

**POTRERO HILL
NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
AUDITED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

Tang & Lee, LLP
Certified Public Accountants

POTRERO HILL NEIGHBORHOOD HOUSE, INC.

(A NON-PROFIT CORPORATION)

TABLE OF CONTENTS

JUNE 30, 2017

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities	4
Statement of cash flows	5
Statement of functional expenses	6
Notes to financial statements	7 - 13

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, 2017, 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, 2016 financial statements and, in our report dated April 10, 2017, 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, 2017, 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.

Emphasis of a Matter

The Organization has suffered recurring losses from operation during the year. As discussed in Note K to the financial statements, the Organization has raised doubt about its ability to pay current obligations on time and faced a recurring liquidity issue. However, the Management believes that a plan of actions being taken may improve its current and future situation.

Tang & Lee, LLP

Burlingame, California
January 8, 2018

POTRERO HILL NEIGHBORHOOD HOUSE, INC
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
June 30, 2017
(With Comparative Totals for June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>(Summarized) 2016</u>
<u>ASSETS</u>				
CURRENT ASSETS				
Cash	\$ -	\$ 531	\$ 531	\$ 5,178
Grants receivable	91,282		91,282	87,097
Other current assets	-		-	3,855
Total current assets	<u>91,282</u>	<u>531</u>	<u>91,813</u>	<u>99,373</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	<u>(1,882,620)</u>		<u>(1,882,620)</u>	<u>(1,828,889)</u>
Total fixed assets, net	<u>227,253</u>		<u>227,253</u>	<u>280,984</u>
OTHER ASSETS				
Loan charges	7,870		7,870	7,870
Less accumulated amortization	<u>(3,935)</u>		<u>(3,935)</u>	<u>(1,312)</u>
Total other assets	<u>3,935</u>		<u>3,935</u>	<u>6,558</u>
TOTAL ASSETS	<u>322,470</u>	<u>531</u>	<u>323,001</u>	<u>383,672</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Cash overdraft	12,639		12,639	7,177
Accounts payable	19,542		19,542	15,433
Line of credit from bank	48,514		48,514	48,662
Payroll taxes and accrued expenses	<u>96,229</u>		<u>96,229</u>	<u>66,116</u>
Total current liabilities	<u>176,924</u>		<u>176,924</u>	<u>137,388</u>
LONG-TERM LIABILITIES				
Mortgage payable	<u>150,000</u>		<u>150,000</u>	<u>150,000</u>
Total long-term liabilities	<u>150,000</u>		<u>150,000</u>	<u>150,000</u>
Total liabilities	<u>326,924</u>		<u>326,924</u>	<u>287,388</u>
NET ASSETS				
Unrestricted	(4,454)	-	(4,454)	91,106
Temporarily restricted	-	531	531	5,178
Total net assets	<u>(4,454)</u>	<u>531</u>	<u>(3,923)</u>	<u>96,284</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 322,470</u>	<u>\$ 531</u>	<u>\$ 323,001</u>	<u>\$ 383,672</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, 2017
(With Comparative Totals for June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>(Summarized) 2016</u>
SUPPORT AND REVENUES				
Government grants	\$ 655,751		\$ 655,751	\$ 638,271
Contributions	10,248		10,248	45,053
Building use fees	254,805		254,805	205,287
Fundraising	37,619		37,619	44,522
Other income	4,305		4,305	9,257
Net assets released from restrictions	4,647	(4,647)	-	-
Total support and revenues	<u>967,375</u>	<u>(4,647)</u>	<u>962,728</u>	<u>942,390</u>
EXPENSES				
Program services	672,136	-	672,136	637,057
Management and general	234,649	-	234,649	180,697
Facility/ Fundraising	156,150	-	156,150	136,757
Total expenses	<u>1,062,935</u>	<u>-</u>	<u>1,062,935</u>	<u>954,511</u>
CHANGES IN NET ASSETS	<u>(95,560)</u>	<u>(4,647)</u>	<u>(100,207)</u>	<u>(12,121)</u>
NET ASSETS				
Beginning of the year	91,106	5,178	96,284	170,686
Prior period adjustment	-	-	-	(62,281)
End of the year	<u>\$ (4,454)</u>	<u>\$ 531</u>	<u>\$ (3,923)</u>	<u>\$ 96,284</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, 2017
(With Comparative Totals for June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (100,207)	\$ (12,121)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:		
Depreciation & Amortization	56,354	54,718
(Increase) decrease in:		
Grants receivables	(4,185)	12,183
Other current assets	3,855	(3,855)
Loan charges	-	(7,870)
Increase (decrease) in:		
Accounts payable	4,109	(38,712)
Payroll taxes and accrued expenses	30,113	(81,480)
Prior period adjustment	-	(62,281)
Net cash provided (used) by operating activities	<u>(9,961)</u>	<u>(139,418)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in building improvement	-	(13,000)
Net cash provided (used) by investing activities	<u>-</u>	<u>(13,000)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Cash overdraft	5,462	5,326
Increase (decrease) in line of credit from bank	(148)	2,177
Mortgage loan	-	150,000
Net cash provided (used) by financing activities	<u>5,314</u>	<u>157,503</u>
NET INCREASE/ (DECREASE) IN CASH	<u>(4,647)</u>	<u>5,085</u>
CASH		
Beginning of year	<u>5,178</u>	<u>93</u>
End of year	<u>\$ 531</u>	<u>\$ 5,178</u>
Cash paid for interest expense:	<u>\$ 9,511</u>	<u>\$ 4,500</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, 2017
(With Comparative Totals for June 30, 2016)

	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 2017	Summarized 2016
Salaries	158,672	118,772	52,473	145,807	475,724	101,758	33,306	610,788	573,945
Payroll taxes and benefits	22,714	14,407	12,097	28,628	77,846	49,940	3,618	131,404	93,895
Total payroll costs	181,386	133,179	64,570	174,435	553,570	151,698	36,924	742,192	667,840
Contractors	11,110	6,060	400	102	17,672	9,565	35,401	62,638	42,849
Programs	1,841	10,843	220	9,800	22,704	-	7,402	30,106	37,203
Nutritional meals	-	537	1,024	4,356	5,917	-	-	5,917	5,605
Major repairs/renovation	-	-	-	-	-	-	4,210	4,210	6,600
Transportation	2,200	3,189	1,200	-	6,589	-	-	6,589	2,101
Professional fees	2,328	851	-	2,207	5,386	4,225	7,233	16,844	40,933
Insurance	-	-	-	3,022	3,022	22,879	-	25,901	12,376
Interest & other charges	-	-	-	-	-	9,511	-	9,511	4,500
Administrative expenses	-	170	-	748	918	2,450	6,857	10,225	17,693
Marketing and promotion	-	-	-	-	-	-	2,449	2,449	1,305
Utilities	471	-	1,948	2,795	5,214	1,726	32,477	39,417	28,546
Repairs and maintenances	-	-	-	-	-	-	14,573	14,573	7,320
Facility expenses	-	-	-	-	-	-	1,848	1,848	3,999
Depreciation and amortization	13,525	13,525	3,381	14,652	45,083	11,271	-	56,354	54,718
Equipment rental	-	-	-	-	-	-	-	-	75
Program supplies	300	2,422	559	2,780	6,061	-	6,776	12,837	14,919
Penalty	-	-	-	-	-	16,321	-	16,321	-
Bad debt expenses	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	5,003	-	5,003	5,929
Total	213,161	170,776	73,302	214,897	672,136	234,649	156,150	1,062,935	954,511

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, 2017

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. In addition, the Organization provides social development and recreational opportunities for handicapped and senior adults.

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

POTRERO HILL NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

temporarily or 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.

2016 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, 2016 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

POTRERO HILL NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 through January 8, 2018, 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, 2017 were \$91,282.

POTRERO HILL NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE D – LOAN CHARGES

Loan charges were incurred when the Organization obtained a mortgage loan. As of June 30, 2017, total amount of loan charges was \$7,870. \$2,623 was amortized for the year ended June 30, 2017.

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, 2017, the total balance was \$48,514 that included interest charges.

NOTE F – MORTGAGE PAYABLE

On January 8, 2016, the Organization obtained a mortgage loan from a private trust. The mortgage is secured by the deed of trust on property located at 824 Carolina Street, San Francisco, CA 94107 and calls for monthly interest payments of \$750 starting from February 01, 2016 to January 01, 2019. The interest rate is at 6% per year, and the term of the mortgage is over 3 years. The principal and any accrued interest will be matured and paid on January 1, 2019.

The following is a schedule of interest payments as of June 30, 2017:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 9,000
<u>2019</u>	<u>4,500</u>
Total	<u>\$13,500</u>

NOTE G – SIGNIFICANT GRANTORS AND CONCENTRATION OF RISK

During the year ended June 30, 2017, approximately 68% of revenues came from the local and state governmental agencies. The operation of these programs at present levels is 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.

POTRERO HILL NEIGHBORHOOD HOUSE, INC.
(A NON-PROFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE K – 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, 2017.

	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, 2017
Cash	\$531			\$571
Grants receivable	\$91,282			\$91,282
Fixed assets		\$227,253		\$227,253
Other assets	\$3,935			\$3,935
Total	\$95,748	\$227,253	-0-	\$323,001
Cash overdraft	\$12,639			\$12,639
Accounts payable	\$19,542			\$19,542
Line of credit from bank	\$48,514			\$48,514
Payroll taxes and accrued expenses	\$96,229			\$96,229
Mortgage payable	\$150,000			\$150,000
Total	\$326,924	-0-	-0-	\$326,924

NOTE L – 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 end June 30, 2017 through January 8, 2018, 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.