

**Laguna Beach Seniors, Inc.**  
**Annual Financial Report**  
**For the Years Ended December 31, 2016 and 2015**



**Fedak & Brown LLP**  
Certified Public Accountants

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**Annual Financial Report**  
**For the Years Ended December 31, 2016 and 2015**

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# **Financial Section**





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## Independent Auditor's Report

Board of Directors  
Laguna Beach Seniors, Inc.  
Laguna Beach, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Laguna Beach Seniors, Inc. (Organization), which comprises the statements of financial position as of December 31, 2016 and 2015, 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 controls 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 audits. We conducted our audits 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 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 the Laguna Beach Seniors, Inc. as of December 31, 2016 and 2015, 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.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
March 28, 2017

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# **Basic Financial Statements**

**Laguna Beach Seniors, Inc.**  
**Statements of Financial Position**  
**As of December 31, 2016 and 2015**

<i>Assets</i>	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 464,081	446,323
Certificates-of-deposit	180,000	180,000
Investments (notes 2, 3 and 4)	227,743	189,178
Prepaid expenses and other assets	6,281	8,263
Total current assets	878,105	823,764
<b>Total assets</b>	<b>\$ 878,105</b>	<b>823,764</b>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable	\$ 421	1,650
Accrued expenses	13,449	15,202
Unearned revenue	31,500	19,000
Total current liabilities	45,370	35,852
<b>Total liabilities</b>	45,370	35,852
Net assets:		
Unrestricted:	831,765	787,912
Temporarily restricted	970	-
<b>Total net assets</b>	832,735	787,912
<b>Total liabilities and net assets</b>	<b>\$ 878,105</b>	<b>823,764</b>

See accompanying notes to the basic financial statements



**Laguna Beach Seniors, Inc.**  
**Statements of Activities**  
**For the Years Ended December 31, 2016 and 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
Support and other revenue:				
Contributions and grants	\$ 281,950	970	282,920	406,605
Fund-raising events	167,571	-	167,571	2,191
Special events	12,562	-	12,562	13,450
Program service revenue	55,000	-	55,000	61,973
Investment earnings	20,424	-	20,424	6,266
Other revenue	514	-	514	328
Total support and other revenue	<u>538,021</u>	<u>970</u>	<u>538,991</u>	<u>490,813</u>
<b>Total revenue</b>	<u>538,021</u>	<u>970</u>	<u>538,991</u>	<u>490,813</u>
Program services:				
Program and special events	340,047	-	340,047	353,669
Total program services	<u>340,047</u>	<u>-</u>	<u>340,047</u>	<u>353,669</u>
Supporting services:				
Management and general	86,386	-	86,386	102,973
Fund-raising	67,735	-	67,735	8,749
Total supporting services	<u>154,121</u>	<u>-</u>	<u>154,121</u>	<u>111,722</u>
<b>Total expenses</b>	<u>494,168</u>	<u>-</u>	<u>494,168</u>	<u>465,391</u>
<b>Change in net assets</b>	43,853	970	44,823	25,422
Net assets, beginning of year	<u>787,912</u>	<u>-</u>	<u>787,912</u>	<u>762,490</u>
Net assets, end of year	<u>\$ 831,765</u>	<u>970</u>	<u>832,735</u>	<u>787,912</u>

See accompanying notes to the basic financial statements

**Laguna Beach Seniors, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2016**

	<b>Program and Special Events</b>
Salaries and benefits	\$ 180,492
Program and special events	120,186
Professional services	19,031
Printing and postage	943
Advertising	4,543
Insurance	10,140
Computer assistance	4,712
Total program expenses	\$ 340,047

	<b>Supporting Services</b>		
	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Salaries and benefits	\$ 57,059	-	57,059
Program and special events	340	67,735	68,075
Professional services	5,627	-	5,627
Telephone and internet	6,257	-	6,257
Accounting and auditing	7,340	-	7,340
Office expenses	9,474	-	9,474
Bank and credit card fees	289	-	289
Total supporting services	\$ 86,386	67,735	154,121

See accompanying notes to the basic financial statements

**Laguna Beach Seniors, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2015**

	<b>Program and Special Events</b>
Salaries and benefits	\$ 160,698
Program and special events	150,569
Professional services	17,788
Printing and postage	965
Advertising	9,169
Insurance	9,463
Computer assistance	3,705
Depreciation	1,312
Total program expenses	\$ 353,669

	<b>Supporting Services</b>		
	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Salaries and benefits	\$ 77,646	-	77,646
Program and special events	194	8,749	8,943
Professional services	4,968	-	4,968
Telephone and internet	5,206	-	5,206
Accounting and auditing	7,345	-	7,345
Office expenses	7,344	-	7,344
Bank and credit card fees	270	-	270
Total supporting services	\$ 102,973	8,749	111,722

See accompanying notes to the basic financial statements

**Laguna Beach Seniors, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 44,823	25,422
Adjustments to reconcile change in net assets to net cash used in (provided by) operating activities:		
Deprecation	-	1,312
Change in investment fair-value	(9,942)	(1,400)
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Prepaid expenses and other assets	1,982	(7,632)
Increase (Decrease) in liabilities:		
Accounts payable	(1,229)	(426)
Accrued expenses	(1,753)	(3,291)
Unearned revenue	12,500	19,000
Total adjustments	1,558	7,563
Net cash provided by operating activities	46,381	32,985
<b>Cash flows from investing activities</b>		
Purchases of investments	(28,623)	(3,517)
Net cash used in investing activities	(28,623)	(3,517)
<b>Net increase in cash and cash     equivalents</b>	17,758	29,468
Cash and cash equivalents, beginning of year	446,323	416,855
Cash and cash equivalents, end of year	\$ 464,081	446,323

For the years ended December 31, 2016 and 2015, the Organization paid no interest or taxes.

See accompanying notes to the basic financial statements

**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements**  
**December 31, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The stated mission of the Laguna Beach Seniors, Inc. (Organization) is to "provide programs and services that promote independence, wellness, and community." These are provided independently and in collaboration with the City of Laguna Beach and other community nonprofits, and currently include: educational classes, fitness/wellness activities, social clubs, case management, outreach, benefits counseling, medical assessments, nutrition services, legal aid, and various other outreach services to the senior community of the City of Laguna Beach.

**B. Basis of Accounting, Financial Reporting and Presentation**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting.

The Organization follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification. This standard requires the Organization to report information regarding its financial position and change in net assets into the following three classes of net assets:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the assets only as specified. These restrictions are satisfied either by the passage of time or by the Organization's expenditure for the specified purpose. As of December 31, 2016, temporarily restricted net assets consisted of donations for the use of scholarships. There were no temporarily restricted net assets at December 31, 2015.
- Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the Organization to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. There were no permanently restricted net assets at December 31, 2016 and 2015.

***Functional Allocation of Expenses***

The costs of providing the Organization's programs and administration have been summarized on a functional basis in the Functional Expenses Statement. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

***Temporarily Restricted Contributions***

The Organization records all revenues earned from donor-restricted contributions as temporarily restricted contributions.

**C. Assets, Liabilities and Net Assets**

**1. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements, continued**  
**December 31, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Assets, Liabilities and Net Assets, continued**

**2. Cash and Cash Equivalents**

For the purpose of reporting cash flows, the Organization considers all highly liquid debt instruments, including money market funds, purchased with original maturities of three months or less, to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these financial instruments.

**3. Certificates-of-Deposit**

Certificates of deposit with original maturities longer than 90 days are recorded at cost, which approximates market value.

**4. Investments**

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings and any gains or losses realized upon the liquidation or sale of investments. Also, the Organization has adopted an investment policy directing the Director of Finance to deposit the Organization's funds with certain financial institutions.

**5. Prepaid Expenses and Other Assets**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items.

**6. Furniture and Equipment**

Furniture and equipment are recorded at cost if purchased or at fair market value at the date of donation. Depreciation is provided using the straight-line method of depreciation over the estimated useful lives of the assets, ranging from three to seven years. Furniture and equipment are capitalized if the cost or donated fair market value of an asset is greater than, or equal to \$500.

**7. Revenue Recognition**

Revenues from grants and fees for services are recognized in the period in which the related service occurs.

**8. Functional Expenses**

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management.

**9. Income Taxes**

As a publicly supported not-for-profit organization, the Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and the corresponding provisions of Section 23701d of the California Revenue and Taxation Code. The Organization is not subject to income tax except for taxes on the receipt of income, if any, which is unrelated to the Organization's tax-exempt purpose. The Organization is not a private-foundation and qualifies for the charitable deduction under 170(b)(1)(A)(vi) of the Internal Revenue Code.

**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements, continued**  
**December 31, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Assets, Liabilities and Net Assets, continued**

**9. Income Taxes, continued**

The Organization has applied the provisions of ASC Subtopic 740-10, *Income Taxes—Overall*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest, penalties, disclosure, and transition. The Organization's management believes that no such uncertain tax positions exist as of December 31, 2016 and 2015. The Organization is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for the fiscal years prior to 2013.

**10. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

- The carrying values of cash equivalents and accounts receivable approximate the fair value of these financial instruments.
- Certificates-of-deposit are reported at cost plus earned interest, which approximates market prices.
- Investments are reported at fair value based on quoted market prices.
- The carrying amount of the current liability obligations approximates fair value because the obligations are recorded at the net present value of future payments.

**11. Fair Value Measurements**

FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as 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. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- **Level 1:** Quoted prices in active markets for identical assets and liabilities.
- **Level 2:** Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **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.

**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements, continued**  
**December 31, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Assets, Liabilities and Net Assets, continued**

**11. Fair Value Measurements, continued**

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted below:

- **Market approach:** Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **Cost approach:** Amount that would be required to replace the service capacity of an asset (replacement cost).
- **Income approach:** Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

*Inputs and Valuation Methods* – In determining fair value, FASB ASC 820 allows various valuation approaches. The specific method used for the Organization’s investment class is present below.

*Mutual fund:* The fair value of mutual fund is generally based on quoted market prices in active markets (Level 1).

*Endowment fund:* The investment is redeemable in the near term at net asset value per share (Level 2).

**12. Reclassifications**

Certain reclassifications of prior year amounts have been made to adhere to the current year presentation of the basic financial statements.

**(2) Investments**

	<b>2016</b>		<b>2015</b>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Mutual fund	\$ 154,240	202,743	142,151	189,178
Beneficial interest in assets held at the Laguna Beach Community Foundation	<u>25,000</u>	<u>25,000</u>	-	-
Total investments	<u>\$ 179,240</u>	<u>227,743</u>	<u>142,151</u>	<u>189,178</u>

Net gain, and interest and dividends at December 31, are follows:

	<b>Years Ended December 31,</b>	
	<u>2016</u>	<u>2015</u>
Unrealized gain on fair value of mutual fund	\$ 4,384	1,400
Realized gain on fair value of mutual fund	5,558	-
Interest and dividend	<u>10,482</u>	<u>4,866</u>
Investment earnings	<u>\$ 20,424</u>	<u>6,266</u>



**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements, continued**  
**December 31, 2016 and 2015**

**(3) Endowment Fund**

The Organization has transferred assets to the Laguna Beach Community Foundation (Foundation) which is holding the assets as an endowed component fund (Fund) for the benefit of the Organization. The Organization has granted the Foundation variance power which the Foundation reserves the right to vary any restriction or condition on fund distribution if, the Organization terminates or no longer qualifies as a 501(c)(3) charitable organization, the Organization changes its mission and is unable to use the Fund to support the Fund's purpose, or the Fund's purpose becomes outdated. In such circumstances, the Foundation may exercise its variance power to redirect the Fund to the most closely related purpose.

The distribution of the Fund is 5% annually. The amount of distribution is the average of the prior three-years ending Fund balances, or the number of years that the Fund has been in existence is less than three years, multiplied by the percentage stated. In the event of a decline of Fund values due to market downturn or other factors, subsequent earnings if first applied to restore the principal of the Fund.

The percentage may be changed in writing to the Foundation as approved by the Organization's Board of Directors with an affirmative vote of 66.7%

The aggregate amount of the Fund as of December 31, is as follows:

		<u>2016</u>
Balance at beginning of year	\$	-
Amount invested in Fund		<u>25,000</u>
Balance at end of year	\$	<u><u>25,000</u></u>

**(4) Investment at Fair Value Hierarchy**

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2016, are as follows:

Description	December 31, 2016	Fair Value Measurements at Reporting Date using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund	\$ 202,743	202,743	-	-
Beneficial interest in assets held at the Laguna Beach Community Foundation	<u>25,000</u>	-	<u>25,000</u>	-
Total investments	<u>\$ 227,743</u>	<u>202,743</u>	<u>25,000</u>	<u>-</u>

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2015, are as follows:

Description	December 31, 2015	Fair Value Measurements at Reporting Date using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund	\$ 189,178	<u>189,178</u>	<u>-</u>	<u>-</u>

**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements, continued**  
**December 31, 2016 and 2015**

**(5) Furniture and Equipment**

At December 31, 2016, furniture and equipment included:

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Furniture and equipment	\$ 150,994	-	-	150,994
Total depreciable assets	150,994	-	-	150,994
Accumulated depreciation	(150,994)	-	-	(150,994)
Total furniture and equipment, net	\$ -	-	-	-

At December 31, 2015, furniture and equipment included:

	<u>Balance 2014</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2015</u>
Furniture and equipment	\$ 150,994	-	-	150,994
Total depreciable assets	150,994	-	-	150,994
Accumulated depreciation	(149,682)	(1,312)	-	(150,994)
Total furniture and equipment, net	\$ 1,312	(1,312)	-	-

**(6) Net Assets – Temporarily Restricted**

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>
Scholarship fund	\$ 970
<b>Total</b>	<u>\$ 970</u>

**(7) Lease Agreement with City of Laguna Beach for Senior Center**

Under a *Joint Development Agreement* with the City of Laguna Beach (City), the Organization contributed \$2,500,000 (less grant funds of \$379,000 obtained by the City or \$2,121,000, net) towards the construction of the Senior Center that is housed within the City's new Community Center.

Under the terms of the agreement, when the construction was completed in February 2009, the Organization has leased the Senior Center (approximately 7,988 square feet of space) from the City for one-dollar (\$1.00) per year for the next 55 years with an option to extend the lease for another 44 years at the same rate. The lease agreement encompasses building supporting services, common-areas, parking garage and utilities.

**(8) Public Support**

Volunteers from the community have donated significant amounts of their time in support of the Organization's programs. No amounts have been reflected in the financial statements for the contributed services since no objective basis is available to measure the value of such services.

**Laguna Beach Seniors, Inc.**  
**Notes to the Basic Financial Statements, continued**  
**December 31, 2016 and 2015**

**(9) Contingencies**

*Litigation*

In the ordinary course of operations, the Organization is subject to claims and litigation from outside parties. After consultation with management, the Organization believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(10) Subsequent Events**

Events occurring after December 31, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of March 28, 2017, which is the date the financial statements were available to be issued.