

FRIENDSHIP FORCE INTERNATIONAL, INC.

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

DECEMBER 31, 2009 and 2008

FRIENDSHIP FORCE INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

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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, 2009 and 2008, 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 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 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 audits provide 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, 2009 and 2008, 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
November 2, 2010

FRIENDSHIP FORCE INTERNATIONAL, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009 and 2008**

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and Cash Equivalents	\$ 272,231	\$ 234,377
Deposits and Other Prepaid Costs	18,208	40,293
Grant and Other Receivables	17,856	90,761
Promotional Materials, Net	<u>27,472</u>	<u>21,340</u>
Total Current Assets	<u>335,767</u>	<u>386,771</u>
Fixed Assets		
Furniture & Fixtures	1,328	1,919
Computer Equipment	-	10,194
Leasehold Improvements	2,509	8,532
Computer Network/Website Develop	<u>34,370</u>	<u>56,608</u>
Total Fixed Assets, net of depreciation	<u>38,207</u>	<u>77,253</u>
TOTAL ASSETS	<u><u>373,974</u></u>	<u><u>464,024</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	14,662	22,971
Other Liabilities	<u>43,580</u>	<u>43,981</u>
Total Current Liabilities	<u>58,242</u>	<u>66,952</u>
Net Assets		
Unrestricted	261,497	318,425
Temporarily Restricted	54,235	78,647
Permanently Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>315,732</u>	<u>397,072</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>373,974</u></u>	<u><u>464,024</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, 2009 and 2008

	2009			2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Exchange Fees	1,185,061	-	-	1,185,061	1,302,351	-	-	1,302,351
Magazine/ Membership Contributions, Including Prior Year Restricted	106,472	-	-	106,472	95,108	-	-	95,108
Legacy Fund Contributions	36,531	-	-	36,531	45,810	-	-	45,810
Grants	-	36,689	-	36,689	-	43,631	-	43,631
Interest	172,813	-	-	172,813	334,712	-	-	334,712
Other	43	-	-	43	3,825	-	-	3,825
Reclassified to Unrestricted Net Assets	90,870	-	-	90,870	79,445	-	-	79,445
	61,101	(61,101)	-	-	89,441	(89,441)	-	-
Total Revenues and Other Support	1,652,891	(24,412)	-	1,628,479	1,950,692	(45,810)	-	1,904,882
EXPENSES								
Program Services	1,442,289	-	-	1,442,289	1,773,490	-	-	1,773,490
General and Administrative	267,530	-	-	267,530	231,479	-	-	231,479
Total Expenses	1,709,819	-	-	1,709,819	2,004,969	-	-	2,004,969
INCREASE (DECREASE) IN NET ASSETS	(56,928)	(24,412)	-	(81,340)	(54,277)	(45,810)	-	(100,087)
NET ASSETS AT BEGINNING OF YEAR	318,425	78,647	-	397,072	372,702	124,457	-	497,159
NET ASSETS AT END OF YEAR	261,497	54,235	-	315,732	318,425	78,647	-	397,072

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITY		
Changes in net assets	(81,340)	(100,087)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	40,214	28,671
Decrease in Grants and Other Receivables	72,905	30,756
Increase in Deposits and Other Prepaid Cost	22,085	(11,015)
Increase in Promotional Materials, Net	(6,132)	(19,657)
Decrease in Accounts Payable	(8,309)	(15,803)
Increase in Unearned Fees	(401)	33,378
NET CASH USED BY OPERATING ACTIVITIES	39,022	(53,757)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	<u>(1,168)</u>	<u>(30,242)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,168)</u>	<u>(30,242)</u>
NET INCREASE (DECREASE) IN CASH	37,854	(83,999)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>234,377</u>	<u>318,376</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>272,231</u></u>	<u><u>234,377</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, 2009 and 2008**

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 2009, 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, 2009 and 2008

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, 2009, 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, 2009 and 2008

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, 2009.

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, 2009 and 2008, 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, 2009 and 2008**

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 2009 were paid to FFI by the donor in 2009. There was \$78,647 in temporarily restricted net assets at December 31, 2008, \$61,101 were authorized for 2009 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, 2009 consist of \$54,235.

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, 2009 and 2008

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, 2009 and 2008. \$0.00 of the line of credit had been drawn down and was outstanding as of December 31, 2009.

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, 2009, 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 2009, 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, 2009, the annual future minimum payments under these agreements are as follows:

2010	\$	37,508
2011 and thereafter		<u>7,530</u>
Total	\$	45,038

The amount included in the accompanying financial statements for these expenditures of office space and equipment was \$68,087 and \$66,195 in 2009 and 2008, 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, 2009 and 2008, the percentage that represents the exchange fee portion of the total revenues generated is 74% and 70%, respectively.

FRIENDSHIP FORCE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

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>2009</u>	<u>2008</u>
Direct Exchange Costs	\$ 561,747	\$ 547,657
Salaries	509,347	556,391
Miscellaneous General Expenses	101,017	125,274
Employee Benefits	119,720	129,969
Professional Services	9,347	10,459
Printing, Publications and Postage	8,263	28,310
Office Rent	62,790	60,375
Program Development	88,971	162,664
Depreciation	40,214	28,671
Telephone	17,973	22,981
Travel and Accommodations	11,434	30,269
System Development	5,845	14,498
Grant Expenses	<u>173,151</u>	<u>287,451</u>
	<u>\$1,709,819</u>	<u>\$2,004,969</u>