

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

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**FINANCIAL STATEMENTS**

July 31, 2017 and 2016



# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Raphael House of San Francisco, Inc.

We have audited the accompanying financial statements of Raphael House of San Francisco, Inc. (a California nonprofit public benefit corporation), which comprise the statement of financial position as of July 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 misstatements, whether due to fraud or error.

### Auditors' 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatements 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 in 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 principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation 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 Raphael House of San Francisco, Inc. as of July 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Prior Period Financial Statements

The financial statements of Raphael House of San Francisco, Inc. as of July 31, 2016, were audited by other auditors whose report dated December 19, 2016, expressed an unmodified opinion on those statements.

*BPM LLP*

E. Palo Alto, California  
November 13, 2017

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**STATEMENTS OF FINANCIAL POSITION**

July 31, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 829,837	\$ 799,954
Receivables - other	3,648	3,337
Grants and pledges receivable, net	346,669	619,062
Inventory	17,098	13,458
Prepaid expenses	44,523	45,925
Total current assets	1,241,775	1,481,736
Long-term assets:		
Investments:		
Unrestricted investments	1,663,579	1,530,345
Beneficial interest in endowment investments	1,689,775	1,506,981
Total investments	3,353,354	3,037,326
Grants and pledges receivable, long-term	-	335,333
Property, equipment, and improvements, net (encumbered)	2,851,059	3,067,738
Total assets	\$ 7,446,188	\$ 7,922,133
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 99,809	\$ 103,430
Accrued compensation and vacation	90,543	77,198
Current portion of note payable	15,384	15,384
Total current liabilities	205,736	196,012
Long-term liabilities:		
Note payable, net of current portion	1,290	16,674
Security deposits	7,500	7,500
Total liabilities	214,526	220,186
Net assets:		
Unrestricted net assets:		
Undesignated	3,584,529	3,726,255
Board designated	1,683,512	1,552,864
Total unrestricted net assets	5,268,041	5,279,119
Temporarily restricted net assets	838,305	1,297,512
Permanently restricted net assets	1,125,316	1,125,316
Total net assets	7,231,662	7,701,947
Total liabilities and net assets	\$ 7,446,188	\$ 7,922,133

The accompanying notes are an integral part of these financial statements.

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## STATEMENT OF ACTIVITIES

For the year ended July 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Donations from individuals	\$ 737,058	\$ 41,050	\$ -	\$ 778,108
Foundation gifts and trusts	312,415	154,900	-	467,315
Donations from corporations and businesses	179,291	45,000	-	224,291
Special events income (net of direct expenses of \$241,244)	593,925	-	-	593,925
Donations from churches and civic groups	90,230	13,930	-	104,160
Bequests	68,716	-	-	68,716
Contributed goods and services	317,015	-	-	317,015
Total public support	2,298,650	254,880	-	2,553,530
Revenues:				
Investment income (net of direct expenses of \$31,549)	130,919	187,878	-	318,797
Rental income	49,571	-	-	49,571
Fees for services	370	-	-	370
Total revenues	180,860	187,878	-	368,738
Net assets released from restrictions	901,965	(901,965)	-	-
Total support, revenues, and transfers	3,381,475	(459,207)	-	2,922,268
Expenses:				
Program services:				
Residential Shelter Program	1,096,181	-	-	1,096,181
Children's Programs	496,382	-	-	496,382
Bridge Program	444,499	-	-	444,499
Meal Program	395,487	-	-	395,487
Total program services	2,432,549	-	-	2,432,549
Management and general	433,225	-	-	433,225
Fundraising	526,779	-	-	526,779
Total expenses	3,392,553	-	-	3,392,553
Change in net assets	(11,078)	(459,207)	-	(470,285)
Net assets, beginning of year	5,279,119	1,297,512	1,125,316	7,701,947
Net assets, end of year	\$ 5,268,041	\$ 838,305	\$ 1,125,316	\$ 7,231,662

The accompanying notes are an integral  
part of these financial statements.

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**STATEMENT OF ACTIVITIES**

For the year ended July 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Donations from individuals	\$ 703,275	\$ 20,050	\$ -	\$ 723,325
Foundation gifts and trusts	360,285	84,300	-	444,585
Donations from corporations and businesses	199,338	60,000	-	259,338
Special events income (net of direct expenses of \$207,910)	484,672	-	-	484,672
Donations from churches and civic groups	64,707	15,000	-	79,707
Bequests	9,567	-	-	9,567
Contributed goods and services	106,942	-	-	106,942
Total public support	1,928,786	179,350	-	2,108,136
Revenues:				
Investment income (net of direct expenses of \$11,862)	(2,840)	252	-	(2,588)
Rental income	48,362	-	-	48,362
Fees for services	615	-	-	615
Miscellaneous	6,750	-	-	6,750
Total revenues	52,887	252	-	53,139
Net assets released from restrictions	1,236,035	(1,236,035)	-	-
Total support, revenues, and transfers	3,217,708	(1,056,433)	-	2,161,275
Expenses:				
Program services:				
Residential Shelter Program	990,930	-	-	990,930
Children's Programs	606,147	-	-	606,147
Bridge Program	497,762	-	-	497,762
Meal Program	398,621	-	-	398,621
Total program services	2,493,460	-	-	2,493,460
Management and general	370,859	-	-	370,859
Fundraising	515,931	-	-	515,931
Total expenses	3,380,250	-	-	3,380,250
Change in net assets	(162,542)	(1,056,433)	-	(1,218,975)
Net assets, beginning of year	5,441,661	2,353,945	1,125,316	8,920,922
Net assets, end of year	\$ 5,279,119	\$ 1,297,512	\$ 1,125,316	\$ 7,701,947

The accompanying notes are an integral  
part of these financial statements.

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2017

	Programs and Services							
	Residential Shelter Program	Children's Program	Bridge Program	Meal Program	Total	Management and General	Fundraising	Total Expenses
Salaries and benefits	\$ 732,310	\$ 314,043	\$ 255,380	\$ 216,718	\$ 1,518,451	\$ 259,724	\$ 352,927	\$ 2,131,102
Development expense	12,652	3,615	3,916	4,519	24,702	2,160	275,999	302,861
Office expenses	55,197	15,456	16,483	17,912	105,048	96,778	37,045	238,871
Occupancy	78,204	17,047	8,968	14,241	118,460	14,510	6,171	139,141
Internships	9,607	1,592	9,607	4,150	24,956	-	-	24,956
Direct assistance to individuals	14,615	2,272	86,294	-	103,181	-	-	103,181
Children's activities and education	150	81,028	-	12	81,190	-	-	81,190
Food and other kitchen expense	1,356	-	-	86,263	87,619	-	-	87,619
Technology	30,964	11,887	16,018	10,077	68,946	11,090	23,878	103,914
Staff training and subscriptions	3,436	2,216	2,104	303	8,059	931	519	9,509
Supplies	32,504	2,042	1,786	1,688	38,020	2,910	1,543	42,473
Legal	1,848	528	572	660	3,608	44,436	484	48,528
Printing, copying, and publication	255	73	79	91	498	43	2,132	2,673
Postage and shipping	869	1,563	101	120	2,653	516	1,793	4,962
Telephone	6,581	1,880	2,038	2,350	12,849	1,097	1,724	15,670
Transportation	289	2,807	79	788	3,963	3,490	1,510	8,963
Furniture and equipment	8,678	35	37	43	8,793	20	16,854	25,667
	<u>8,678</u>	<u>35</u>	<u>37</u>	<u>43</u>	<u>8,793</u>	<u>20</u>	<u>16,854</u>	<u>25,667</u>
Total expenses before depreciation and amortization, disposals, and bad debt	989,515	458,084	403,462	359,935	2,210,996	437,705	722,579	3,371,280
Depreciation	106,809	38,339	41,081	35,603	221,832	24,646	27,391	273,869
Loss on disposal of fixed assets	-	-	-	-	-	447	-	447
Uncollectible contributions	-	-	-	-	-	2,000	17,750	19,750
Special events and investment expenses, presented net on the statement of activities	(143)	(41)	(44)	(51)	(279)	(31,573)	(240,941)	(272,793)
Total expenses	<u>\$ 1,096,181</u>	<u>\$ 496,382</u>	<u>\$ 444,499</u>	<u>\$ 395,487</u>	<u>\$ 2,432,549</u>	<u>\$ 433,225</u>	<u>\$ 526,779</u>	<u>\$ 3,392,553</u>

The accompanying notes are an integral  
part of these financial statements.

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2016

	Programs and Services					Management and General	Fundraising	Total Expenses
	Residential Shelter Program	Children's Program	Bridge Program	Meal Program	Total			
Salaries and benefits	\$ 647,762	\$ 382,559	\$ 296,053	\$ 228,781	\$ 1,555,155	\$ 240,669	\$ 317,338	\$ 2,113,162
Development expense	5,706	1,587	1,718	1,983	10,994	927	260,505	272,426
Office expenses	30,201	5,038	4,944	5,666	45,849	57,340	25,285	128,474
Occupancy	84,272	11,799	4,338	13,958	114,367	14,085	3,683	132,135
Internships	12,610	31,283	10,393	5,080	59,366	-	4,400	63,766
Clinical supervision	12,318	-	12,317	-	24,635	-	-	24,635
Direct assistance to individuals	3,526	3,603	97,513	-	104,642	-	-	104,642
Children's activities and education	4,944	100,422	-	-	105,366	-	-	105,366
Food and other kitchen expense	78	-	22	86,362	86,462	33	77	86,572
Technology	32,789	13,436	18,223	7,488	71,936	7,374	21,253	100,563
Staff training and subscriptions	3,151	494	1,341	510	5,496	1,618	2,454	9,568
Supplies	34,669	2,337	1,955	3,016	41,977	4,214	2,518	48,709
Legal	20,471	5,849	6,336	7,311	39,967	27,806	5,361	73,134
Printing, copying, and publication	3,201	793	860	992	5,846	463	3,040	9,349
Postage and shipping	573	2,827	50	64	3,514	638	8,166	12,318
Telephone	5,722	1,620	1,755	2,026	11,123	946	1,485	13,554
Transportation	267	3,155	779	1,235	5,436	3,215	474	9,125
Furniture and equipment	6,024	3,187	425	3,157	12,793	148	314	13,255
Total expenses before depreciation and amortization, disposals, and bad debt	908,284	569,989	459,022	367,629	2,304,924	359,476	656,353	3,320,753
Depreciation	82,646	36,158	38,740	30,992	188,536	23,244	46,488	258,268
Uncollectible contributions	-	-	-	-	-	-	21,000	21,000
Special events and investment expenses, presented net on the statement of activities	-	-	-	-	-	(11,861)	(207,910)	(219,771)
Total expenses	<u>\$ 990,930</u>	<u>\$ 606,147</u>	<u>\$ 497,762</u>	<u>\$ 398,621</u>	<u>\$ 2,493,460</u>	<u>\$ 370,859</u>	<u>\$ 515,931</u>	<u>\$ 3,380,250</u>

The accompanying notes are an integral part of these financial statements.



**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**STATEMENTS OF CASH FLOWS**

For the years ended July 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (470,285)	\$ (1,218,975)
Adjustments to reconcile change in net asset to net cash provided by (used in) operating activities:		
Depreciation	273,869	258,268
Loss on disposal of fixed assets	447	-
Change in allowance for doubtful accounts	(27,500)	14,500
Uncollectible contributions	19,750	6,500
Unrealized and realized (gain) loss on investments	(296,795)	35,697
Endowment income	(10,884)	(11,321)
Change in assets and liabilities:		
Receivables - other	(311)	6,462
Grants and pledges receivable	615,476	410,784
Inventory	(3,640)	(5,461)
Prepaid expenses	1,402	1,359
Accounts payable and accrued expenses	(3,621)	49,418
Accrued compensation and vacation	13,345	(3,146)
	581,538	763,060
Net cash provided by (used in) operating activities	111,253	(455,915)
Cash flows from investing activities:		
Purchases of investments	(230,550)	(1,758,448)
Proceeds from the sale of investments	211,317	2,074,403
Purchases of property, equipment, and improvements	(57,637)	(218,190)
	(76,870)	97,765
Net cash (used in) provided by investing activities	(76,870)	97,765
Cash flows from financing activities:		
Endowment income	10,884	11,321
Payments on note payable	(15,384)	(15,384)
	(4,500)	(4,063)
Net cash used in financing activities	(4,500)	(4,063)
Net increase (decrease) in cash and cash equivalents	29,883	(362,213)
Cash and cash equivalents, beginning of year	799,954	1,162,167
Cash and cash equivalents, end of year	\$ 829,837	\$ 799,954

The accompanying notes are an integral  
part of these financial statements.

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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### 1. Nature of Business and Summary of Significant Accounting Policies

#### *Nature of Activities*

Raphael House was established in 1971 as one of two shelters operated by Christ the Savior Brotherhood, an Eastern Orthodox Christian brotherhood. On August 1, 1991, the shelter became separately incorporated as Raphael House of San Francisco, Inc. (hereafter, the “Organization”), with its own community-based Board of Directors.

The Organization accounts for its programs by structuring its accounting system using separate operating units:

- *Residential Shelter Program* – provides parents and children a warm and safe family-centered community where they participate in a wide range of services that strengthen the whole family as they work toward achieving long-term stable housing and financial independence.
- *Children’s Programs (Academic Enrichment, Residential Children’s Program, and Bridge Children’s Program)* – an interactive model of engagement in which the Organization works closely with both children and their parents, using a combination of structure, play, and parent education to foster each child’s development, reinforce healthy family bonds, and build self-confidence. The services include K-12 academic tutoring and mentoring and financial support for academic and extracurricular activities.
- *Bridge Program* – provides families from the Residential Shelter Program and families from the broader community with long-term case management; housing subsidies and assistance; mental-health counseling; career building and job placement services; educational workshops in areas such as financial literacy, parenting, and wellness; children’s services; and social activities and outings aimed at strengthening the family bond.
- *Meal Program* – provides daily meals to all families in the Residential Shelter Program, as well as special events for Bridge Program clients.
- *Administration and Development* – costs of administration and fundraising are classified in their respective cost centers for accounting and financial reporting.

#### *Financial Statement Presentation*

The Organization prepares its financial statements following professional accounting standards where the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

**Unrestricted net assets:** The portion of net assets that is neither temporarily restricted nor permanently restricted by donor imposed stipulations.

**Board designated:** The portion of unrestricted net assets that the board has set aside for specific purposes. The board’s policy is to set aside a portion of all estate gifts as board designated operating reserves. The board must provide approval to use these funds. The board at its discretion can change the stipulations under which these funds can be utilized.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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### 1. Nature of Business and Summary of Significant Accounting Policies, continued

#### *Financial Statement Presentation*, continued

**Temporarily restricted net assets:** The portion of net assets whose use by the Organization is limited by donor imposed stipulations that either will be fulfilled or expire by passage of time.

**Permanently restricted net assets:** The portion of net assets whose use by the Organization is limited by donor imposed stipulations that the net assets be held in perpetuity and its income be used for the stipulated purposes.

#### *Cash Equivalents*

Cash equivalents includes demand deposit accounts, money market accounts and cash on hand which are not managed as part of long-term investment strategies. At times, these accounts may exceed federally insured limits.

#### *Receivables*

Accounts receivable represent amounts billed but not yet collected for services.

Grants, pledges and trade receivables are stated at the amounts management expects to collect from outstanding balances. The Organization has determined an allowance for doubtful accounts of \$2,000 and \$29,500 for the years ended July 31, 2017 and 2016, respectively, is necessary based on management's evaluation and adjustment of a current aging of the accounts. As of July 31, 2017, all amounts outstanding are expected to be collected within one year.

It is the Organization's policy to charge-off uncollectible receivables when management determines the amount is uncollectable. The Organization wrote off receivables totaling \$19,750 and \$21,000 for the years ended July 31, 2017 and 2016, respectively.

#### *Inventory*

Inventory is comprised of food and gift cards that are used for program purposes, and is stated at cost.

#### *Property, Equipment, and Improvements*

All acquisitions of property and equipment in excess of \$2,000 and all expenditures for improvements and repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over useful lives ranging from 5 to 30 years. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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### 1. Nature of Business and Summary of Significant Accounting Policies, continued

#### *Investments*

The Organization reports 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.

The Organization holds its endowment investments with the San Francisco Foundation. The endowment investments are held in two funds, the Agency Endowment Fund and the One Organization Fund. These funds of the San Francisco Foundation invest in various investment vehicles. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Professional accounting standards establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under professional accounting standards are described as follows:

*Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2* – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data, by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The San Francisco Foundation uses the net asset value ("NAV") to determine the fair value of all the underlying investments which do not have readily determinable fair value. These pooled investment funds are classified as Level 2 fair value measurements (See Note 3).

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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### 1. Nature of Business and Summary of Significant Accounting Policies, continued

#### *Endowments*

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds. The Organization classifies as permanently restricted net assets the original value of all gifts donated to the permanent endowment. These donor-restricted funds are to be held in perpetuity.

When earnings and appreciation in the fund exceed the original gift amount, those earnings will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**Investment Policy:** Gifts to the endowment fund will be invested with the objective of growing the endowment to help fund operational expenses. The Organization relies on the investment strategies of the San Francisco Foundation, which holds the endowment funds, to achieve its investment objectives.

**Spending Policy:** The Organization receives regular distribution amounts determined by the San Francisco Foundation and the Organization. These amounts are determined based on the investment results of the funds. The Organization believes that these distributions comply with the guidelines set forth by UPMIFA. These distributions are utilized to support Raphael House operations.

**Funds with Deficiencies:** From time to time, the fair value of assets in the endowment fund will fall below the amount of the original gifts. These deficiencies result from unfavorable market fluctuations that occurred subsequent to receipt of the original gifts. There are no funds with deficiencies at July 31, 2017 and 2016.

#### *Accrued Vacation*

The Organization accrues accumulated unpaid annual leave when earned by the employee. Generally, annual leave must be taken during the calendar year earned. However, up to 240 hours may be carried forward per calendar year. Eligible employees who end their employment with the Organization are reimbursed for each day of accumulated annual leave.

#### *Revenue Recognition*

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support or permanently restricted support, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

#### *Contributed Goods and Services*

Contributed goods and services are stated at their estimated fair value, if they are ordinarily purchased and are of specialized nature. A substantial number of volunteers have donated significant time and effort to the Organization’s fundraising campaigns and agency services programs; the dollar value of which is not reflected in the financial statements since no objective basis is available to measure the fair value of such services.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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### 1. Nature of Business and Summary of Significant Accounting Policies, continued

#### *Functional Allocation of Expenses*

Costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on management estimates.

#### *Allocation of Joint Costs*

The Organization mailed newsletters and completed radio and print media campaigns that included fundraising and program components. The costs of conducting those activities which are not specifically attributable to particular component of the activities are allocated.

#### *Income Taxes*

The Organization has received tax-exempt status under the Internal Revenue Code Section 501(c)(3) and under the California Revenue Code Section 23701(d).

#### *Reclassifications*

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

#### *Nature of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### 2. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and accounts, pledges and grants receivable. The Organization places its cash with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. Investments are held at brokerage firms in amounts which may exceed the guaranteed amount of the Securities Investor Protection Corporation. The Organization has not experienced any losses in such accounts.

The Organization is vulnerable to the inherent risk associated with revenue that is substantially dependent on public support and contributions. The continued growth and well-being of the Organization is contingent upon successful achievement of its long-term revenue-raising goals.

Continued

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2017 and 2016

**3. Investments**

The following table sets forth by level, the fair value hierarchy, of the Organization's investments at fair value as of July 31, 2017:

	Investments at Fair Value as of July 31, 2017			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity funds	\$ 1,498,650	\$ -	\$ -	\$ 1,498,650
Bond funds	164,929	-	-	164,929
Beneficial interest in endowment investments	-	1,689,775	-	1,689,775
Total investments at fair value	\$ 1,663,579	\$ 1,689,775	\$ -	\$ 3,353,354

The following table sets forth by level, the fair value hierarchy, of the Organization's investments at fair value as of July 31, 2016:

	Investments at Fair Value as of July 31, 2016			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity funds	\$ 1,375,890	\$ -	\$ -	\$ 1,375,890
Bond funds	154,455	-	-	154,455
Beneficial interest in endowment investments	-	1,506,981	-	1,506,981
Total investments at fair value	\$ 1,530,345	\$ 1,506,981	\$ -	\$ 3,037,326

Equity funds and Bond funds for the years ended July 31, 2017 and 2016, were held in various mutual funds.

Investment income is as follows for the years ended July 31:

	2017	2016
Interest and dividend income	\$ 53,551	\$ 44,971
Realized gains (losses) on sales of investments	3,314	(99,388)
Unrealized gains and losses	293,481	63,691
Investment fees	(31,549)	(11,862)
Total investment income	\$ 318,797	\$ (2,588)

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# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

### 4. Beneficial Interest in Endowment Investments

Fair value of beneficial interest in investments – The Organization invests in a diversified investment pool offered by the San Francisco Foundation (“SFF”). SFF has the Organization’s investment account under its management by an agreement irrevocably transferring its funds. The Organization’s share of the pool is recorded as beneficial interest in assets. The beneficial interest in assets is stated at fair value. The fair value is based on the net asset value of the pooled assets and the Organization’s ownership interest in the pool. Net asset values are evaluated by the Organization to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Valuations are reviewed at least annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies.

### 5. Endowments

As required by professional accounting standards, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowment fund was created to produce income in order to help fund the ongoing operational expenses of Raphael House. The investments are held in accounts at the San Francisco Foundation (“SFF”). All funds are Level 2 pooled funds. The composition of the endowment fund at July 31, 2017, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Agency Endowment Fund	\$ 35,623	\$ 99,270	\$ 134,893
One Organization Fund	528,836	1,026,046	1,554,882
Total endowment investments	<u>\$ 564,459</u>	<u>\$ 1,125,316</u>	<u>\$ 1,689,775</u>

The composition of the endowment fund at July 31, 2016, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Agency Endowment Fund	\$ 23,839	\$ 99,270	\$ 123,109
One Organization Fund	357,826	1,026,046	1,383,872
Total endowment investments	<u>\$ 381,665</u>	<u>\$ 1,125,316</u>	<u>\$ 1,506,981</u>

Net changes in endowment investment funds were as follows:

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**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2017 and 2016

**5. Endowments, continued**

	Temporarily Restricted	Permanently Restricted	Total
Beginning investment balance at July 31, 2015	\$ 441,432	\$ 1,125,316	\$ 1,566,748
Investment return:			
Interest and dividends	11,321	-	11,321
Unrealized gain	(6,230)	-	(6,230)
Investment expense	(4,839)	-	(4,839)
Total investment return	252	-	252
Appropriations of endowment earnings for expenditure	(60,019)	-	(60,019)
Ending investment balance at July 31, 2016	381,665	1,125,316	1,506,981
Investment return:			
Interest and dividends	10,884	-	10,884
Unrealized gain	193,751	-	193,751
Investment expense	(16,757)	-	(16,757)
Total investment return	187,878	-	187,878
Appropriations of endowment earnings for expenditure	(5,084)	-	(5,084)
Ending investment balance at July 31, 2017	\$ 564,459	\$ 1,125,316	\$ 1,689,775

Continued

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2017 and 2016

**6. Grants and Pledges Receivable**

Grants and pledges receivable are comprised of the following at July 31:

	<u>2017</u>	<u>2016</u>
Foundation grants receivable	\$ 30,000	\$ 97,485
Individual contributions receivable	-	52,250
Corporate contributions receivable	318,669	641,840
Bequests receivable	-	192,320
	<u>348,669</u>	<u>983,895</u>
Totals	348,669	983,895
Allowance for doubtful accounts	<u>(2,000)</u>	<u>(29,500)</u>
	<u>\$ 346,669</u>	<u>\$ 954,395</u>
Balances	<u>\$ 346,669</u>	<u>\$ 954,395</u>
Classified as:		
Current	\$ 346,669	\$ 619,062
Long-term	-	335,333
	<u>\$ 346,669</u>	<u>\$ 954,395</u>

**7. Property and Equipment**

Property and equipment consist of the following at July 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 800,000	\$ 800,000
Building and improvements	4,319,862	4,276,127
Computers and equipment	142,773	163,478
Furniture and fixtures	138,375	135,904
	<u>5,401,010</u>	<u>5,375,509</u>
Totals	5,401,010	5,375,509
Less accumulated depreciation	<u>(2,549,951)</u>	<u>(2,307,771)</u>
	<u>\$ 2,851,059</u>	<u>\$ 3,067,738</u>
Property and equipment, net	<u>\$ 2,851,059</u>	<u>\$ 3,067,738</u>

Depreciation expense was \$273,869 and \$258,268 for the years ended July 31, 2017 and 2016, respectively. The building is secured by a deed of trust (see Note 16).

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**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2017 and 2016

**8. Line of Credit**

The Organization has a \$300,000 unsecured revolving line of credit with a bank, which may be used through May 10, 2018.

The line of credit has a floating interest rate on the unpaid principal balance of the credit at the greater of the floating rate equal to the Index plus 0.5% or the Floor Rate of 5.0%. As of July 31, 2017 and 2016, no amounts had been drawn down on the line of credit.

**9. Note Payable**

In September 2003, the Organization obtained a loan from Christ the Savior Brotherhood (CSB) in the amount of \$200,000, as evidenced by a promissory note. The note requires monthly payments of principal of \$1,282 commencing on September 8, 2005, and continuing until August 8, 2018, without interest until maturity, when the remaining unpaid balance will be due and payable in full. If the note is not paid in full by August 8, 2018, interest is due at the rate of 12% per annum until paid. The balance of the note at July 31, 2017 and 2016, was \$16,674 and \$32,058, respectively. Principal maturities of the note payable are as follows:

	Amount
Year ending July 31:	
2018	\$ 15,384
2019	1,290
Total	\$ 16,674

Total interest paid during the years ended July 31, 2017 and 2016 was \$0.

**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following for the year ended at July 31, 2017.

	Beginning Balance	Contributions and Income	Released from Restriction	Ending Balance
Children's Program	\$ 12,500	\$ 50,900	\$ (63,400)	\$ -
Academic Enrichment	-	45,300	(45,300)	-
Residential Shelter Program	31,800	29,655	(61,455)	-
Bridge Program	-	128,125	(128,125)	-
Growth Campaign	824,725	-	(491,700)	333,025
Timing restriction	50,000	900	(50,900)	-
Endowment and general operations	378,487	187,878	(61,085)	505,280
Total temporarily restricted net assets	\$ 1,297,512	\$ 442,758	\$ (901,965)	\$ 838,305

Continued

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2017 and 2016

**10. Temporarily Restricted Net Assets, continued**

Temporarily restricted net assets consisted of the following for the year ended at July 31, 2016.

	Beginning Balance	Contributions and Income	Released from Restriction	Ending Balance
Children’s Program	\$ 14,741	\$ 12,500	\$ (14,741)	\$ 12,500
Academic Enrichment	-	40,000	(40,000)	-
Residential Shelter Program	43,750	31,800	(43,750)	31,800
Growth Campaign	1,792,522	45,050	(1,012,847)	824,725
Timing restriction	61,500	50,000	(61,500)	50,000
Endowment and general operations	441,432	252	(63,197)	378,487
Total temporarily restricted net assets	\$ 2,353,945	\$ 179,602	\$ (1,236,035)	\$ 1,297,512

***Growth Campaign***

In response to the growing population of homeless families in San Francisco, the Organization during 2014 launched the Foundations for Families Campaign (“expansion campaign”), a three-year campaign to expand shelter occupancy for families by approximately one-third and to expand its overall operation by approximately 30%.

Funding from the expansion campaign enabled the Organization to expand and sustain important components of its supportive services: additional case management services; expanded vocational, educational, and employer partnership activities within the community; and additional capacity in mental health services and in programs that leverage the support of community volunteers.

The use of expansion campaign carryover funds ends in the Organization’s fiscal year ending July 31, 2018.

**11. Allocation of Joint Costs**

During the years ended July 31, 2017 and 2016, the Organization mailed newsletters and completed radio and print media campaigns that included both fundraising and program components.

The joint cost of conducting those activities was \$29,783 and \$16,960 for the years ended July 31, 2017 and 2016, respectively, which are not specifically attributable to particular components of the activities. The joint costs were allocated as follows:

	2017	2016
Fundraising & Management and General Program	\$ 5,361	\$ 2,997
	24,422	13,963
	\$ 29,783	\$ 16,960

Continued

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.**

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2017 and 2016

**12. Special Events**

During the years ended July 31, 2017 and 2016, the Organization held a fundraising gala event and a second fundraising event. Total revenues and expenses related to the events are as follows:

	<u>2017</u>	<u>2016</u>
Total receipts	\$ 835,169	\$ 692,582
Total expenses	<u>241,244</u>	<u>207,910</u>
Special events, net	<u>\$ 593,925</u>	<u>\$ 484,672</u>

**13. Rental Income**

The Organization leases space to a tenant under a non-cancelable operating lease expiring August 31, 2020. The following is a schedule by years of future minimum rentals under the leases at July 31, 2017.

	<u>Amount</u>
Year ending July 31:	
2018	\$ 50,779
2019	52,035
2020	53,350
2021	<u>4,455</u>
Total	<u>\$ 160,619</u>

**14. Contributed Goods and Services**

The Organization received contributed legal, construction, and consulting services during the year ended July 31, 2017, and contributed legal services during the year ended July 31, 2016. The Organization received contributed food items during the years ended July 31, 2017 and 2016. The fair value of donated goods and services for the years ended July 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Contributed services	\$ 182,693	\$ 93,234
Contributed goods	<u>134,322</u>	<u>13,708</u>
Total	<u>\$ 317,015</u>	<u>\$ 106,942</u>

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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### 15. Lease Commitments

The Organization leases equipment that has initial or remaining non-cancelable operating lease terms in excess of one year of July 31, 2017. The Organization's future minimum lease payments are as follows:

	<u>Amount</u>
Year ending July 31:	
2018	\$ 1,684
2019	1,684
2020	1,684
2021	<u>1,544</u>
Total	<u>\$ 6,596</u>

### 16. Contingencies

In June 2002, the Organization received a grant in the amount of \$300,000 from the Northern California Community Loan Fund in support of the purchase and renovation of the Organization's building. The provisions of the grant state that the Organization must deliver its charitable services for a period of 55 years and failure to do so would require repayment of the total amount plus interest at 10% per annum. The grant obligation is secured by a deed of trust on the building. Interest begins accruing upon an event of default, including failing to deliver charitable services for a period of 55 years. No event of default has occurred as of July 31, 2017, therefore, interest has not been accrued.

### 17. Subsequent Events

Management has evaluated subsequent events through November 13, 2017, the date which the financial statements were available to be issued. No significant events were identified that require any additional disclosure.