

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

FINANCIAL STATEMENTS

July 31, 2021 and 2020



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, 2021 and 2020, 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 from 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 auditors consider 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Raphael House of San Francisco, Inc. as of July 31, 2021 and 2020, and the results of its operations and 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
January 24, 2022

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

STATEMENTS OF FINANCIAL POSITION

As of July 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 531,158	\$ 468,737
Receivables - other	45	1,045
Grants and pledges receivable, net	30,250	5,250
Inventory	17,352	15,249
Prepaid expenses	106,142	143,246
Total current assets	<u>684,947</u>	<u>633,527</u>
Long-term assets:		
Investments:		
Unrestricted investments	1,906,460	1,573,881
Beneficial interest in endowment investments	990,741	979,185
Property, equipment, and improvements, net (encumbered)	<u>2,046,007</u>	<u>2,279,115</u>
Total assets	<u>\$ 5,628,155</u>	<u>\$ 5,465,708</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 135,947	\$ 112,735
Accrued compensation and vacation	170,850	150,485
Deferred revenue	23,000	174,089
Refundable advance - Paycheck Protection Program ("PPP")	-	420,900
Total current liabilities	<u>329,797</u>	<u>858,209</u>
Long-term liabilities:		
Note payable, Economic Injury Disaster Loan ("EIDL")	150,000	-
Security deposits	<u>7,500</u>	<u>7,500</u>
Total liabilities	<u>487,297</u>	<u>865,709</u>
Net assets:		
Without donor restrictions:		
Undesignated	2,208,938	1,766,817
Board designated	<u>2,033,920</u>	<u>1,814,774</u>
Total without donor restrictions	4,242,858	3,581,591
With donor restrictions	<u>898,000</u>	<u>1,018,408</u>
Total net assets	<u>5,140,858</u>	<u>4,599,999</u>
Total liabilities and net assets	<u>\$ 5,628,155</u>	<u>\$ 5,465,708</u>

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

STATEMENT OF ACTIVITIES

For the year ended July 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Public support:			
Donations from individuals	\$ 1,024,026	\$ 275	\$ 1,024,301
Foundation gifts and trusts	338,151	91,200	429,351
Donations from corporations and businesses	136,863	14,000	150,863
Special events income (net of direct expenses of \$57,258)	360,794	-	360,794
Donations from churches and civic groups	37,697	34,000	71,697
Bequests	428,272	-	428,272
Contributed goods and services	7,705	-	7,705
Total public support	<u>2,333,508</u>	<u>139,475</u>	<u>2,472,983</u>
Revenues:			
Investment income (net of direct expenses of \$26,095)	348,431	-	348,431
Change in beneficial interest in endowment investments	237,964	43,951	281,915
Rental income	41,209	-	41,209
Fees for services	32,305	-	32,305
Small Business Administration targeted advance	10,000	-	10,000
Miscellaneous	1,250	-	1,250
Total revenues	<u>671,159</u>	<u>43,951</u>	<u>715,110</u>
Net assets released from restrictions	<u>303,834</u>	<u>(303,834)</u>	<u>-</u>
Total support, revenues, and transfers	<u>3,308,501</u>	<u>(120,408)</u>	<u>3,188,093</u>
Expenses:			
Program services:			
Residential Shelter Program	1,234,336	-	1,234,336
Children's Programs	328,997	-	328,997
Bridge Program	364,112	-	364,112
Family Wellness Services Program	161,243	-	161,243
Meal Program	292,715	-	292,715
Total program services	<u>2,381,403</u>	<u>-</u>	<u>2,381,403</u>
Management and general	514,842	-	514,842
Fundraising	592,789	-	592,789
Total expenses	<u>3,489,034</u>	<u>-</u>	<u>3,489,034</u>
Change in net assets from operations	(180,533)	(120,408)	(300,941)
Gain on PPP loan discharge and forgiveness	<u>841,800</u>	<u>-</u>	<u>841,800</u>
Change in net assets	661,267	(120,408)	540,859
Net assets, beginning of year	<u>3,581,591</u>	<u>1,018,408</u>	<u>4,599,999</u>
Net assets, end of year	<u>\$ 4,242,858</u>	<u>\$ 898,000</u>	<u>\$ 5,140,858</u>

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, revenues, and transfers	<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 Services 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>
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>

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2021

	Programs and Services					Supporting Services		Total Expenses	
	Residential Shelter Program	Children's Program	Bridge Program	Family Wellness Services Program	Meal Program	Total	Management and General		Fundraising
Salaries and benefits	\$ 950,288	\$ 183,073	\$ 250,199	\$ 128,506	\$ 204,449	\$ 1,716,515	\$ 383,771	\$ 465,658	\$ 2,565,944
Office expenses	19,405	3,376	4,902	1,668	3,569	32,920	83,402	33,001	149,323
Occupancy	65,828	13,220	10,322	4,132	13,402	106,904	14,709	13,456	135,069
Technology	37,796	10,670	15,089	6,683	7,925	78,163	17,392	28,421	123,976
Development expense	-	-	-	-	-	-	-	85,222	85,222
Food and other kitchen expense	-	-	-	-	44,972	44,972	-	-	44,972
Internships	-	23,692	-	3,515	-	27,207	-	-	27,207
Children's activities and education	-	48,924	-	5,440	-	54,364	-	-	54,364
Telephone	10,785	3,324	4,170	1,388	2,919	22,586	5,676	4,618	32,880
Supplies	14,187	39	14	-	230	14,470	1,330	372	16,172
Direct assistance to individuals	1,170	7,986	60,401	669	-	70,226	-	-	70,226
Staff training and subscriptions	2,484	2,471	2,125	1,144	346	8,570	938	2,799	12,307
Transportation	-	-	-	-	-	-	1,432	35	1,467
Postage and shipping	80	4	506	2	4	596	795	544	1,935
Furniture and equipment	1,197	-	-	-	-	1,197	2,942	-	4,139
Printing, copying, and publication	-	-	-	-	-	-	-	3,124	3,124
Total expenses before depreciation and amortization, disposals, and bad debt	1,103,220	296,779	347,728	153,147	277,816	2,178,690	512,387	637,250	3,328,327
Depreciation	131,116	32,218	16,384	8,096	14,899	202,713	28,550	12,797	244,060
Less: special events and investment expenses, presented net on the statements of activities	-	-	-	-	-	-	(26,095)	(57,258)	(83,353)
Total expenses	\$ 1,234,336	\$ 328,997	\$ 364,112	\$ 161,243	\$ 292,715	\$ 2,381,403	\$ 514,842	\$ 592,789	\$ 3,489,034

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended July 31, 2020

	Programs and Services					Supporting Services		Total Expenses	
	Residential Shelter Program	Children's Program	Bridge Program	Family Wellness Services 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
Total expenses before depreciation and amortization, disposals, and bad debt	993,154	284,557	280,698	142,893	264,483	1,965,785	556,433	668,856	3,191,074
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 statements of activities	-	-	-	-	-	-	(31,390)	(7,602)	(38,992)
Total expenses	\$ 1,126,704	\$ 317,383	\$ 297,555	\$ 151,182	\$ 279,774	\$ 2,172,598	\$ 554,289	\$ 674,527	\$ 3,401,414

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

STATEMENTS OF CASH FLOWS

For the years ended July 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		<i>Adjusted</i>
Change in net assets	\$ 540,859	\$ (746,976)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	244,060	249,332
Unrealized and realized gain on investments	(374,079)	(26,932)
Change in beneficial interest in endowment investments	(281,915)	(39,245)
Interest and dividends on endowment funds	(5,850)	(5,675)
Change in assets and liabilities:		
Receivables - other	1,000	(25)
Grants and pledges receivable	(25,000)	(2,500)
Inventory	(2,103)	(1,282)
Prepaid expenses	37,104	(95,182)
Accounts payable and accrued expenses	23,212	12,975
Accrued compensation and vacation	20,365	41,024
Refundable advance	(420,900)	420,900
Deferred revenue	(151,089)	174,089
Net cash used in operating activities	(394,336)	(19,497)
Cash flows from investing activities:		
Purchases of investments	(44,072)	(404,638)
Proceeds from the sale of investments	85,572	211,339
Grant distributions from San Francisco Foundation	270,359	328,279
Purchases of property, equipment, and improvements	(10,952)	(9,951)
Net cash provided by investing activities	300,907	125,029
Cash flows from financing activities:		
Proceeds on EIDL loan	150,000	-
Interest and dividends on endowment funds	5,850	5,675
Net cash provided by financing activities	155,850	5,675
Net increase in cash and cash equivalents	62,421	111,207
Cash and cash equivalents, beginning of year	468,737	357,530
Cash and cash equivalents, end of year	\$ 531,158	\$ 468,737

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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 “Board”).

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 case management services; financial assistance; 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”).

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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 statements 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 represents 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 that no allowance for doubtful accounts is necessary for both of the years ended July 31, 2021 and 2020, based on management’s evaluation and adjustment of a current aging of the accounts. As of July 31, 2021 and 2020, 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 did not write off any receivables for both of the years ended July 31, 2021 and 2020.

Inventory

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

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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

Property, Equipment, and Improvements, Net (Encumbered)

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 statements 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 statements 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.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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

Investments, continued

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

The asset's 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 net assets with restrictions as (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, 2021 or 2020. 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.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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 restrictions, 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 restrictions 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 statements 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 estimated 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.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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

Measure of Operations

In the statements of activities and change in net assets, the Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Gains related to the Paycheck Protection Program (“PPP”) loan discharge and forgiveness are shown separately from revenues from operations.

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.

Changes in Accounting Principles

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), to clarify the principles of recognizing revenue. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for goods or services. The Organization adopted ASU 2014-09 for the year ended June 30, 2020 using the modified retrospective approach. There was no material impact to the financial statements.

During the year ended July 31, 2021, the Organization elected to change its accounting policy as it relates to the funding received under the PPP (see Note 10). For the year ended July 31, 2020 the Organization accounted for the fund as a loan. However, the Organization elected to change this accounting policy to accounting for the funds as a conditional contribution under ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, as a conditional contribution. The prior year loan was reclassified as a refundable advance as a result of the retrospective application of this accounting policy change. During the year ended July 31, 2021, \$841,800 was recognized as nonoperating income on the Statement of Activities, as the conditions were met for revenue recognition.

The result of applying the adoption of this accounting policy is summarized in the following adjustments to the statements of cash flows as of July 31, 2020:

	<u>As Reported</u> <u>July 31, 2020</u>	<u>Adjustments</u>	<u>As Adjusted</u> <u>July 31, 2020</u>
Cash flows from operating activities:			
Change in refundable advance	\$ -	\$ 420,900	\$ 420,900
Cash flows from financing activities:			
Proceeds on note payable - Paycheck Protection Program	\$ 420,900	\$ (420,900)	\$ -

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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

Recent Accounting Pronouncements

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.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), to improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. ASU 2020-07 is required to be applied retrospectively for annual periods beginning after June 15, 2021 and interim periods within fiscal years beginning after June 15, 2022 with early adoption permitted. The Organization is currently evaluating the impact of the pending adoptions of ASU 2020-07 on these 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.

3. Liquidity and Availability

For the year ended July 31, 2021, the Organization had a positive change in net assets of \$540,859, positive working capital of \$355,150 and had negative cash from operations of \$394,336, due primarily to the change in the Refundable advance – PPP balance, as the Organization recognized this income in the current year. Management is continuing to work to develop strategies to increase revenues and cash flows. The ability to strengthen the Organization’s liquidity will depend upon successful implementation of management’s plans.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

3. Liquidity and Availability, continued

The Organization owns its building outright, which is its most significant asset. In November 2021, management obtained a third-party appraisal of the buildings and improvements that are on the Organization's statement of financial position and secured by a deed of trust, due to the fact that their fair market value exceeds the stated GAAP historical cost value (see Note 8). The aggregate value of all buildings and improvements in an "as is" condition as rendered by the third-party appraiser is approximately \$14,080,000.

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:

	<u>2021</u>	<u>2020</u>
Financial assets, at year-end:		
Cash and cash equivalents	\$ 531,158	\$ 468,737
Receivables - other	45	1,045
Grants and pledges receivable	30,250	5,250
Unrestricted investments	1,906,460	1,573,881
Beneficial interest in endowment investments	990,741	979,185
Total financial assets	<u>3,458,654</u>	<u>3,028,098</u>
Less: financial assets unavailable for general expenditures within one year, due to:		
Board designated net assets	(2,033,920)	(1,814,774)
Net assets with donor restrictions to be released in greater than one year	(880,538)	(844,403)
Plus: Board designated cash reserve available for use within one year	<u>-</u>	<u>100,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 544,196</u>	<u>\$ 468,921</u>

In addition, the Organization has \$400,000 available on a line of credit as of July 31, 2021 (see Note 9), and the Board may elect to remove designated net assets for use in operations as it deems necessary.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

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, 2021:

	Investments at Fair Value as of July 31, 2021			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments:				
Equity funds	\$ 1,470,324	\$ -	\$ -	\$ 1,470,324
Bond funds	436,136	-	-	436,136
Subtotal	1,906,460	-	-	1,906,460
Beneficial interest in endowment investments	-	990,741	-	990,741
Total investments at fair value	\$ 1,906,460	\$ 990,741	\$ -	\$ 2,897,201

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			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
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

Equity funds and bond funds for the years ended July 31, 2021 and 2020, were held in various mutual funds.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

4. Investments, continued

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

	2021	2020
Interest and dividend income	\$ 51,223	\$ 49,836
Realized gains (losses) on sales of investments	39,326	(9,284)
Unrealized gains	565,892	75,461
Investment fees	(26,095)	(31,390)
Total investment income	<u>\$ 630,346</u>	<u>\$ 84,623</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. Board Designated Net Assets

Board designated net assets consist of funds designated for general use purposes by the Board and funds designated for endowment purposes. Activities were as follows as of and for the years ended July 31, 2021 and 2020:

	2021		
	General Use Operations	Endowment	Total
Board designated net assets, beginning of year	\$ 1,678,195	\$ 136,579	\$ 1,814,774
Designated funds added	183,011	41,741	224,752
Amounts appropriated for expenditure	-	(5,606)	(5,606)
Board designated net assets, end of year	<u>\$ 1,861,206</u>	<u>\$ 172,714</u>	<u>\$ 2,033,920</u>

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

6. Board Designated Net Assets, continued

	2020		
	General Use		Total
	Operations	Endowment	
Board designated net assets, beginning of year	\$ 1,239,415	\$ 137,467	\$ 1,376,882
Designated funds added	701,323	4,574	705,897
Amounts appropriated for expenditure	(262,543)	(5,462)	(268,005)
Board designated net assets, end of year	\$ 1,678,195	\$ 136,579	\$ 1,814,774

7. 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, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Agency Endowment Fund	\$ -	\$ 172,714	\$ 172,714
One Organization Fund	110,203	707,824	818,027
Total endowment investments	\$ 110,203	\$ 880,538	\$ 990,741

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	\$ 134,782	\$ 844,403	\$ 979,185

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

7. Endowments, continued

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

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning investment 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 investment balance at July 31, 2020	134,782	844,403	979,185
Change in beneficial interest:			
Interest and dividends	5,150	700	5,850
Unrealized gain	232,814	43,251	276,065
Total	237,964	43,951	281,915
Grant distributions of endowment for expenditure	(262,543)	(7,816)	(270,359)
Ending investment balance at July 31, 2021	\$ 110,203	\$ 880,538	\$ 990,741

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

8. Property and Equipment

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

	2021	2020
Land	\$ 800,000	\$ 800,000
Building and improvements	4,072,362	4,071,362
Computers and equipment	106,988	103,920
Furniture and fixtures	271,286	264,402
Totals	5,250,636	5,239,684
Less: accumulated depreciation	(3,204,629)	(2,960,569)
Property and equipment, net	<u>\$ 2,046,007</u>	<u>\$ 2,279,115</u>

Depreciation expense was \$244,060 and \$249,332 for the years ended July 31, 2021 and 2020, respectively. The building is secured by a deed of trust (see Note 16).

9. 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, 2020. On July 26, 2021, the line of credit was renewed with the outstanding principal bearing interest at 3.25%. The line of credit expired January 19, 2022, and management is working on an extension. There was no outstanding balance on the line of credit as of July 31, 2021 and the Organization was in compliance with all covenants as of July 31, 2021.

10. Paycheck Protection Program

The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "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. In April 2020, the Organization received loan proceeds in the amount of \$420,900 under the PPP, for the first draw. In January 2021, the Organization received loan proceeds of \$420,900 for the second PPP draw. The Organization recognized the total amount received of \$841,800 as grant revenue during the year ended July 31, 2021, as the qualified expenses were incurred and the barriers to recognition of the revenue had been met.

The Organization was informed that the first draw in the amount of \$420,900 was fully forgiven as of July 26, 2021. The Organization applied for the forgiveness of the second draw of the PPP loan on November 29, 2021. The second draw has not yet been forgiven as of the date of this report.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

11. Note Payable

Economic Injury Disaster Loan

In July 2020, the Organization was approved for a \$150,000 loan from the Small Business Administration (“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 the coronavirus pandemic (“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% per annum, with no pre-payment penalty. Installment payments are due monthly commencing in September 2022, with payments applied to accrued interest first and then towards the outstanding principal. The Organization intends to use the proceeds for purposes consistent with the EIDL program.

In November 2021, the Organization was approved for an additional \$350,000 loan from the EIDL program.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of July 31, 2021:

	Beginning Balance	Contributions and Income	Released from Restrictions	Ending Balance
Children’s Program	\$ 20,593	\$ 45,000	\$ (58,668)	\$ 6,925
Academic Enrichment	-	30,000	(30,000)	-
Residential Shelter Program	-	13,975	(13,951)	24
Bridge Program	134,999	42,000	(166,486)	10,513
Timing restriction	18,413	8,500	(26,913)	-
Endowment and general operations	844,403	43,951	(7,816)	880,538
Total	\$ 1,018,408	\$ 183,426	\$ (303,834)	\$ 898,000

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

	Beginning Balance	Contributions and Income	Released from Restrictions	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	\$ 1,317,524	\$ 282,828	\$ (581,944)	\$ 1,018,408

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

13. Special Events

During the year ended July 31, 2020, the Organization held a single fundraising event, as the annual gala was delayed until September 2020. During the year ended July 31, 2021, the Organization held the annual gala in September 2020 in a virtual format.

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

	<u>2021</u>	<u>2020</u>
Total receipts	\$ 418,052	\$ 35,250
Total expenses	<u>57,258</u>	<u>7,602</u>
Special events, net	<u>\$ 360,794</u>	<u>\$ 27,648</u>

Amounts received for the gala prior to year-end are classified as deferred special event income on the statements of financial position, and include both the earned and contribution portion of gala income. Contributed gala income is considered conditional on the occurrence of the gala, unless donors have indicated otherwise.

The following table provides information about significant changes in deferred revenue liabilities for the years ended July 31:

	<u>2021</u>	<u>2020</u>
Deferred revenue, beginning of year	\$ 174,089	\$ -
Add: Increase in deferred revenue due to cash received during the year	23,000	174,089
Less: Revenue recognized that was included in deferred at the beginning of the year	<u>(174,089)</u>	<u>-</u>
Deferred revenue, end of year	<u>\$ 23,000</u>	<u>\$ 174,089</u>

14. Rental Income

The Organization leases space to a tenant under a non-cancelable operating lease expiring August 31, 2020. In September 2020, the lease was renewed on a month-to-month basis. Rental income is classified as revenues on the statements of activities.

RAPHAEL HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2021 and 2020

15. Contributed Goods and Services

The Organization received contributed consulting services and food items during the years ended July 31, 2021 and 2020. The fair value of donated goods and services was as follows for the years ended July 31:

	2021	2020
Contributed services	\$ 3,515	\$ 16,980
Contributed goods	4,190	5,414
Total	<u>\$ 7,705</u>	<u>\$ 22,394</u>

16. 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, 2021, therefore, interest has not been accrued.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the 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. During parts of the pandemic, the Organization has limited the number of families housed at its facility in order to ensure proper social distancing measures, and increased its cleaning and maintenance protocols.

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. In October 2021, the Organization received funding related to the Employee Retention Tax Credits of approximately \$243,000. The Organization also received targeted events funding from the SBA for \$10,000 during the year ended July 31, 2021. 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.

17. Subsequent Events

Management has evaluated subsequent events through January 24, 2022, 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, 2021 that require recognition or disclosure in the financial statements.