RAPHAEL HOUSE OF SAN FRANCISCO, INC.

FINANCIAL STATEMENTS

July 31, 2018 and 2017

Raphael House of San Francisco, Inc.

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4200 Bohannon Drive, Suite 250, Menlo Park, CA 94025
Phone (650) 855-6800 **Fax** (650) 855-6899 **Email** bpm@bpmcpa.com **Web** bpmcpa.com

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 statements of financial position as of July 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' 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 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 auditors' 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

Menlo Park, California
November 8, 2018

Raphael House of San Francisco, Inc.

Statements of Financial Position

As of July 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 509,963	$ 829,837
Receivables - other	1,315	3,648
Grants and pledges receivable, net	12,500	346,669
Inventory	19,334	17,098
Prepaid expenses	57,834	44,523
Total current assets	600,946	1,241,775
Long-term assets:		
Investments:		
Unrestricted investments	1,765,385	1,663,579
Beneficial interest in endowment investments	1,745,488	1,689,775
Total investments	3,510,873	3,353,354
Property, equipment, and improvements, net	2,641,985	2,851,059
Total assets	$ 6,753,804	$ 7,446,188
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 70,208	$ 99,809
Accrued compensation and vacation	101,660	90,543
Current portion of note payable	-	15,384
Total current liabilities	171,868	205,736
Long-term liabilities:		
Note payable, net of current portion	-	1,290
Security deposits	7,500	7,500
Total liabilities	179,368	214,526
Net assets:		
Unrestricted net assets:		
Undesignated	2,952,550	3,584,529
Board designated	1,786,456	1,683,512
Total unrestricted net assets	4,739,006	5,268,041
Temporarily restricted net assets	710,114	838,305
Permanently restricted net assets	1,125,316	1,125,316
Total net assets	6,574,436	7,231,662
Total liabilities and net assets	$ 6,753,804	$ 7,446,188

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Donations from individuals	$ 709,231	$ 183,380	$ -	$ 892,611
Foundation gifts and trusts	413,989	93,000	-	506,989
Donations from corporations and businesses	115,580	24,113	-	139,693
Special events income (net of direct expenses of $264,432)	570,578	-	-	570,578
Donations from churches and civic groups	39,360	6,000	-	45,360
Bequests	77,120	-	-	77,120
Contributed goods and services	145,541	-	-	145,541
Total public support	2,071,399	306,493	-	2,377,892
Revenues:				
Investment income (net of direct expenses of $37,766)	103,385	116,944	-	220,329
Rental income	50,779	-	-	50,779
Fees for services	5,287	-	-	5,287
Total revenues	159,451	116,944	-	276,395
Net assets released from restrictions	551,628	(551,628)	-	-
Total support, revenues, and transfers	2,782,478	(128,191)	-	2,654,287
Expenses:				
Program services:				
Residential Shelter Program	1,135,406	-	-	1,135,406
Children's Programs	517,365	-	-	517,365
Bridge Program	475,646	-	-	475,646
Meal Program	360,892	-	-	360,892
Total program services	2,489,309	-	-	2,489,309
Management and general	334,711	-	-	334,711
Fundraising	487,493	-	-	487,493
Total expenses	3,311,513	-	-	3,311,513
Change in net assets	(529,035)	(128,191)	-	(657,226)
Net assets, beginning of year	5,268,041	838,305	1,125,316	7,231,662
Net assets, end of year	$ 4,739,006	$ 710,114	$ 1,125,316	$ 6,574,436

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 Functional Expenses

For the year ended July 31, 2018

	Programs and Services							
	Residential Shelter Program	Children's Program	Bridge Program	Meal Program	Total	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 775,721	$ 330,090	$ 307,792	$ 219,655	$ 1,633,258	$ 227,360	$ 363,991	$ 2,224,609
Development expense	2,792	717	714	824	5,047	609	325,222	330,878
Office expenses	17,143	5,076	6,159	4,845	33,223	80,486	2,885	116,594
Occupancy	105,980	26,522	9,469	17,067	159,038	15,280	4,040	178,358
Internships	18,882	-	18,882	4,108	41,872	-	-	41,872
Direct assistance to individuals	7,147	3,478	90,895	-	101,520	-	-	101,520
Children's activities and education	-	74,200	-	-	74,200	-	-	74,200
Food and other kitchen expense	1,104	90	-	87,866	89,060	-	111	89,171
Technology	28,765	18,031	17,244	6,357	70,397	12,551	28,999	111,947
Staff training and subscriptions	4,063	4,585	3,072	15	11,735	371	740	12,846
Supplies	25,461	3,440	1,209	1,098	31,208	2,177	2,234	35,619
Printing, copying, and publication	-	-	-	-	-	-	3,396	3,396
Postage and shipping	546	1,327	-	-	1,873	488	2,800	5,161
Telephone	6,527	2,120	2,182	2,204	13,033	1,705	2,058	16,796
Transportation	622	4,366	101	744	5,833	3,534	917	10,284
Furniture and equipment	979	-	-	-	979	-	430	1,409
Total expenses before depreciation, bad debt, and special events and investment expenses	995,732	474,042	457,719	344,783	2,272,276	344,561	737,823	3,354,660
Depreciation	139,674	43,323	17,927	16,109	217,033	29,916	14,102	261,051
Change in uncollectible contributions	-	-	-	-	-	(2,000)	-	(2,000)
Less special events and investment expenses, presented net on the statement of activities	-	-	-	-	-	(37,766)	(264,432)	(302,198)
Total expenses	$ 1,135,406	$ 517,365	$ 475,646	$ 360,892	$ 2,489,309	$ 334,711	$ 487,493	$ 3,311,513

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
Total expenses before depreciation, disposals, bad debt, and special events and investment expenses	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
Less 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	$ 1,096,181	$ 496,382	$ 444,499	$ 395,487	$ 2,432,549	$ 433,225	$ 526,779	$ 3,392,553

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (657,226)	$ (470,285)
Adjustments to reconcile change in net asset to net cash (used in) provided by operating activities:		
Depreciation	261,051	273,869
Loss on disposal of fixed assets	-	447
Change in allowance for doubtful accounts	(2,000)	(27,500)
Change in uncollectible contributions	(2,000)	19,750
Unrealized and realized gain on investments	(199,633)	(296,795)
Change in assets and liabilities:		
Receivables - other	2,333	(311)
Grants and pledges receivable	338,169	615,476
Inventory	(2,236)	(3,640)
Prepaid expenses	(13,309)	1,402
Accounts payable and accrued expenses	(29,601)	(3,621)
Accrued compensation and vacation	11,117	13,345
Net cash (used in) provided by operating activities	(293,335)	122,137
Cash flows from investing activities:		
Purchases of investments	(125,197)	(230,550)
Proceeds from the sale of investments	167,309	211,317
Purchases of property, equipment, and improvements	(51,977)	(57,637)
Net cash used in investing activities	(9,865)	(76,870)
Cash flows from financing activities:		
Payments on note payable	(16,674)	(15,384)
Net cash used in financing activities	(16,674)	(15,384)
Net (decrease) increase in cash and cash equivalents	(319,874)	29,883
Cash and cash equivalents, beginning of year	829,837	799,954
Cash and cash equivalents, end of year	$ 509,963	$ 829,837

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

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 accounting standards generally accepted in the United States of America for nonprofit entities 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

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 $0 and $2,000 for the years ended July 31, 2018 and 2017, respectively, is necessary based on management's evaluation and adjustment of a current aging of the accounts. As of July 31, 2018 and 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 of receivables totaling $0 and $19,750 for the years ended July 31, 2018 and 2017, respectively.

Inventory

Inventory is comprised of food and gift cards that are used for program purposes, and are 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 fair 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

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 placed 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.

Accounting standards establish 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

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 has a spending policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the prior 16 quarters preceding the fiscal year in which the distribution is planned. 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, 2018 and 2017.

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 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

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 Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3). The Franchise Tax Board has determined the Organization is exempt from state income taxes under the California Revenue Code Section 23701(d). However, income from activities not related to the Organization's tax exempt purpose may be subject to taxation as unrelated business income.

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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which converges the FASB and the International Accounting Standards Board standards on revenue recognition. The ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period. The Organization is currently evaluating the impact of the adoption of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (842). The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early application is permitted. The Organization is in the process of evaluating the impact of the new guidance on its financial statements.

Continued

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

Recent Accounting Pronouncements, continued

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (958). This statement includes updates that improve the usefulness of financial statements or reduce complexities for preparers. Some of the updates include requiring all nonprofits to present expenses by function and nature; replacing traditional three classes of net assets with only two classes (those with donor-imposed restrictions and those without); reaffirmation of existing methods of presenting operating cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact of adoption on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to make it more clear in distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. The changes in this standard are likely going to result in more transactions being treated as conditional contributions, including those that were previously considered earned revenue as exchange transactions. The ASU is effective for annual reporting periods beginning after December 15, 2019 with early adoption permitted. The Organization is currently evaluating the impact of adoption on its financial statements.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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

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, 2018:

	Investments at Fair Value as of July 31, 2018			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity funds	$ 1,560,150	$ -	$ -	$ 1,560,150
Bond funds	205,235	-	-	205,235
Beneficial interest in endowment investments	-	1,745,488	-	1,745,488
Total investments at fair value	$ 1,765,385	$ 1,745,488	$ -	$ 3,510,873

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

Equity funds and bond funds for the years ended July 31, 2018 and 2017, were held in various mutual funds.

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

	2018	2017
Interest and dividend income	$ 58,462	$ 53,551
Realized gains on sales of investments	12,107	3,314
Unrealized gains and losses	187,526	293,481
Investment fees	(37,766)	(31,549)
Total investment income	$ 220,329	$ 318,797

Continued

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 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 SFF. All funds are Level 2 pooled funds. The composition of the endowment fund at July 31, 2018, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Agency Endowment Fund	$ 41,183	$ 99,270	$ 140,453
One Organization Fund	578,989	1,026,046	1,605,035
Total endowment investments	$ 620,172	$ 1,125,316	$ 1,745,488

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	$ 564,459	$ 1,125,316	$ 1,689,775

Continued

5. Endowments, continued

Net changes in endowment investment funds were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning 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
Investment return:			
Interest and dividends	10,069	-	10,069
Unrealized gain	131,526	-	131,526
Investment expense	(24,651)	-	(24,651)
Total investment return	116,944	-	116,944
Appropriations of endowment earnings for expenditure	(61,231)	-	(61,231)
Ending investment balance at July 31, 2018	$ 620,172	$ 1,125,316	$ 1,745,488

6. Grants and Pledges Receivable

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

	2018	2017
Foundation grants receivable	$ 12,500	$ 30,000
Corporate contributions receivable	-	318,669
Totals	12,500	348,669
Allowance for doubtful accounts	-	(2,000)
Balances	$ 12,500	$ 346,669

Continued

7. Property and Equipment

Property and equipment consist of the following at July 31:

	2018	2017
Land	$ 800,000	$ 800,000
Building and improvements	4,063,240	4,319,862
Computers and equipment	98,597	142,773
Furniture and fixtures	138,375	138,375
Construction in progress	955	-
Totals	5,101,167	5,401,010
Less accumulated depreciation	(2,459,182)	(2,549,951)
Property and equipment, net	$ 2,641,985	$ 2,851,059

Depreciation expense was $261,051 and $273,869 for the years ended July 31, 2018 and 2017, respectively. The building is secured by a deed of trust (see Note 14).

8. 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 required 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 was to be due and payable in full. The note was paid in full during the year ended July 31, 2018. No interest was paid during the years ended July 31, 2018 and 2017.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following for the year ended at July 31, 2018.

	Beginning Balance	Contributions and Income	Released from Restriction	Ending Balance
Children's Program	$ -	$ 88,012	$ (68,937)	$ 19,075
Academic Enrichment	-	36,400	(36,400)	-
Bridge Program	-	76,080	(51,080)	25,000
Growth Campaign	333,025	-	(333,025)	-
Timing restriction	-	106,000	(955)	105,045
Endowment and general operations	505,280	116,945	(61,231)	560,994
Total temporarily restricted net assets	$ 838,305	$ 423,437	$ (551,628)	$ 710,114

Continued

9. Temporarily Restricted Net Assets, continued

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

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.

10. Allocation of Joint Costs

During the years ended July 31, 2018 and 2017, 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 $42,000 and $29,783 for the years ended July 31, 2018 and 2017, respectively, which are not specifically attributable to particular components of the activities. The joint costs were allocated as follows:

	2018	2017
Fundraising & Management and General	$ 30,125	$ 5,361
Program	11,875	24,422
	$ 42,000	$ 29,783

Continued

11. Special Events

During the years ended July 31, 2018 and 2017, the Organization held a fundraising gala event and a second fundraising event. Total revenues and expenses related to the events are as follows:

	2018	2017
Total receipts	$ 835,010	$ 835,169
Total expenses	264,432	241,244
Special events, net	$ 570,578	$ 593,925

12. 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, 2018.

	Amount
Year ending July 31:	
2019	$ 52,035
2020	53,350
2021	4,455
Total	$ 109,840

13. Contributed Goods and Services

The Organization received contributed consulting services during the year ended July 31, 2018, and contributed legal, construction, and consulting services during the year ended July 31, 2017. The Organization received contributed food items during the years ended July 31, 2018 and 2017. The fair value of donated goods and services for the years ended July 31, 2018 and 2017 are as follows:

	2018	2017
Contributed services	$ 49,975	$ 182,693
Contributed goods	95,566	134,322
Total	$ 145,541	$ 317,015

Continued

14. 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, 2018, therefore, interest has not been accrued.

15. Subsequent Events

On September 19, 2018, the Organization entered into a line of credit agreement that provided for maximum short-term borrowings of $400,000. The line of credit matures September 19, 2019 and is collateralized by the Organization's personal property. Interest is variable based on the U.S. Prime Rate with a floor of 4.25% per year and a current rate of 5.0%.

Management has evaluated subsequent events through November 8, 2018, the date which the financial statements were available to be issued. Management concluded that, other than the above, no material subsequent events have occurred since July 31, 2018 that require recognition or disclosure in the financial statements.