

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

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**FINANCIAL STATEMENTS**

July 31, 2020 and 2019



**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 statements of financial position as of July 31, 2020 and 2019, 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, 2020 and 2019, 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

San Francisco, California  
November 10, 2020

**RAPHAEL HOUSE OF SAN FRANCISCO, INC.****STATEMENTS OF FINANCIAL POSITION**

As of July 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 468,737	\$ 357,530
Receivables - other	1,045	1,020
Grants and pledges receivable	5,250	2,750
Inventory	15,249	13,967
Prepaid expenses	143,246	48,064
Total current assets	<u>633,527</u>	<u>423,331</u>
Long-term assets:		
Investments	1,573,881	1,353,650
Beneficial interest in endowment investments	979,185	1,268,219
Property, equipment, and improvements, net	<u>2,279,115</u>	<u>2,518,496</u>
Total assets	<u>\$ 5,465,708</u>	<u>\$ 5,563,696</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 112,735	\$ 99,760
Accrued compensation and vacation	150,485	109,461
Deferred special event income	174,089	-
Note payable - Paycheck Protection Program	221,526	-
Total current liabilities	<u>658,835</u>	<u>209,221</u>
Long-term liabilities:		
Note payable - Paycheck Protection Program	199,374	-
Security deposits	7,500	7,500
Total liabilities	<u>865,709</u>	<u>216,721</u>
Commitments and contingencies (Note 14)		
Net assets:		
Without donor restrictions:		
Undesignated	1,766,817	2,661,629
Board designated	1,814,774	1,367,822
Total without donor restrictions	<u>3,581,591</u>	<u>4,029,451</u>
With donor restrictions	<u>1,018,408</u>	<u>1,317,524</u>
Total net assets	<u>4,599,999</u>	<u>5,346,975</u>
Total liabilities and net assets	<u>\$ 5,465,708</u>	<u>\$ 5,563,696</u>

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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Public support:			
Donations from individuals	\$ 1,305,083	\$ 17,141	\$ 1,322,224
Foundation gifts and trusts	562,164	169,000	731,164
Donations from corporations and businesses	152,937	55,945	208,882
Special events income (net of direct expenses of \$7,602)	27,648	-	27,648
Donations from churches and civic groups	99,656	34,000	133,656
Bequests	50,000	-	50,000
Contributed goods and services	22,394	-	22,394
Total public support	<u>2,219,882</u>	<u>276,086</u>	<u>2,495,968</u>
Revenues:			
Investment income (net of direct expenses of \$31,390)	45,378	-	45,378
Change in beneficial interest in endowment investments	32,503	6,742	39,245
Rental income	53,350	-	53,350
Fees for services	20,497	-	20,497
Total revenues	<u>151,728</u>	<u>6,742</u>	<u>158,470</u>
Net assets released from restrictions	<u>581,944</u>	<u>(581,944)</u>	<u>-</u>
Total support and revenues	<u>2,953,554</u>	<u>(299,116)</u>	<u>2,654,438</u>
Expenses:			
Program services:			
Residential Shelter Program	1,126,704	-	1,126,704
Children's Programs	317,383	-	317,383
Bridge Program	297,555	-	297,555
Family Wellness Program	151,182	-	151,182
Meal Program	279,774	-	279,774
Total program services	<u>2,172,598</u>	<u>-</u>	<u>2,172,598</u>
Supporting services:			
Management and general	554,289	-	554,289
Fundraising	674,527	-	674,527
Total expenses	<u>3,401,414</u>	<u>-</u>	<u>3,401,414</u>
Change in net assets	(447,860)	(299,116)	(746,976)
Net assets, beginning of year	<u>4,029,451</u>	<u>1,317,524</u>	<u>5,346,975</u>
Net assets, end of year	<u>\$ 3,581,591</u>	<u>\$ 1,018,408</u>	<u>\$ 4,599,999</u>

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Public support:			
Donations from individuals	\$ 716,646	\$ 66,530	\$ 783,176
Foundation gifts and trusts	315,821	33,000	348,821
Donations from corporations and businesses	159,959	2,037	161,996
Special events income (net of direct expenses of \$302,836)	582,056	-	582,056
Donations from churches and civic groups	69,095	-	69,095
Bequests	2,006	-	2,006
Contributed goods and services	95,573	-	95,573
Total public support	<u>1,941,156</u>	<u>101,567</u>	<u>2,042,723</u>
Revenues:			
Investment income (net of direct expenses of \$31,067)	9,631	-	9,631
Change in beneficial interest in endowment investments	-	55,049	55,049
Rental income	52,035	-	52,035
Fees for services	2,850	-	2,850
Miscellaneous	25,128	-	25,128
Total revenues	<u>89,644</u>	<u>55,049</u>	<u>144,693</u>
Net assets released from restrictions	<u>674,522</u>	<u>(674,522)</u>	<u>-</u>
Total support, revenues, and transfers	<u>2,705,322</u>	<u>(517,906)</u>	<u>2,187,416</u>
Expenses:			
Program services:			
Residential Shelter Program	1,143,077	-	1,143,077
Children's Programs	368,900	-	368,900
Bridge Program	412,241	-	412,241
Family Wellness Program	137,988	-	137,988
Meal Program	364,216	-	364,216
Total program services	<u>2,426,422</u>	<u>-</u>	<u>2,426,422</u>
Management and general	512,837	-	512,837
Fundraising	475,618	-	475,618
Total expenses	<u>3,414,877</u>	<u>-</u>	<u>3,414,877</u>
Change in net assets	(709,555)	(517,906)	(1,227,461)
Net assets, beginning of year	<u>4,739,006</u>	<u>1,835,430</u>	<u>6,574,436</u>
Net assets, end of year	<u>\$ 4,029,451</u>	<u>\$ 1,317,524</u>	<u>\$ 5,346,975</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, 2020

	Programs Services					Supporting Services		Total Expenses	
	Residential Shelter Program	Children's Program	Bridge Program	Family Wellness Program	Meal Program	Total	Management and General		Fundraising
Salaries and benefits	\$ 831,183	\$ 192,225	\$ 243,852	\$ 109,097	\$ 180,534	\$ 1,556,891	\$ 404,856	\$ 529,009	\$ 2,490,756
Office expenses	15,392	3,358	4,682	3,045	3,844	30,321	116,308	6,056	152,685
Occupancy	71,922	14,554	8,745	3,859	14,125	113,205	13,261	10,647	137,113
Technology	37,713	12,947	14,460	6,675	8,516	80,311	13,282	26,236	119,829
Development expense	-	-	-	-	-	-	-	85,821	85,821
Food and other kitchen expense	188	-	-	-	54,274	54,462	-	-	54,462
Internships	1,920	22,611	-	15,069	-	39,600	-	-	39,600
Children's activities and education	-	24,885	-	2,529	-	27,414	-	1,214	28,628
Telephone	9,207	2,474	3,530	1,133	2,674	19,018	4,970	4,036	28,024
Supplies	19,568	169	104	61	263	20,165	947	1,685	22,797
Direct assistance to individuals	3,740	7,659	2,265	610	-	14,274	-	-	14,274
Staff training and subscriptions	1,369	1,483	2,651	702	-	6,205	20	2,659	8,884
Transportation	86	1,961	-	1	2	2,050	681	437	3,168
Postage and shipping	866	231	329	112	251	1,789	474	557	2,820
Furniture and equipment	-	-	-	-	-	-	1,554	249	1,803
Printing, copying, and publication	-	-	80	-	-	80	80	250	410
	<u>993,154</u>	<u>284,557</u>	<u>280,698</u>	<u>142,893</u>	<u>264,483</u>	<u>1,965,785</u>	<u>556,433</u>	<u>668,856</u>	<u>3,191,074</u>
Total expenses before depreciation, disposals, and special events and investment expenses									
Depreciation	133,550	32,826	16,857	8,289	15,291	206,813	29,246	13,273	249,332
Less special events and investment expenses, presented net on the statement of activities	-	-	-	-	-	-	(31,390)	(7,602)	(38,992)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,390)</u>	<u>(7,602)</u>	<u>(38,992)</u>
Total expenses	<u>\$ 1,126,704</u>	<u>\$ 317,383</u>	<u>\$ 297,555</u>	<u>\$ 151,182</u>	<u>\$ 279,774</u>	<u>\$ 2,172,598</u>	<u>\$ 554,289</u>	<u>\$ 674,527</u>	<u>\$ 3,401,414</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, 2019

	Programs Services					Supporting Services		Total Expenses	
	Residential Shelter Program	Children's Program	Bridge Program	Family Wellness Program	Meal Program	Total	Management and General		Fundraising
Salaries and benefits	\$ 824,637	\$ 207,463	\$ 293,680	\$ 104,558	\$ 227,284	\$ 1,657,622	\$ 368,411	\$ 344,070	\$ 2,370,103
Development expense	-	-	-	-	-	-	6,511	367,689	374,200
Office expenses	12,163	3,031	3,476	3,064	4,361	26,095	104,247	8,884	139,226
Occupancy	81,144	17,432	5,955	3,227	16,368	124,126	10,148	5,456	139,730
Internships	11,916	-	7,182	-	-	19,098	-	-	19,098
Direct assistance to individuals	7,297	2,780	62,514	844	-	73,435	-	-	73,435
Children's activities and education	165	83,218	-	4,759	-	88,142	128	413	88,683
Food and other kitchen expense	75	20	50	15	89,350	89,510	35	61	89,606
Technology	31,365	13,461	14,615	8,636	8,075	76,152	17,176	26,974	120,302
Staff training and subscriptions	2,468	3,001	4,391	1,843	127	11,830	132	711	12,673
Supplies	27,164	521	1,223	762	917	30,587	1,684	2,166	34,437
Printing, copying, and publication	-	-	-	-	-	-	-	2,300	2,300
Postage and shipping	1,607	415	482	312	457	3,273	763	763	4,799
Telephone	6,105	1,595	1,851	1,202	1,739	12,492	3,516	2,751	18,759
Transportation	286	2,588	6	13	-	2,893	1,309	1,088	5,290
Furniture and equipment	954	-	-	-	-	954	90	919	1,963
	<u>1,007,346</u>	<u>335,525</u>	<u>395,425</u>	<u>129,235</u>	<u>348,678</u>	<u>2,216,209</u>	<u>514,150</u>	<u>764,245</u>	<u>3,494,604</u>
Total expenses before depreciation, disposals, and special events and investment expenses									
Depreciation	135,731	33,375	16,816	8,753	15,538	210,213	28,936	14,209	253,358
Loss on disposal of fixed assets	-	-	-	-	-	-	818	-	818
Less special events and investment expenses, presented net on the statement of activities	-	-	-	-	-	-	(31,067)	(302,836)	(333,903)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,067)</u>	<u>(302,836)</u>	<u>(333,903)</u>
Total expenses	<u>\$ 1,143,077</u>	<u>\$ 368,900</u>	<u>\$ 412,241</u>	<u>\$ 137,988</u>	<u>\$ 364,216</u>	<u>\$ 2,426,422</u>	<u>\$ 512,837</u>	<u>\$ 475,618</u>	<u>\$ 3,414,877</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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (746,976)	\$ (1,227,461)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	249,332	253,358
Loss on disposal of fixed assets	-	818
Unrealized and realized (gain) loss on investments	(26,932)	18,636
Change in beneficial interest in endowment investments	(39,245)	(55,049)
Interest and dividends on endowment funds	(5,675)	-
Change in assets and liabilities:		
Receivables - other	(25)	295
Grants and pledges receivable	(2,500)	9,750
Inventory	(1,282)	5,367
Prepaid expenses	(95,182)	9,770
Accounts payable and accrued expenses	12,975	29,552
Accrued compensation and vacation	41,024	7,801
Deferred special event income	174,089	-
	<u>(440,397)</u>	<u>(947,163)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(404,638)	(299,818)
Proceeds from the sale of investments	211,339	692,917
Grant distributions from San Francisco Foundation	328,279	532,317
Purchases of property, equipment, and improvements	(9,951)	(130,686)
	<u>125,029</u>	<u>794,730</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Proceeds on note payable - Paycheck Protection Program	420,900	-
Interest and dividends on endowment funds	5,675	-
	<u>426,575</u>	<u>-</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	111,207	(152,433)
Cash and cash equivalents, beginning of year	<u>357,530</u>	<u>509,963</u>
Cash and cash equivalents, end of year	<u>\$ 468,737</u>	<u>\$ 357,530</u>

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

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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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.
- *Family Wellness Program* – provides families coaching to help individuals and families develop skills for planning, problem-solving, and living in community. Family Wellness services also provides activities designed to strengthen family bonds. These include our Toddler Time which occurs nightly and is an evening activity specifically for the 0-4 age group and their parents; the Children’s Evening Program, specifically for the 5-12 age group; and Family Activity Program that helps the whole family connect through healthy play.
- *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 financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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

#### *Financial Statement Presentation*, continued

For financial statement purposes, all financial transactions are reported by class of net assets as prescribed for not-for-profit organizations by the Financial Accounting Standards Board (“FASB”). The following is a description of the classes of net assets included in the financial statements.

**Net Assets Without Donor Restrictions:** Net assets that are not subject to donor restrictions.

**Board Designated:** The portion of net assets without donor restrictions 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.

**Net Assets With Donor Restrictions:** Net assets subject to donor or grantor imposed restrictions. The Organization receives contributions, at times, that fall within this net asset category. These net assets have either time or purpose restrictions that are stipulated by the donor. When a restriction expires (that is, when a purpose restriction is accomplished or a time restriction is met), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions in the statement of activities.

**Donor Restricted Endowments:** Gifts of cash and other assets by donors that specify the fair value of the donated assets be invested in perpetuity to provide a permanent source of income.

#### *Cash and 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 for both of the years ended July 31, 2020 and 2019, is necessary based on management’s evaluation and adjustment of a current aging of the accounts. As of July 31, 2020 and 2019, 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 for both of the years ended July 31, 2020 and 2019.

#### *Inventory*

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

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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

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

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 3 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.

#### *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.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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

#### *Investments*, continued

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 Organization uses the net asset value ("NAV") to determine the fair value of all the underlying investments held with San Francisco Foundation, which do not have readily determinable fair value. The beneficial interest in endowments investment funds are classified as Level 2 fair value measurements (see Note 4).

#### *Endowments*

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 as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. For accounting and reporting purposes, the Organization classifies as net assets with restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted endowment funds, which are available for expenditure by the Organization in a manner consistent with the standards of prudence, prescribed by UPMIFA.

The Organization currently holds the endowment funds with a beneficial interest account until it is able to establish investment and spending policies for the endowment assets. From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as funds of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of net assets with restrictions. There were no such deficiencies as of July 31, 2020 or 2019. It is the Organization's policy to appropriate for distribution each year 4% of the average fair value of the endowment over the prior 16 quarters.

#### *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.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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

#### *Contributions and Grants*

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 support with or without donor restriction, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. Deferred special event income represents revenues collected but not earned. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

#### *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.

#### *Functional Allocation of Expenses*

The costs of providing the Organization's program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. The statement of functional expenses present natural classification detail of expenses by function. The major functional expense classifications are program services and supporting services. Program services include expenses that are directly related to providing services to help low-income families and families experiencing homelessness strengthen family bonds by achieving stable housing and financial independence and direct supervision of program activities. Supporting services are all activities of the Organization other than program services. Supporting services consist of management and general, and fundraising activities. Management and general includes expenses for general oversight and management of the Organization, recordkeeping, and budgeting. Fundraising activities include conducting fundraising events, preparing and distributing fundraising materials, and solicitation of contributions from individuals and corporations.

Expenses are allocated directly to program services if they can be specifically identified with a program. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Salaries, payroll taxes, benefits and workers' compensation insurance for organizational support groups such as marketing, information technology, executive management, and related administrative support are allocated on the basis of estimates of time and effort.

#### *Income Taxes*

The Internal Revenue Service has determined that the Raphael House is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Franchise Tax Board has determined that the Raphael House is exempt from income taxes under Section 23701d of the California Revenue and Taxation Code. However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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

#### *Nature of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *Change in Accounting Principle*

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The accounting for contributions has been modified to clarify 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 Organization used the modified prospective method of adoption beginning August 1, 2019 for the year ended July 31, 2020. The new accounting standard was applied at the date of initial application and had no impact on opening net assets. The adoption did not result in a significant impact to the Organization's financial statements for the year ended July 31, 2020.

#### *Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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. For nonpublic entities, the ASU was originally effective for annual reporting periods beginning after December 15, 2018. In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which effectively deferred the effective date for nonpublic entities that had not yet issued, or made available for issuance, their financial statements reflecting the adoption of this ASU. For those entities, they may elect to adopt the standard for annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the impact of adoption of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 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). For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2019 with early adoption permitted. In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which effectively delayed the adoption date to an effective date for private entities for annual periods beginning after December 15, 2021. The Organization is currently evaluating the impact of adoption on its financial statements.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

### 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.

### 3. Liquidity and Availability

For the year ended July 31, 2020, the Organization had a negative change in net assets of \$746,976, negative working capital of \$25,308 and had negative cash from operations of \$440,397. Management is working to mitigate this condition by developing strategies to increase revenues and cash flows. The ability to strengthen the Organization's liquidity will depend upon successful implementation of management's plans.

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, grants and pledges receivable, investments, and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to its ongoing activities. As of July 31, the Organization has financial assets available to meet cash needs for general expenditures within one year as follows:

	2020	2019
Financial assets, at year-end:		
Cash and cash equivalents	\$ 468,737	\$ 357,530
Receivables - other	1,045	1,020
Grants and pledges receivable	5,250	2,750
Unrestricted investments	1,573,881	1,353,650
Beneficial interest in endowment investments	979,185	1,268,219
Total financial assets	3,028,098	2,983,169
Less: financial assets unavailable for general expenditures within one year, due to:		
Board designated net assets	(1,814,774)	(1,367,822)
Net assets with donor restrictions to be released in greater than one year	(844,403)	(1,268,219)
Plus: board designated cash reserve available for use within one year	100,000	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 468,921	\$ 347,128

In addition, the Organization has \$400,000 available on a line of credit as of July 31, 2020 (see Note 8).

Continued



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

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2020 and 2019

**4. Investments**

The following table sets forth by level, the fair value hierarchy, of the Organization's investments at fair value as of July 31, 2020:

	Investments at Fair Value as of July 31, 2020			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Equity funds	\$ 1,217,160	\$ -	\$ -	\$ 1,217,160
Bond funds	356,721	-	-	356,721
Subtotal	1,573,881	-	-	1,573,881
Beneficial interest in endowment investments	-	979,185	-	979,185
Total investments at fair value	\$ 1,573,881	\$ 979,185	\$ -	\$ 2,553,066

The following table sets forth by level, the fair value hierarchy, of the Organization's investments at fair value as of July 31, 2019:

	Investments at Fair Value as of July 31, 2019			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Equity funds	\$ 1,041,777	\$ -	\$ -	\$ 1,041,777
Bond funds	311,873	-	-	311,873
Subtotal	1,353,650	-	-	1,353,650
Beneficial interest in endowment investments	-	1,268,219	-	1,268,219
Total investments at fair value	\$ 1,353,650	\$ 1,268,219	\$ -	\$ 2,621,869

Equity funds and bond funds for the years ended July 31, 2020 and 2019, were held in various mutual funds.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

### 4. Investments, continued

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

	2020	2019
Interest and dividend income	\$ 49,836	\$ 59,334
Realized gains on sales of investments	(9,284)	39,372
Unrealized gains and losses	75,461	(2,959)
Investment fees	(31,390)	(31,067)
Total investment income	<u>\$ 84,623</u>	<u>\$ 64,680</u>

### 5. Beneficial Interest in Endowment Investments

Fair value of beneficial interest in investments – The Organization is a beneficiary of a diversified investment pool offered by the San Francisco Foundation (“SFF”). SFF has the Organization’s beneficial interest under its management by an agreement irrevocably transferring its funds. The Organization’s share of the pool is recorded as beneficial interest in endowment investments. The beneficial interest is stated at fair value. The fair value is based on the net asset value of the pooled assets and the Organization’s beneficial 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.

### 6. 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 endowment funds are held in accounts at the SFF. All funds are Level 2 pooled funds. The composition of the endowment fund as of July 31, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Agency Endowment Fund	\$ -	\$ 136,579	\$ 136,579
One Organization Fund	134,782	707,824	842,606
Total endowment investments	<u>\$ 134,782</u>	<u>\$ 844,403</u>	<u>\$ 979,185</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2020 and 2019

**6. Endowments, continued**

The composition of the endowment fund as of July 31, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Agency Endowment Fund	\$ -	\$ 137,467	\$ 137,467
One Organization Fund	-	1,130,752	1,130,752
Total endowment investments	\$ -	\$ 1,268,219	\$ 1,268,219

Net changes in beneficial interest in endowment investment were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning beneficial interest balance at July 31, 2018	\$ -	\$ 1,745,488	\$ 1,745,488
Change in beneficial interest:			
Interest and dividends	-	9,226	9,226
Unrealized gain	-	45,822	45,822
Total	-	55,048	55,048
Grant distributions of endowment for expenditure	-	(532,317)	(532,317)
Ending beneficial interest balance at July 31, 2019	-	1,268,219	1,268,219
Change in beneficial interest:			
Interest and dividends	5,190	485	5,675
Unrealized gain	27,313	6,257	33,570
Total	32,503	6,742	39,245
Reclass of endowment to Board designated net asset	366,928	(366,928)	-
Grant distributions of endowment for expenditure	(264,649)	(63,630)	(328,279)
Ending beneficial interest balance at July 31, 2020	\$ 134,782	\$ 844,403	\$ 979,185

Continued

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

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2020 and 2019

**7. Property and Equipment**

Property and equipment consist of the following as of July 31:

	2020	2019
Land	\$ 800,000	\$ 800,000
Building and improvements	4,071,362	4,063,240
Computers and equipment	103,920	102,091
Furniture and fixtures	264,402	264,402
Totals	5,239,684	5,229,733
Less: accumulated depreciation	(2,960,569)	(2,711,237)
Property and equipment, net	\$ 2,279,115	\$ 2,518,496

Depreciation expense was \$249,332 and \$253,358 for the years ended July 31, 2020 and 2019, respectively. The building is secured by a deed of trust (see Note 14).

**8. Line of Credit**

On September 19, 2018, the Organization entered into a twelve month loan agreement with a bank for a revolving line of credit with an authorized limit of \$400,000. The outstanding principal bears interest at 5% interest per annum. The line of credit is secured by all business assets of the Organization. There was no outstanding balance on the line of credit as of July 31, 2019. On March 18, 2020, the line of credit was renewed with the outstanding principal bearing interest at 3.25%. The line of credit expires March 19, 2021. There was no outstanding balance on the line of credit as of July 31, 2020 and the renewal does not have financial and other covenants which the Organization needs to comply with as of July 31, 2020.

**9. Note Payable - Paycheck Protection Program**

In April 2020, the Organization received loan proceeds in the amount of \$420,900 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying entities for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are eligible for forgiveness after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24-week period. The unforgiven portion of the PPP loan is payable over two years beginning 10 months after the 24-week period is concluded at an interest rate of 1%. The Organization intends to use the proceeds for purposes consistent with the PPP. Future payments are as follows during the year ending July 31:

2021	\$ 221,526
2022	199,374
	\$ 420,900

Continued

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

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2020 and 2019

**10. Net Assets With Donor Restriction**

Net assets with donor restriction consisted of the following for the year ended as of July 31, 2020:

	Beginning Balance	Contributions and Income	Released from Restriction	Ending Balance
Children's Program	\$ 20,430	\$ 57,087	\$ (56,924)	\$ 20,593
Academic Enrichment	-	10,000	(10,000)	-
Bridge Program	25,000	149,999	(40,000)	134,999
Timing restriction	-	54,000	(35,587)	18,413
Fundraising	3,875	5,000	(8,875)	-
Endowment and general operations	1,268,219	6,742	(430,558)	844,403
Total net assets with donor restriction	\$ 1,317,524	\$ 282,828	\$ (581,944)	\$ 1,018,408

Net assets with donor restriction consisted of the following for the year ended as of July 31, 2019:

	Beginning Balance	Contributions and Income	Released from Restriction	Ending Balance
Children's Program	\$ 19,075	\$ 87,367	\$ (86,012)	\$ 20,430
Academic Enrichment	-	3,200	(3,200)	-
Bridge Program	25,000	1,000	(1,000)	25,000
Fundraising	105,045	-	(105,045)	-
Timing restriction	-	10,000	(6,125)	3,875
Endowment and general operations	1,686,310	55,049	(473,140)	1,268,219
Total net assets with donor restriction	\$ 1,835,430	\$ 156,616	\$ (674,522)	\$ 1,317,524

**11. Special Events**

During the year ended July 31, 2019, the Organization held a fundraising gala event and a second fundraising event. During the year ended July 31, 2020, the Organization held a single fundraising event, as the annual gala was delayed until September 2020. Amounts received for the gala prior to year-end are classified as deferred special event income on the statement of financial position, and include both the earned and contribution portion of gala income. Contributed gala income is considered condition on the occurrence of the gala, unless donors have indicated otherwise.

Continued

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

**NOTES TO FINANCIAL STATEMENTS**

July 31, 2020 and 2019

**11. Special Events**, continued

Total revenues and expenses related to the events are as follows for the years ended July 31:

	<u>2020</u>	<u>2019</u>
Total receipts	\$ 35,250	\$ 884,892
Total expenses	<u>7,602</u>	<u>302,836</u>
Special events, net	<u>\$ 27,648</u>	<u>\$ 582,056</u>

**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 as of July 31, 2020.

	<u>Amount</u>
Year ending July 31: 2021	<u>\$ 4,455</u>
Total	<u>\$ 4,455</u>

**13. Contributed Goods and Services**

The Organization received contributed consulting services and food items during the years ended July 31, 2020 and 2019. The fair value of donated goods and services for the years ended July 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Contributed services	\$ 16,980	\$ 19,099
Contributed goods	<u>5,414</u>	<u>76,474</u>
Total	<u>\$ 22,394</u>	<u>\$ 95,573</u>

**14. Commitments and Contingencies**

***Refundable Grant***

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, 2020, therefore, interest has not been accrued.

Continued

# RAPHAEL HOUSE OF SAN FRANCISCO, INC.

## NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

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### 14. Commitments and Contingencies, continued

#### *COVID-19 Pandemic*

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations, including the Organization. In May 2020, the Organization postponed an annual fundraising event due to the pandemic and held the event virtually for the first time in September 2020. It is not possible for the Organization to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on its operations and financial results at this time.

#### *EIDL Loan*

In July 2020, the Organization was approved for a \$150,000 loan from the SBA's Economic Injury Disaster Loan ("EIDL") program. The Organization received the loan proceeds in September 2020. The EIDL program, designed to provide economic relief to businesses that experience a temporary loss of revenue due to coronavirus (COVID-19), offers funds to meet financial obligations and operating expenses that could have been met had the disaster not occurred. The loan is payable over thirty years at an interest rate of 2.75%, with no pre-payment penalty. The Organization intends to use the proceeds for purposes consistent with the EIDL program.

### 15. Subsequent Events

The Organization leases space to a tenant under a non-cancelable operating lease which expired on August 31, 2020. In September 2020, the lease was renewed on a month-to-month basis.

Management has evaluated subsequent events through November 10, 2020, the date which the financial statements were available to be issued. Management concluded that no material subsequent events except as disclosed above have occurred since July 31, 2020 that require recognition or disclosure in the financial statements.