

**POTRERO HILL
NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
AUDITED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

Tang & Lee, LLP
Certified Public Accountants

POTRERO HILL NEIGHBORHOOD HOUSE, INC.

(A NON-PROFIT CORPORATION)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Potrero Hill Neighborhood House, Inc.
San Francisco, CA

Report on the Financial Statements

We have audited the accompanying financial statements of **POTRERO HILL NEIGHBORHOOD HOUSE, INC. (A NON-PROFIT CORPORATION)** which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's June 30, 2017 financial statements and, in our report dated January 8, 2018, we expressed an unmodified opinion on those 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement 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 of 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 assessing the appropriateness accounting policies 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 Potrero Hill Neighborhood House, Inc. as of June 30, 2018, and the statement of activities, its cash flows and its functional expenses for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Tang & Lee, LLP

Burlingame, California
April 23, 2019

POTRERO HILL NEIGHBORHOOD HOUSE, INC
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2018</u>	<u>(Summarized) 2017</u>
<u>ASSETS</u>				
CURRENT ASSETS				
Cash	\$ -	\$ 64,270	\$ 64,270	\$ 531
Grants receivable	97,970	-	97,970	91,282
Other current assets	833	-	833	-
Total current assets	<u>98,803</u>	<u>64,270</u>	<u>163,073</u>	<u>91,813</u>
FIXED ASSETS				
Buildings	1,786,409		1,786,409	1,786,409
Equipment	213,474		213,474	213,474
Improvement	109,990		109,990	109,990
Total fixed assets	<u>2,109,873</u>		<u>2,109,873</u>	<u>2,109,873</u>
Less accumulated depreciation	(1,932,807)		(1,932,807)	(1,882,620)
Total fixed assets, net	<u>177,066</u>		<u>177,066</u>	<u>227,253</u>
OTHER ASSETS				
Loan charges	25,332		25,332	7,870
Less accumulated amortization	(8,702)		(8,702)	(3,935)
Total other assets	<u>16,630</u>		<u>16,630</u>	<u>3,935</u>
TOTAL ASSETS	<u>292,499</u>	<u>64,270</u>	<u>356,769</u>	<u>323,001</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Cash overdraft	4,518		4,518	12,639
Accounts payable	27,234		27,234	19,542
Line of credit from bank	42,651		42,651	48,514
Payroll taxes and accrued expenses	24,591		24,591	96,229
Total current liabilities	<u>98,994</u>		<u>98,994</u>	<u>176,924</u>
LONG-TERM LIABILITIES				
Note payable	350,000		350,000	150,000
Total long-term liabilities	<u>350,000</u>		<u>350,000</u>	<u>150,000</u>
Total liabilities	<u>448,994</u>		<u>448,994</u>	<u>326,924</u>
NET ASSETS				
Unrestricted	(156,495)	-	(156,495)	(4,454)
Temporarily restricted	-	64,270	64,270	531
Total net assets	<u>(156,495)</u>	<u>64,270</u>	<u>(92,225)</u>	<u>(3,923)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 292,499</u>	<u>\$ 64,270</u>	<u>\$ 356,769</u>	<u>\$ 323,001</u>

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

POTRERO HILL NEIGHBORHOOD HOUSE, INC
(A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2018</u>	<u>(Summarized) 2017</u>
SUPPORT AND REVENUES				
Government grants	\$ 534,609	\$ 63,739	\$ 598,348	\$ 655,751
Contributions	18,349		18,349	10,248
Building use fees	248,279		248,279	254,805
Fundraising	47,079		47,079	37,619
Other income	<u>610</u>	<u>-</u>	<u>610</u>	<u>4,305</u>
Total support and revenues	<u>848,926</u>	<u>63,739</u>	<u>912,665</u>	<u>962,728</u>
 EXPENSES				
Program services	536,760	-	536,760	672,136
Management and general	312,193	-	312,193	234,649
Facility/ Fundraising	<u>152,014</u>	<u>-</u>	<u>152,014</u>	<u>156,150</u>
Total expenses	<u>1,000,967</u>	<u>-</u>	<u>1,000,967</u>	<u>1,062,935</u>
 CHANGES IN NET ASSETS				
	<u>(152,041)</u>	<u>63,739</u>	<u>(88,302)</u>	<u>(100,207)</u>
 NET ASSETS				
Beginning of the year	<u>(4,454)</u>	<u>531</u>	<u>(3,923)</u>	<u>96,284</u>
End of the year	<u>\$ (156,495)</u>	<u>\$ 64,270</u>	<u>\$ (92,225)</u>	<u>\$ (3,923)</u>

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

POTRERO HILL NEIGHBORHOOD HOUSE, INC
(A NON-PROFIT CORPORATION)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (88,302)	\$ (100,207)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:		
Depreciation & Amortization	54,954	56,354
(Increase) decrease in:		
Grants receivables	(6,688)	(4,185)
Other current assets	(833)	3,855
Loan charges	(17,462)	-
Increase (decrease) in:		
Accounts payable	7,692	4,109
Payroll taxes and accrued expenses	(71,638)	30,113
Net cash provided (used) by operating activities	<u>(122,277)</u>	<u>(9,961)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net cash provided (used) by investing activities	-	-
CASH FLOW FROM FINANCING ACTIVITIES		
Cash overdraft	(8,121)	5,462
Increase (decrease) in line of credit from bank	(5,863)	(148)
Note Payable	<u>200,000</u>	<u>-</u>
Net cash provided (used) by financing activities	186,016	5,314
NET INCREASE/ (DECREASE) IN CASH	<u>63,739</u>	<u>(4,647)</u>
CASH		
Beginning of year	<u>531</u>	<u>5,178</u>
End of year	<u>\$ 64,270</u>	<u>\$ 531</u>
Cash paid for interest expense:	<u>\$ 11,000</u>	<u>\$ 9,511</u>

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

POTRERO HILL NEIGHBORHOOD HOUSE, INC
(A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for June 30, 2017)

	Youth Delinquency Prevention	Youth Activities-Out of School Time	Health and Lifestyle	Adult Social Development/ Senior Adaptive Center	Total Program Services	Management & General	Facility/ Fundraising	Total 2018	Summarized 2017
Salaries	150,352	106,545	39,182	104,402	400,482	104,682	16,996	522,160	610,788
Payroll taxes and benefits	22,025	10,186	9,280	22,615	64,107	20,070	1,624	85,801	131,404
Total payroll costs	<u>172,378</u>	<u>116,731</u>	<u>48,462</u>	<u>127,017</u>	<u>464,588</u>	<u>124,752</u>	<u>18,620</u>	<u>607,960</u>	<u>742,192</u>
Contractors	8,850	4,000	3,478	-	16,328	22,700	41,262	80,290	62,638
Programs	3,983	14,720	315	4,155	23,173	-	4,100	27,273	30,106
Nutritional meals	-	214	1,647	3,042	4,903	-	-	4,903	5,917
Major repairs/renovation	-	-	-	-	-	-	-	-	4,210
Transportation	1,600	-	400	-	2,000	148	-	2,148	6,589
Professional fees	2,619	444	2,729	-	5,792	31,054	4,644	41,490	16,844
Government fees and property taxes	-	-	-	-	-	677	-	677	-
Insurance	-	-	-	-	-	24,343	-	24,343	25,901
Interest & other charges	-	-	-	-	-	11,000	-	11,000	9,511
Administrative expenses	93	120	1,083	423	1,719	10,429	6,182	18,330	10,225
Marketing and promotion	-	93	-	-	93	199	4,773	5,065	2,449
Utilities	570	-	342	-	912	11,262	41,514	53,688	39,417
Repairs and maintenances	-	-	-	-	-	-	11,903	11,903	14,573
Facility expenses	-	-	-	-	-	-	11,060	11,060	1,848
Depreciation and amortization	-	-	-	-	-	54,953	-	54,953	56,354
Equipment rental	-	4,780	-	-	4,780	-	7,956	12,736	-
Program supplies	213	5,844	-	900	6,957	1,690	-	8,647	12,837
Penalty	-	-	-	-	-	13,983	-	13,983	16,321
Client Awards/Stipends	-	5,516	-	-	5,516	-	-	5,516	-
Other expenses	-	-	-	-	-	5,003	-	5,003	5,003
Total	<u>190,306</u>	<u>152,461</u>	<u>58,456</u>	<u>135,537</u>	<u>536,760</u>	<u>312,193</u>	<u>152,014</u>	<u>1,000,967</u>	<u>1,062,935</u>

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

POTRERO HILL NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE A – NATURE OF ORGANIZATION

Organization

Potrero Hill Neighborhood House, Inc. (“the Organization”) was incorporated in 1956 pursuant to the General Non-Profit Corporation Law of the State of California. The Organization’s primary purpose is to provide substance abuse services, guidance, employment and educational services to youths. Due to cost and budget analysis, the management and the Board have terminated social development program for handicapped and senior adults on March 31, 2018.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with FASB ASC 958-605-20-*Accounting for Contributions Received and Contributions Made* and FASB ASC 958-205-45-*Financial Statement of Not-for Profit Organizations*.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present net assets and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Funds that are neither permanently restricted nor temporarily restricted by donor imposed restrictions.

Temporarily Restricted – A donor-imposed restriction that permits the donee organization to use or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organization.

Permanently Restricted – A donor-imposed restriction that stipulates that resources be maintained permanently but permits the Organization to use or expend part or all of the income derived from the donated assets. The Organization does not currently have any Permanently Restricted Net Assets.

Revenue Recognition

Donations of assets other than cash are recorded at their fair value. Donations of cash and other assets are recognized when the donor makes an unconditional promise to give to the Organization. Donations that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the donations are recognized. All other donor-restricted donations are reported as increases in temporarily or

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JUNE 30, 2018

permanently restricted net assets depending on the nature of the restriction. When restrictions expire or are met by the Organization, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grants received that require the Organization to perform services are recorded as income when the services are performed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2017 Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net assets class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

Cash and Equivalents

Cash and equivalents consist of amounts held with banks, highly liquid money market funds and other short-term investments with original maturities of 90 days or less.

Fixed Assets

1) Land, Building and Improvements--The land and buildings located on DeHaro and Carolina streets were donated in October 1920 and January 1928, respectively. The fair value of these properties at the date of donation was not determined; therefore, the value of the properties- \$263,000- is based on the full cash value shown on the 1973-74 property assessment.

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Since that time, improvements have been made from grants received from the City and County of San Francisco, as supplied by HUD and the Environment Commission.

2) Computers and Equipment

Equipment is depreciated over its estimated useful life on a straight-line basis and is charged to the related program activity.

In certain situations, the Organization acquires computers and other equipment utilizing specific grant funds. Such purchases are expensed upon acquisition. The effect of such expensing on the Organization's net assets is not material.

Depreciation is computed using the straight-line method over the estimated useful lives of these assets as follows:

	<u>Lives In Years</u>
Buildings and improvements	20
Equipment	5
Furniture	7

Loan Charges

A new loan payable was obtained on April 10, 2018. As a result, a new loan charges in the amount of \$17,461 is amortized over 21 months periods on a straight-line basis.

Functional Expense Allocations

The costs of providing program services of the organization have been summarized on a functional basis. Certain costs, not directly attributable to a particular program, have been allocated among all other programs, general and support services based upon service statistics and estimates made by the Organization's management.

Employee Retirement Plan

The Organization has a 403(b) tax-deferred annuity retirement plan, which is funded by contributions from its employee. The Organization has no liability for the administration or payment of benefits of the plan and, accordingly, the present value of the related vested benefits is not reflected in these financial statements.

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Income Tax Status and Accounting for Uncertain Tax Positions

The Organization is a nonprofit organization exempt from income tax under section 501 (c)(3) of the U.S. Internal Revenue Code and the applicable code section of the State of California Revenue and Taxation Code.

Generally Accepted Accounting Principle (GAAP) provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its federal and state tax exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

Fair Value Measurements

GAAP provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets.

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets.

Level 3 inputs - estimates using best information available when there is little or no market.

The Organization is required to measure contributions at fair value in accordance with GAAP.

Subsequent Events

The management of the Organization has reviewed the results of operations and evaluated subsequent events for the period of time from its year ended June 30, 2018 through April 23, 2019, the date the financial statements were available to be issued.

NOTE C – GRANTS RECEIVABLE FROM COST REIMBURSEMENT CONTRACTS

The Organization receives a substantial portion of its funds under several cost reimbursement contracts with government agencies. These contracts provide for the reimbursement of qualifying costs at either the time or the costs are incurred shortly thereafter. The amounts due under the cost reimbursement contracts at June 30, 2018 were \$97,970.

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NOTE D – LOAN CHARGES

Loan charges were incurred when the Organization obtained a new loan. As of June 30, 2018, total amount of loan charges was \$25,332. \$4,767 was amortized for the year ended June 30, 2018. The old loan charge was fully written off for the year.

NOTE E – LINE OF CREDIT FROM BANK

The Organization has secured a business line of credit of \$50,000 from Wells Fargo Bank. The Line of Credit is currently at a rate equal to 12.50% in annual interest rate. As of June 30, 2018, the total balance was \$42,651 that included interest charges.

NOTE F – ADVANCE FROM KEY EMPLOYEE

This is a short-term loan that the key employee, forgone to pay himself when the Organization faced difficulties over finance. As of June 30, 2018, this amount had reached to \$19,822, which has not yet been paid to that key employee.

NOTE G – NOTE PAYABLE

On April 10, 2018, the Organization has obtained an increase in short-term loan from a private trust. The note is secured by the deed of trust on property located at 824 Carolina Street, San Francisco, CA 94107 and calls for a new monthly interest payment of \$1,750 starting from June 01, 2018 to May 01, 2020. The interest rate is at 6% per year, and the term of the loan is over 21 months. The principal and any accrued interest will be matured and paid in full on May 01, 2020.

The following is a schedule of interest payments as of June 30, 2018:

<u>Year ending June 30,</u>	<u>Amount</u>
2019	\$ 11,000
<u>2020</u>	<u>17,500</u>
Total	<u>\$ 28,500</u>

NOTE H – SIGNIFICANT GRANTORS AND CONCENTRATION OF RISK

During the year ended June 30, 2018, approximately 66% of revenues came from the local and state governmental agencies. The operation of these programs at present levels is

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dependent upon continued funding from the local governmental agencies. In addition, the Organization depends on the availability of individual clients ranging from youth to adult under cost reimbursement contracts with governmental agencies (as described in Note C).

The Organization is potentially subject to the risk from concentration of government funding.

NOTE I – LEASE AGREEMENT

The Organization has leased a copier under an operating lease expiring in March 15, 2018. The monthly payment is \$299. The lease is terminated.

NOTE J – CONTINGENT LIABILITIES

Conditions contained within the various contracts awarded to the Organization are subject to the funding agencies' criteria and regulations under which expenditures may be charged against and are subject to audits under such regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

NOTE K – LIQUIDITY ISSUE

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Organization as a going concern due to liquidity issue. The Organization has sustained substantial decreasing net assets in recent years. The Organization continued to incur a net loss of \$88,302 for the year ended June 30, 2018. And the Organization has consistently encountered challenges in paying current obligations on time. The factors have raised substantial doubt about the Organization's ability to continue as a going concern. Management believes that actions presently being taken such as seeking permanent loan secured by the property and eliminating social development for seniors' program and working closely with the local agency, will resolve the challenge for the coming year and provide the opportunity for the Organization to continue as a going concern.

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NOTE L – FAIR VALUE MEASUREMENT

The Organization’s assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC 825-10-50. The following table presents information about the Organization’s assets and liabilities measured at fair value as of June 30, 2018.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of June 30, 2018
Cash	\$64,270			\$64,270
Grants receivable	\$97,970			\$97,970
Fixed assets		\$177,066		\$177,066
Other assets	\$17,463			\$17,463
Total	\$179,703	\$177,066	-0-	\$356,769
Cash overdraft	\$4,518			\$4,518
Accounts payable	\$27,234			\$27,234
Line of credit from bank	\$42,651			\$42,651
Payroll taxes and accrued expenses	\$24,591			\$24,591
Loan payable	\$350,000			\$350,000
Total	\$448,994	-0-	-0-	\$448,994

NOTE M – SUBSEQUENT EVENTS

The management of the Organization reviewed the results of operations and evaluated subsequent events for the period of time from its year end June 30, 2018 through April 23, 2019, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.