

Laguna Beach Seniors, Inc.
Annual Financial Report
For the Years Ended December 31, 2017 and 2016



Fedak & Brown LLP
Certified Public Accountants

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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, 2017 and 2016, 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, 2017 and 2016, 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
May 10, 2018

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Basic Financial Statements

Laguna Beach Seniors, Inc.
Statements of Financial Position
As of December 31, 2017 and 2016

<i>Assets</i>	2017	2016
Current assets:		
Cash and cash equivalents	\$ 335,884	464,081
Certificates-of-deposit	180,000	180,000
Investments	349,286	227,743
Prepaid expenses and other assets	18,525	6,281
Total current assets	883,695	878,105
Non-current assets:		
Furniture and equipment, net	3,440	-
Total non-current assets	3,440	-
Total assets	\$ 887,135	878,105
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable	\$ 3,890	421
Accrued expenses	17,348	13,449
Unearned revenue	25,500	31,500
Total current liabilities	46,738	45,370
Total liabilities	46,738	45,370
Net assets:		
Unrestricted	838,827	831,765
Temporarily Restricted (note 6)	1,570	970
Total net assets	840,397	832,735
Total liabilities and net assets	\$ 887,135	878,105

See accompanying notes to the basic financial statements

Laguna Beach Seniors, Inc.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017</u>	<u>2016</u>
Operating revenue:				
Contributions and grants	\$ 265,606	600	266,206	282,920
Fund-raising events	237,955	-	237,955	167,571
Special events	9,663	-	9,663	12,562
Program service revenue	57,228	-	57,228	55,000
Other revenue	284	-	284	514
Total operating revenue	<u>570,736</u>	<u>600</u>	<u>571,336</u>	<u>518,567</u>
Operating expense:				
Program services:				
Program and special events	390,855	-	390,855	340,047
Total program services	<u>390,855</u>	<u>-</u>	<u>390,855</u>	<u>340,047</u>
Supporting services:				
Management and general	80,833	-	80,833	86,386
Fund-raising	67,142	-	67,142	67,735
Total supporting services	<u>147,975</u>	<u>-</u>	<u>147,975</u>	<u>154,121</u>
Total operating expenses	<u>538,830</u>	<u>-</u>	<u>538,830</u>	<u>494,168</u>
Change in net assets from operations	<u>31,906</u>	<u>600</u>	<u>32,506</u>	<u>24,399</u>
Non-operating activities, net:				
Investment income, net	50,156	-	50,156	20,424
Contribution to OCCF Endowment	(75,000)	-	(75,000)	-
Total non-operating activities, net	<u>(24,844)</u>	<u>-</u>	<u>(24,844)</u>	<u>20,424</u>
Total change in net assets	7,062	600	7,662	44,823
Net assets, beginning of year	<u>831,765</u>	<u>970</u>	<u>832,735</u>	<u>787,912</u>
Net assets, end of year	<u>\$ 838,827</u>	<u>1,570</u>	<u>840,397</u>	<u>832,735</u>

See accompanying notes to the basic financial statements

Laguna Beach Seniors, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program and Special Events
Salaries and benefits	\$ 215,834
Program and special events	140,082
Professional services	15,850
Printing and postage	357
Advertising	3,430
Insurance	9,577
Computer assistance	4,481
Depreciation	1,244
Total program expenses	\$ 390,855

	Supporting Services		
	Management and General	Fund Raising	Total
Salaries and benefits	\$ 56,591	-	56,591
Program and special events	286	67,142	67,428
Professional services	3,670	-	3,670
Telephone and internet	5,649	-	5,649
Accounting and auditing	7,421	-	7,421
Office expenses	6,869	-	6,869
Bank and credit card fees	347	-	347
Total supporting services	\$ 80,833	67,142	147,975

See accompanying notes to the basic financial statements

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

	Program and Special Events
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

	Supporting Services		
	Management and General	Fund Raising	Total
Salaries and benefits	\$ 57,059	-	57,059
Program and special events	340	67,735	68,075
Professional services	5,626	-	5,626
Telephone and internet	6,257	-	6,257
Accounting and auditing	7,340	-	7,340
Office expenses	9,475	-	9,475
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.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 7,662	44,823
Adjustments to reconcile change in net assets to net cash used in(provided by) operating activities:		
Deprecation	1,244	-
Change in investment fair-value	(40,627)	(9,942)
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Property and equipment	(4,684)	-
Prepaid expenses and other assets	(12,244)	1,982
Increase(Decrease) in liabilities:		
Accounts payable	3,469	(1,229)
Accrued expenses	3,899	(1,753)
Unearned revenue	(6,000)	12,500
Total adjustments	(54,943)	1,558
Net cash provided by(used in) operating activities	(47,281)	46,381
Cash flows from investing activities		
Purchases of investments	(80,916)	(28,623)
Net cash used in investing activities	(80,916)	(28,623)
Net increase(decrease) in cash and cash equivalents	(128,197)	17,758
Cash and cash equivalents, beginning of year	464,081	446,323
Cash and cash equivalents, end of year	\$ 335,884	464,081

For the years ended December 31, 2017 and 2016, 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, 2017 and 2016

(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. Temporarily restricted net assets consisted of contributions for the use of scholarships at December 31, 2017 and 2016, respectively.
- 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, 2017 and 2016.

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 Statements. 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, 2017 and 2016

(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 also 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, 2017 and 2016

(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, 2017 and 2016. 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 2014.

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.
- 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 is considered unobservable, that may be used to measure fair value which are as follows:

- **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, 2017 and 2016

(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).

(2) Investments

	2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mutual fund	\$ 240,765	349,286	134,849	202,743
Beneficial interest in assets held at the Laguna Beach Community Foundation	-	-	25,000	25,000
Total investments	\$ 240,765	349,286	159,849	227,743

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

	Years Ended December 31,	
	2017	2016
Unrealized gain on fair value of mutual fund	\$ 17,915	4,384
Realized gain on fair value of mutual fund	22,712	5,558
Interest and dividend	9,529	10,482
Investment earnings	\$ 50,156	20,424

Laguna Beach Seniors, Inc.
Notes to the Basic Financial Statements, continued
December 31, 2017 and 2016

(3) Endowment Fund

The Organization's assets in the Laguna Beach Community Foundation (Foundation) are held 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:

	2017	2016
Balance at beginning of year	\$ 25,000	-
Amount invested in Fund	136	25,000
Unrealized gain in Fund	2,568	
Amount divested from Fund	(27,704)	-
Balance at end of year	\$ -	25,000

(4) Investment at Fair Value Hierarchy

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2017, are as follows:

Description	December 31, 2017	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	\$ 349,286	349,286	-	-
Total investments	\$ 349,286	349,286	-	-

(4) Investment at Fair Value Hierarchy, continued

Laguna Beach Seniors, Inc.
Notes to the Basic Financial Statements, continued
December 31, 2017 and 2016

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	25,000	-	25,000	-
Total investments	\$ 227,743	202,743	25,000	-

(5) Furniture and Equipment

At December 31, 2017, furniture and equipment included:

	Balance 2016	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Furniture and equipment	\$ 150,994	4,684	-	155,678
Total depreciable assets	150,994	4,684	-	155,678
Accumulated depreciation	(150,994)	(1,244)	-	(152,238)
Total furniture and equipment, net	\$ -	3,440	-	3,440

At December 31, 2016, furniture and equipment included:

	Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
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	\$ -	-	-	-

(6) Net Assets – Temporarily Restricted

Temporarily restricted net assets are available for the following purposes:

	2017
Scholarship fund	\$ 1,570
Total	\$ 1,570

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

Laguna Beach Seniors, Inc.
Notes to the Basic Financial Statements, continued
December 31, 2017 and 2016

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.

(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, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of May 10, 2018, which is the date the financial statements were available to be issued.