418	4,418	2,209	11,045	3,525	3,525	1,763	8,813
Telephone	5,069	5,069	2,535	12,673	4,993	4,993	2,499	12,485
Travel	61,045	28,119	1,562	90,726	61,772	25,494	1,416	88,682
Website	3,831	3,831	1,915	9,577	4,749	4,749	2,374	11,872
Total	\$ 888,347	\$ 251,646	\$ 91,532	\$ 1,231,525	\$ 903,842	\$ 310,280	\$ 83,402	\$ 1,297,524

See Accompanying Notes which are an Integral Part of These Financial Statements

FRIENDSHIP FORCE INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	Restated 2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (47,978)	\$ (111,158)
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	59,684	42,693
(Gain) Loss on Disposal of Property and Equipment	(480)	4,699
(Increase) decrease in operating assets:		
Grants receivable	(62,162)	65,733
Other receivable	324	600
Prepaid expenses	112,969	(87,169)
Promotional Materials	1,419	(1,419)
Deposits	-	(350)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	26,183	31,458
Accrued rent	-	(29,663)
Deferred revenue	124,801	30,518
Sublease liability	(4,373)	22,403
Sublease refundable deposit	-	4,608
Net Cash Provided (Used) by Operating Activities	<u>210,387</u>	<u>(27,047)</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	-	(80,490)
Proceeds from sales of property and equipment	480	-
Net Cash Provided (Used) by Investing Activities	<u>480</u>	<u>(80,490)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	210,867	(107,537)
Cash and Cash Equivalents at Beginning of Year	<u>301,670</u>	<u>409,207</u>
Cash and Cash Equivalents at End of Year	<u>\$ 512,537</u>	<u>\$ 301,670</u>

See accompanying notes which are an integral part of these financial statements

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Friendship Force International, Inc. ("FFI") was incorporated on March 17, 1977 as a non-profit corporation under the laws of the State of Georgia. FFI is operated exclusively for international educational exchange and charitable purposes. FFI's primary mission is to promote global understanding across the barriers that separate people, using short-term exchange ("journey") visits involving "citizen ambassadors" who travel and are hosted by Friendship Force member clubs in other countries. FFI is funded primarily by journey fees and club affiliation fees.

FFI's main function 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 FFI's Board of Directors. Each club receives an annual assignment from Friendship Force International, Inc. to operate one or more journeys with partner clubs. FFI's staff monitors and supports the efforts of the local exchange communities. In addition, FFI develops new clubs and evaluates journey performance to ensure proper control.

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

To supplement the journeys sponsored by the Friendship Force club network, FFI develops partnerships with external organizations for the purpose of organizing goodwill journeys for special groups. In 2018 and 2017, FFI continued its relationship with The Open World Leadership Center.

Financial Statement Presentation

FFI prepares its financial statements using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor-imposed restrictions. The Board, at its discretion, may designate a portion of the net assets without donor restrictions to be used for specific purposes.
- *Net Assets with Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met either by the actions of FFI or the passage of time. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. If a restriction is fulfilled during the same year in which the contribution is received, FFI reports that support as an increase in net assets without donor restrictions.

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America 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 could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, FFI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

FFI carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. FFI maintains one brokerage account but had no investment activity during the years ended December 31, 2018 and 2017. The brokerage money market account is classified as cash and cash equivalents.

Promises to Give and Contributions

Contributions, including unconditional promises to give that are expected to be collected within one year, are recognized as support in the period received and are either classified as with or without donor restrictions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. An allowance for uncollectible accounts is recorded by management, if necessary, for reimbursable expenses either in dispute with the funding agency or deemed uncollectible. FFI had no promises to give as of December 31, 2018, and 2017.

Grant Revenue

Grant revenue was received in 2018 and 2017 from Open World Leadership Center. FFI recognizes grant revenue to the extent of related expenses incurred or services provided in compliance with the grant provisions.

Annual Fund Contributions

FFI launched a Global Expansion Plan. The Global Expansion Plan involves club expansion, expanding themed journeys, and new programs. Contributions to the Annual Fund are held as net assets with donor restrictions until the Board of Directors appropriates the funds for expenditure.

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Journey Fees

Journey fee revenue is derived from payments made to FFI by club ambassadors for management of the journeys. Payments are also received as advance deposits for travel related costs and pass through host fees. Exchange fee revenue and related costs are generally recognized at the time the journey occurs.

Club Affiliation Fees

Club affiliation fees are recognized as revenue over the term covered by the fees, which is generally the calendar year. Club affiliation fees are \$15 per individual and \$25 per family as of December 31, 2018.

Deferred Revenue

Deferred revenue results from FFI receiving journey fees and costs in advance of the exchange dates. It also includes club affiliation fees received in advance of the period covered by the fees.

Property and Equipment

Property and equipment are recorded a cost or, if donated, at fair market value at the date of the gift. Acquisitions of property and equipment or repairs, maintenance, or betterments that materially prolong the useful lives of assets in excess of \$500 are capitalized. Depreciation of property is computed on a straight-line basis over the estimated service lives of the assets. The following lives have been assigned to the capitalized assets:

Computer Equipment	3-5 years
Furniture and Fixtures	5 years
Network/Database/Website	3-5 years

Donations of property and equipment are recorded as support at their estimated fair market value. Such donations are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations regarding how long the long-lived assets must be maintained, FFI reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service. FFI reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include personnel costs, depreciation, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax-Exempt Status

FFI qualifies as a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements. FFI is not classified as a private foundation. The tax-exempt status of FFI does not extend to the local Friendship Force clubs which must apply for their own tax-exempt status.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, FFI may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of FFI and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2018 and 2017.

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, FFI uses various methods including market, income and cost approaches. Based on these approaches, FFI often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. FFI utilizes valuation techniques that maximize the use of observable inputs and minimize the use on unobservable inputs. SFAS 157 establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. These three general valuation techniques that may be used to measure fair value are as follows:

- **Level 1** – quoted prices (unadjusted) in active markets that are accessible at the measurement date for the assets or liabilities;
- **Level 2** – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- **Level 3** – unobservable inputs are used when little or no market data is available

Reclassification of Prior Year's Financial Statements

Certain items in the prior year financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no effect on previously reported changes in net assets or net assets.

Compensated Absences

Annual leave is granted to all employees working 20 hours per week. Annual leave is earned at a rate of 14 to 28 days per year for full-time employees depending upon the years of service. That rate is prorated for part-time employees based on the number of hours worked. Liability for annual leave and related benefits are accrued as they are vested to the employees.

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Newly Adopted Accounting Pronouncement

Effective January 1, 2018, FFI adopted Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), which revises the way that all not-for-profits (“NFPs”) present financial statements. Key measures of this ASU included:

- The reduction of the three existing net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two net asset classes: net assets without donor restrictions and net assets with donor restrictions.
- An analysis of expenses both by function and natural classification either in a separate statement or within the notes to the financial statements.
- Enhancing disclosures surrounding donor restrictions and Board designations and providing information on the not-for-profit’s financial assets and their liquidity.
- Presentation of investment expenses netted against investment return.
- Removing the requirement to show a reconciliation of the direct method of cash flows with the indirect method of cash flows within the statement of cash flows.

The adoption of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the periods presented. Net assets previously reported unrestricted are now reported as net assets without donor restrictions. Likewise, net assets previously reported as temporarily restricted are now reported as net assets with donor restrictions. FFI did not have any permanently restricted net assets.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” 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 U.S. GAAP 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. Management is currently evaluating the impact of this adoption on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which replaces the existing guidance in ASC 840 - Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset and for operating leases, the lessee would recognize a straight-line total lease expense. This ASU is effective for fiscal years beginning after December 15, 2019. The requirements of this standard include a significant increase in required disclosures. Management is currently evaluating the impact of this ASU on the financial statements.

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 2 – RECEIVABLES

Grant receivable consisted of \$71,989 as of December 31, 2018, and \$9,827 as of December 31, 2017 representing amounts due from the Federal Government Open World Leadership Center grant. Amounts were considered fully collectible and due within one year.

Other receivables as of December 31, 2018 and 2017 represented amounts due from various resources including travel commissions, and other reimbursements. These receivables were fully collectible and due within one year.

Note 3 – PROMOTIONAL MATERIALS INVENTORY

Promotional materials inventory is stated at original cost, and consists of various items on hand at the end of the year, such as medals, pins, books, and publications used to promote FFI and its programs. The amount reported in the financial statements is based on a physical inventory taken during the year. Obsolete items are written off each year based on management's estimate of the value or usefulness of the materials. The amount of materials on hand at the end of December 31, 2018, and 2017 was \$-0-, and \$1,419, respectively.

Note 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
Furniture & Fixtures	\$ -	\$ 3,745
Computer Equipment	10,352	11,088
Computer Network/Website	174,917	174,917
	<u>185,269</u>	<u>189,750</u>
Accumulated Depreciation	(106,808)	(51,605)
Total Property and Equipment -Net	<u>\$ 78,461</u>	<u>\$ 138,145</u>
Depreciation Expense	<u>\$ 59,684</u>	<u>\$ 42,693</u>

Note 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are those resources currently available for use, but expendable only for purposes specified by the donor. Net assets with donor restrictions were available for the following purposes as of December 31, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
Annual Fund		
Club Development and Expansion	\$ 52,162	\$ 32,108
Leadership Development	11,585	2,900
Other	2,422	200
	<u>\$ 66,169</u>	<u>\$ 35,208</u>

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 6 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the FFI's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at December 31, 2018 are comprised of:	
Cash and cash equivalents	\$ 512,537
Grants receivable	71,989
	<hr/>
Total financial assets at December 31, 2018	584,526
Less those unavailable for general expenditure within one year:	
Amounts held for third-party travel expenses	(219,623)
Donor-restricted for annual fund	(66,169)
	<hr/>
Financial assets available to meet cash needs for general expenditure within one year.	<u>\$ 298,734</u>

As part of its plan to manage liquid assets, FFI's goal is to maintain cash to fund 90 days of operations. FFI invests excess cash conservatively in money market funds to attain the highest yield possible, while still preserving capital.

Note 7 – CONCENTRATION OF CREDIT RISK – DEPOSITS IN EXCESS OF INSURED LIMITS

FFI maintains demand deposit accounts with federally insured banks in the United States. FFI also maintains a demand account in the United Kingdom, which is not federally insured. The value of that account is subject to currency exchange fluctuations. Cash and cash equivalents reported on the statements of financial position also include funds held in a money market mutual fund in a brokerage account. That account is covered by Securities Investor Protection Corporation (SIPC), but it is not insured by the FDIC or otherwise guaranteed by the U.S. Government. FFI's cash and cash equivalents in excess of FDIC coverage was approximately \$244,949 and \$19,417 at December 31, 2018 and 2017, respectively. Management has considered the financial strength of the financial institutions and considers the risk of loss to be minimal.

Note 8 – RETIREMENT PLAN

Friendship Force International, Inc. offers its eligible employees a SIMPLE-IRA retirement plan. Employees may contribute the maximum allowed under the Internal Revenue Code. FFI matches employee contributions up to 3% of compensation. Employer contributions for the year ended December 31, 2018, and 2017 were \$10,961, and \$9,095, respectively.

Note 9 – LINE OF CREDIT

FFI has available a line of credit with a bank. Maximum borrowings under the line are \$80,000. Borrowings bear interest at variable rates (12.5% at December 31, 2018). The line-of-credit is unsecured and expires March 20, 2020. As of December 31, 2018, and December 31, 2017, FFI had no balance outstanding on the line of credit.

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 10 - COMMITMENTS AND CONTINGENCIES

Grant Commitments

Federal awards require the fulfillment of certain conditions as set forth in the contracts. Failure to fulfill the conditions could result in the return of funds to grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely since, upon accepting the grants, FFI has agreed to comply with the provisions thereof.

Operating Leases

FFI is obligated under an operating lease for office facilities. The lease commenced on January 1, 2016 with a term of eighty-four (84) months. The lease calls for monthly rent payments (\$5,126 as of December 31, 2018) with annual escalations.. FFI is also be responsible for its share of the landlord's operating costs. A security deposit in the amount of \$5,658 was paid to the landlord and is reported on the statement of financial position as a deposit.

Sublease Liability

FFI moved out of the leased offices on June 30, 2017, and subleased the entire space to a subtenant effective July 1, 2017. The sublease agreement calls for monthly rent payments of \$4,608, with annual escalations. The sublease agreement expires on December 31, 2022, the same date that FFI's original lease agreement expires. The sub-lessee has paid FFI a security deposit of \$4,608.

FFI has recorded a sublease liability on its statement of financial position representing the difference between the present value of the lease payments due to the landlord under the original lease over the present value of the minimum rent payments due from the subtenant. Future minimum lease payments are as follows:

Years ended <u>December 31:</u>	<u>Rent to be Paid</u>	<u>Less: Rent to be Received</u>	<u>Sublease Liability</u>
2019	63,043	57,822	5,221
2020	64,605	59,562	5,043
2021	66,231	61,352	4,879
2022	67,890	63,190	4,700
Total Rent	261,769	241,926	19,843
Discount to Present Value	(25,326)	(23,513)	(1,813)
Sublease Liability	<u>\$ 236,443</u>	<u>\$ 218,413</u>	<u>\$ 18,030</u>
Classification on statements of financial position:			
Current portion			\$ 4,431
Long-term portion			<u>13,599</u>
			<u>\$ 18,030</u>

FRIENDSHIP FORCE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 10 - COMMITMENTS AND CONTINGENCIES (continued)

Years ended <u>December 31:</u>	2017		
	Rent to be Paid	Less: Rent to be Received	Sublease Liability
2018	\$ 61,514	\$ 56,131	\$ 5,383
2019	63,043	57,822	5,221
2020	64,605	59,562	5,043
2021	66,231	61,352	4,879
2022	67,890	63,190	4,700
Total Rent	323,283	298,057	25,226
Discount to Present Value	(38,468)	(35,645)	(2,823)
Sublease Liability	\$ 284,815	\$ 262,412	\$ 22,403

Classification on statements of financial position:

Current portion	\$ 4,373
Long-term portion	18,030
	\$ 22,403

Note 11 – PRIOR YEAR ADJUSTMENT

The 2017 statement of financial position and related statement of activities, functional expenses, and cash flows have been restated to correct previously reported amounts. In previously issued financial statements, FFI did not report a liability for vested accrued vacation pay. FFI has determined that accrued vacation pay of \$16,845 should have been recorded as of December 31, 2017. This prior period adjustment results in a decrease in net assets without donor restrictions of \$16,845 as of and for the year ended December 31, 2017.

The correction resulting in the following restatement in the statement of financial position for December 31, 2017:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Balance, December 31, 2017 as previously stated	\$ 302,277	\$ 35,208	\$ 337,485
Record accrued vacation pay	(16,845)	-	(16,845)
Balance, December 31, 2017 as restated	\$ 285,432	\$ 35,208	\$ 320,640

Note 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 12, 2019, which is the date the financial statements were available to be issued.