# San Francisco Child Abuse Prevention Center

## Financial Statements

Year Ended December 31, 2016
(with Summarized Information for the Year Ended December 31, 2015)

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# San Francisco Child Abuse Prevention Center

## Contents

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**Independent Auditor's Report**

To the Board of Directors
San Francisco Child Abuse Prevention Center
San Francisco, California

We have audited the accompanying financial statements of the San Francisco Child Abuse Prevention Center (the "Prevention Center"), a California non-profit benefit corporation, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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 misstatement, whether due to fraud or error.

*Auditor's 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 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 risks 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 evaluating the appropriateness of 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 the San Francisco Child Abuse Prevention Center as of December 31, 2016 and 2015, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

August 25, 2017

# Financial Statements

# San Francisco Child Abuse Prevention Center

## Statements of Financial Position

| *December 31,* | | **2016** | | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **$** | **3,535,159** | $ | 6,692,077 |
| Investments | | **556,770** | | 533,960 |
| Government contracts receivable | | **819,801** | | 662,602 |
| Pledges and grants receivable, net | | **953,897** | | 1,278,183 |
| Prepaid expenses and other assets | | **473,422** | | 606,027 |
| Property and equipment, net (Note 5) | | **6,733,553** | | 4,318,447 |
| **Total Assets** | **$** | **13,072,602** | $ | 14,091,296 |
| | | | | |
| **Liabilities and Net Assets** | | | | |
| **Liabilities:** | | | | |
| Accounts payable and accrued expenses | **$** | **204,491** | $ | 276,292 |
| Accrued vacation | | **137,500** | | 113,643 |
| Deferred revenue | | **31,298** | | 40,507 |
| Other liabilities | | **32,938** | | 21,553 |
| **Total Liabilities** | | **406,227** | | 451,995 |
| **Net Assets:** | | | | |
| Unrestricted | | **10,660,316** | | 7,950,021 |
| Temporarily restricted (Note 6) | | **1,996,059** | | 5,679,280 |
| Permanently restricted (Note 7) | | **10,000** | | 10,000 |
| **Total Net Assets** | | **12,666,375** | | 13,639,301 |
| **Total Liabilities and Net Assets** | **$** | **13,072,602** | $ | 14,091,296 |

*See accompanying notes to financial statements.*

# San Francisco Child Abuse Prevention Center

## Statements of Activities and Changes in Net Assets
## For the Year Ended December 31, 2016
## with summarized information for the year ended December 31, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| **Support & Revenue:** | | | | | |
| Foundation and corporate grants | $ 349,500 | $ 1,761,586 | $ - | $ 2,111,086 | $ 2,360,265 |
| Government grants | 1,936,994 | - | - | 1,936,994 | 1,623,116 |
| Donations | 424,880 | 368,470 | - | 793,350 | 4,479,844 |
| Fundraising events, net of direct donor benefits | | | | | |
| of $86,247 in 2016 and $143,049 in 2015 | 587,880 | 2,246 | - | 590,126 | 624,115 |
| Rental income | 578,839 | - | - | 578,839 | 568,439 |
| In-kind revenue | 265,930 | - | - | 265,930 | 282,823 |
| Program service fees | 98,714 | - | - | 98,714 | 80,774 |
| Interest and dividends | 14,951 | 347 | - | 15,298 | 13,799 |
| Other income (loss) | 12,012 | (214) | - | 11,798 | 14,344 |
| Net assets released from restriction: | | | | | |
| Satisfaction of donor requirements | 5,815,656 | (5,815,656) | - | - | - |
| **Total Support & Revenue** | 10,085,356 | (3,683,221) | - | 6,402,135 | $10,047,519 |
| **Functional Expenses** | | | | | |
| Program services | 4,516,237 | - | - | 4,516,237 | 4,140,757 |
| Management and general | 687,606 | - | - | 687,606 | 501,736 |
| Fundraising | 747,905 | - | - | 747,905 | 674,367 |
| **Total Functional Expenses** | 5,951,748 | - | - | 5,951,748 | 5,316,860 |
| Write-offs due to property acquisition (Note 10) | 1,423,313 | - | - | 1,423,313 | - |
| **Total Expenses** | 7,375,061 | - | - | 7,375,061 | 5,316,860 |
| **Change in Net Assets** | 2,710,295 | (3,683,221) | - | (972,926) | $4,730,659 |
| **Net Assets, beginning of year** | 7,950,021 | 5,679,280 | 10,000 | 13,639,301 | 8,908,642 |
| **Net Assets, end of year** | $ 10,660,316 | $ 1,996,059 | $ 10,000 | $ 12,666,375 | $13,639,301 |

*See accompanying notes to financial statements.*

# San Francisco Child Abuse Prevention Center

## Statement of Functional Expenses

## For the Year Ended December 31, 2016 with summarized information for the Year Ended December 31, 2015

| | PROGRAM SERVICES | | | | SUPPORTING ACTIVITIES | | | |
|---|---|---|---|---|---|---|---|---|
| | Children & Family Services | Community Education | Strategic Partnerships | Total Program Services | Management and General | Fundraising | 2016 Total | 2015 Total |
| Salaries and Stipends | $ 1,659,608 | $ 286,131 | $ 377,154 | 2,322,893 | $ 436,945 | $ 427,694 | $ 3,187,532 | $ 2,753,296 |
| Payroll Taxes and Benefits | 348,178 | 46,216 | 63,717 | 458,111 | 75,822 | 67,621 | 601,554 | 551,427 |
| Subcontractors | 354,602 | - | - | 354,602 | - | - | 354,602 | 325,883 |
| Utilities and Maintenance | 53,248 | 18,088 | 222,517 | 293,853 | 14,519 | 14,214 | 322,586 | 225,051 |
| Consultants | 124,306 | 22,120 | 21,759 | 168,185 | 22,369 | 124,083 | 314,637 | 261,755 |
| Legal | 64,240 | 11,383 | 55,204 | 130,827 | 16,893 | 13,544 | 161,264 | 140,679 |
| Space Rental | 6,832 | 8,867 | 105,367 | 121,066 | 173 | 343 | 121,582 | 230,018 |
| Expendable Equipment | 13,477 | 4,329 | 39,518 | 57,324 | 3,705 | 6,416 | 67,445 | 64,397 |
| Office Supplies, Postage, Printing, and Copying | 21,232 | 2,452 | 11,117 | 34,801 | 5,592 | 23,279 | 63,672 | 66,399 |
| Client Support | 62,865 | - | - | 62,865 | - | - | 62,865 | 59,504 |
| Insurance | 19,480 | 3,421 | 29,407 | 52,308 | 3,902 | 4,091 | 60,301 | 40,147 |
| Recruitment and Professional Development | 12,662 | 2,471 | 3,797 | 18,930 | 35,808 | 4,349 | 59,087 | 19,115 |
| Bay Park Owners Association Dues | - | 3,909 | 40,481 | 44,390 | - | - | 44,390 | 37,218 |
| Program Supplies | 36,664 | 3,103 | 2,479 | 42,246 | - | - | 42,246 | 35,976 |
| Dues & Subscriptions | 26,075 | 1,188 | 915 | 28,178 | 2,427 | 7,240 | 37,845 | 32,005 |
| Audit and Tax | - | - | - | - | 35,248 | - | 35,248 | 35,661 |
| Staff Appreciation | 16,895 | 3,001 | 3,332 | 23,228 | 4,421 | 3,624 | 31,273 | 25,599 |
| Telephone & Communications | 13,696 | 1,452 | 7,978 | 23,126 | 3,656 | 3,579 | 30,361 | 29,281 |
| Bank Charges and Interest Expense | 5,276 | 150 | 692 | 6,118 | 543 | 13,814 | 20,475 | 19,252 |
| Accounting and Payroll | 10,139 | 1,738 | 2,365 | 14,242 | 2,725 | 2,654 | 19,621 | 15,961 |
| Travel, Conferences, and Meetings | 10,235 | 2,864 | 3,994 | 17,093 | 725 | 2,000 | 19,818 | 21,049 |
| Board Expenses | - | - | - | - | 5,991 | 580 | 6,571 | 1,499 |
| Equipment Rental & Repair | 697 | - | 2,272 | 2,969 | 182 | 183 | 3,334 | 1,921 |
| Bad Debt (Recoveries) Expense | - | - | - | - | - | 13,377 | 13,377 | (12,429) |
| Depreciation | 55,823 | 44,481 | 136,237 | 236,541 | 14,879 | 14,638 | 266,058 | 332,094 |
| Other | 2,033 | 127 | 181 | 2,341 | 1,081 | 582 | 4,004 | 4,102 |
| **Total Functional Expenses** | $ 2,918,263 | $ 467,491 | $ 1,130,483 | $ 4,516,237 | $ 687,606 | $ 747,905 | $ 5,951,748 | $ 5,316,860 |

*See accompanying notes to financial statements.*

# San Francisco Child Abuse Prevention Center

## Statements of Cash Flows

| *For the Years Ended December 31,* | **2016** | 2015 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | **$ (972,926)** | $ 4,730,659 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Write-offs due to building acquisition | **1,423,313** | - |
| Loss on write-off of property and equipment | **9,200** | - |
| Depreciation expense | **266,058** | 332,094 |
| Provision for (recoveries of) doubtful accounts | **1,666** | (18,229) |
| In-kind donated services | **(52,389)** | (48,997) |
| Net realized and change in unrealized (gain) loss on investments | **(7,847)** | 12,258 |
| Changes in assets and liabilities: | | |
| Government contracts, pledges, and grants receivable | **165,421** | (283,920) |
| Prepaid expenses and other assets | **42,464** | (113,921) |
| Accounts payable and accrued expenses | **46,946** | (93,823) |
| Accrued vacation | **23,857** | (7,187) |
| Deferred revenue | **(9,209)** | 13,999 |
| Other liabilities | **11,385** | (4,292) |
| **Net Cash Provided by Operating Activities** | **947,939** | 4,518,641 |
| **Cash Flows from Investing Activities:** | | |
| Purchase of investments | **(14,963)** | (13,232) |
| Purchase of Third Street property | **(4,070,168)** | - |
| Purchase of fixed assets | **(19,726)** | (12,800) |
| **Net Cash Used in Investing Activities** | **(4,104,857)** | (26,032) |
| **Increase in Cash and Cash Equivalents** | **(3,156,918)** | 4,492,609 |
| **Cash and Cash Equivalents,** beginning of year | **6,692,077** | 2,199,468 |
| **Cash and Cash Equivalents,** end of year | **$ 3,535,159** | $ 6,692,077 |

| | | |
|---|---|---|
| **Supplemental Non-Cash Disclosures:** | | |
| Capitalized in-kind legal costs | **$ 27,728** | $ 48,997 |
| **Non-Cash Investing Activities:** | | |
| In-Kind legal costs capitalized as part of purchase of Third Street property | **$ 24,661** | $ - |

*See accompanying notes to financial statements.*

## 1. Organization

*Nature of Activities*

San Francisco Child Abuse Prevention Center (the Prevention Center) is a community-based nonprofit organization established in 1973 dedicated to ending child abuse and neglect. Exempt from income taxes under Internal Revenue Code Section 501(c)(3) and section 23701(d) of the California Revenue and Taxation Code, the Prevention Center is governed by a 19-member Board of Directors. The Prevention Center implements a three-pronged strategy: (1) provide services directly to children and families; (2) educate the community; and, (3) coordinate strategic partnerships. Detailed information is available at www.sfcapc.org. Our programs include:

**Children & Family Services**

*Integrated Family Services (IFS)* - Our innovative new, evidence-informed IFS program serves parents and children in families with multiple risk factors such as poverty, domestic violence and mental illness. Using a groundbreaking assessment model, staff measure the level of protective factors shown to reduce the risk of child abuse in families — parental resilience, parenting knowledge, social connections, access to basic needs, and children's social/emotional learning — and then provide targeted intervention to strengthen these factors and thereby reduce the risk of abuse occurring within that family in the future.

*Counseling and Crisis Support* - Our counselors provide supportive individual counseling, crisis counseling, support groups, and educational workshops to families whose risk factors do not warrant the intensive support of IFS and to families that are transitioning out of IFS services.

*Therapeutic Children's Playroom* - Our Playroom provides free therapeutic childcare, assessments, and early interventions to children and their parents, as well as scheduled activities such as an early literacy group, parenting education, family dinners, and other parent-child activities.

*SafeStart Program* – The Prevention Center leads a citywide collaborative effort to reduce the effects of violence on young children and to foster their ability to overcome adverse childhood experiences and thrive.

*TALK Line (415.441.KIDS)* – Operating 24 hours a day, 365 days a year, trained staff and volunteers handle approximately 14,000 calls a year from parents and caregivers needing help or in crisis.

**Community Education**

The Prevention Center provides Mandated Reporter training to instruct child-serving professionals to identify and report suspected abuse and neglect. The Child Safety Awareness program educates elementary school children and their parents in safety issues and how to avoid and report abduction and abuse. The Prevention Center conducts local and regional efforts to raise awareness around issues of child abuse and abuse prevention.

**Strategic Partnerships**

The Prevention Center coordinates partnerships with government, community and other nonprofit partners to prevent or respond to child abuse and to reduce its devastating effects.

The Prevention Center's role as the state-mandated Child Abuse Council puts us in a unique position to partner with public and private agencies to identify gaps and improve the abuse response system, while at the same time providing on-the-ground support to children who have disclosed abuse. Our staff serve on or advise task forces and committees including: the Bay Area Coalition of Child Abuse Councils, Child Death Review, the Family Violence Council, and the Task Force on the Commercial Sexual Exploitation of Children (CSEC).

Based on this history and expertise, the Prevention Center serves as the lead agency for the Children's Advocacy Center of San Francisco (CAC), which is a public-private partnership in which multidisciplinary teams respond to incidents of child sexual abuse, physical abuse, and exposure to violence in a modern, child-friendly facility. The CAC provides forensic interviews and care to children who disclose abuse in San Francisco. The CAC is located at 3450 Third Street, which houses our strategic partnership and community education programs.

*Funding and Revenue Concentration*

The Prevention Center receives approximately 19% of its unrestricted income from government grants primarily awarded by various departments within the City & County of San Francisco. Should these grantors reduce their level of support, the Prevention Center could be required to reduce the level of activity of some of its programs.

### 2. Summary of Significant Accounting Policies

*Method of Accounting*

The financial statements of the Prevention Center are prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (US GAAP).

*Basis of Presentation*

Net assets, revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Prevention Center and changes therein are classified and reported as follows:

**Unrestricted net assets**, which includes resources not subject to donor-imposed restrictions.

**Temporarily restricted net assets**, which includes resources subject to donor-imposed stipulations that may or will be met either by actions of the Prevention Center and/or the passage of time.

**Permanently restricted net assets,** which includes resources subject to donor-imposed restrictions that require permanent investment by the Prevention Center. Generally, the principal must be maintained as only the income earned can be used for either general or donor-specified purposes.

*Revenue Recognition and Accounting for Restricted Support*

Contracts, grants, and contributions are recognized at fair value as revenue when received or unconditionally promised and collection is deemed to be reasonably certain.

The Prevention Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets are released from restriction.

The Prevention Center reports gifts of fixed assets 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 assets must be maintained, the Prevention Center reports expirations of donor restrictions when the donated or acquired assets are placed in service.

The Prevention Center recognizes conditional contracts, grants or contributions when the conditions are met. The Prevention Center recognizes program revenues and rental income when earned. Rental income is recorded on a straight-line basis over the lease terms.

*Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates made by the Prevention Center include useful lives of property and equipment, valuation of pledges receivable and in-kind revenues and the allocation of functional expenses.

*Comparative Totals*

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Prevention Center's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at date of acquisition, including money market accounts.

*Investments*

Investments in marketable securities are recorded on their trade date and are stated at fair value in the statements of financial position. Realized and unrealized gains and losses are included in the statement of activities and changes in net assets in other income (loss).

*Government Contracts Receivable*

Government contracts receivable include amounts billed and unbilled under various governmental contracts for program services performed during the year. Management periodically reviews the collectability of government contracts receivable and provides a provision at the time it is determined that they are uncollectable.

*Pledges and Grants Receivable*

Pledges and grants receivable include amounts committed by donors but which have not yet been received by the Prevention Center. Pledges and grants receivable are measured at fair value upon receipt. If a pledge or grant is not expected to be collected within one year, it is discounted to its estimated fair value using a present value technique. The fair value of a pledge that is collectable within one year is recognized at its net realizable value. Management periodically reviews the collectability of pledges and grants receivable and provides a provision at the time it is determined that they are uncollectable.

Unconditional pledges and grants receivable are due as follows:

| *December 31,* | **2016** | 2015 |
|---|---|---|
| Less than one year | **$ 842,928** | $ 1,135,634 |
| 1 – 5 years | **165,000** | 194,467 |
| Pledges and grants receivable | **1,007,928** | 1,330,101 |
| Less: Discount on long-term pledges and grants | **(2,751)** | (2,304) |
| Less: Reserve for uncollectable pledges and grants | **(51,280)** | (49,614) |
| Pledges and grants receivable, net | **$ 953,897** | $ 1,278,183 |

The amounts presented above have been discounted to present value using a discount rate of 1.03% during 2016 and rates ranging between 0.65% and 1.06% during 2015.

During 2016, the Prevention Center received a $100,000 conditional grant from a private foundation which will be payable when the Prevention Center is able to find a matching grant amount, subject to a one-year maximum time limit.

*Property and Equipment*

Property and equipment are reported at cost if purchased, or at fair value at the date of gift if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 30 years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

*Long-Lived Assets*

Long-lived assets, such as land, building and other property, are reviewed at least annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Prevention Center first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. The Prevention Center determines fair value of long-lived assets held and used by reference to independent appraisals, quoted market prices (e.g. an offer to purchase) and other factors. There were no impairment charges recorded in the periods presented.

*Fair Value Measurements*

The Prevention Center considers fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value are either observable or unobservable. Observable inputs reflect assumptions that market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based on their own market assumptions. The Prevention Center utilizes the following three-level fair value hierarchy to establish the priorities of the inputs used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table presents the fair value hierarchy for the financial assets held by the Prevention Center measured at fair value on a recurring basis as of December 31, 2016 and 2015:

| *As of December 31, 2016* | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| *Assets:* | | | |
| Cash Equivalents (Money Market) | $ 188,994 | $ - | $ - |
| Investments [(a)] | 556,770 | - | - |
| Total | $ 745,764 | $ - | $ - |

| *As of December 31, 2015* | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| *Assets:* | | | |
| Cash Equivalents (Money Market) | $ 188,956 | $ - | $ - |
| Investments [a] | 533,960 | - | - |
| Total | $ 722,916 | $ - | $ - |

[a] Investments are in mutual funds whose underlying investments consist principally of intermediate and short term bond funds and securities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2016 and 2015, there were no significant transfers in or out of levels 1, 2 or 3.

The carrying amounts of the Prevention Center's other financial instruments, which include accounts receivable, accounts payable and other accrued expenses, approximate their fair values due to their short-term maturities.

*Functional Expenses*

The Prevention Center allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly. Indirect expenses are allocated based on the ratio of each function's salary expense to total salary expense, with the exception of certain Third Street building expenses (inclusive of utilities and maintenance, space rental, and insurance), which are considered costs of the Strategic Partnerships function.

*Reclassifications*

Certain prior year balances have been reclassified to conform to current year presentation. These reclassifications had no impact on previously reported change in net assets or operating cash flows.

*Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB also issued ASU 2015-14, which deferred the effective date for the Prevention Center until its annual period beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use ("ROU") model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Prevention Center's fiscal year beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities." The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Prevention Center's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its financial statements.

### 3. Tax Status

The Prevention Center is exempt from federal and California state income taxes under Section 501 (c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively. The Prevention Center had no sources of unrelated business income during the years ended December 31, 2016 and 2015.

The Prevention Center follows the authoritative guidance for accounting for uncertainty in income taxes. The Prevention Center does not believe there are any material uncertain tax positions and; accordingly, has not recognized any liability for unrecognized tax benefits. The Prevention Center has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Prevention Center has filed IRS Form 990 tax returns as required and all applicable returns in those jurisdictions where it is required. The Prevention Center believes that it is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2013. However, the Prevention Center is still open to examinations by tax authorities from fiscal year 2013 forward. For the year ended December 31, 2016, there were no penalties or interest recorded in the statements of activities.

## 4. Concentrations of Credit Risk

Financial instruments that potentially subject the Prevention Center to concentrations of credit risk consist of cash deposits with a commercial bank and a brokerage firm. The Prevention Center maintains its cash accounts with two commercial banks. The accounts at the commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of $250,000 for FDIC insured accounts. As of December 31, 2016, the Prevention Center held cash balances in excess of insured amounts. The risk is managed by maintaining all deposits in high quality financial institutions.

## 5. Property and Equipment, net

Property and equipment, net at December 31, 2016 and 2015 are as follows:

| | | **2016** | | 2015 |
|---|---|---|---|---|
| Land | **$** | **2,102,159** | $ | 847,300 |
| Building and building improvements | | **5,195,061** | | 2,264,445 |
| Furnishings and equipment | | **137,719** | | 148,511 |
| Leasehold improvements | | **-** | | 2,117,067 |
| | | **7,434,939** | | 5,377,323 |
| Less: accumulated depreciation | | **(701,386)** | | (1,058,876) |
| Property and equipment, net | **$** | **6,733,553** | $ | 4,318,447 |

Depreciation expense for years ended December 31, 2016 and 2015 was $266,058 and $332,094, respectively. See Note 10 for disclosure on the building acquisition which occurred in June 2016.

## 6. Temporarily Restricted Net Assets

Temporarily restricted net assets represent pledges and grants to the Prevention Center that have been restricted for a specific purpose or time period. Temporarily restricted net assets at December 31, 2016 and 2015 were as follows:

| | | **2016** | | 2015 |
|---|---|---|---|---|
| Children & Family Services | **$** | **676,250** | $ | 710,560 |
| Community Education | | **190,453** | | 40,453 |
| Strategic Partnerships | | **294,407** | | 430,869 |
| Third Street Building Purchase and Operating Reserve | | **350,000** | | 3,837,200 |
| Time Restricted | | **463,449** | | 639,698 |
| Other Specific Purposes | | **21,500** | | 20,500 |
| Total temporarily restricted net assets | **$** | **1,996,059** | $ | 5,679,280 |

### 7. Permanently Restricted Net Assets - Endowment Fund

In the past, the Prevention Center planned to establish an endowment fund. $10,000 was raised, but the effort was subsequently discontinued. The Prevention Center has no plans to increase such funds in the foreseeable future.

### 8. Retirement Plan

The Prevention Center sponsors a 403(b) defined contribution retirement plan (the Plan) covering employees who have been employed by the Prevention Center for at least one year and who regularly work at least 30 hours per week. Employees may elect to make contributions to the Plan. Employer contributions made on behalf of eligible employees are discretionary. The Prevention Center contributed $31,870 and $32,271 to the Plan for the years ended December 31, 2016 and December 31, 2015, respectively.

### 9. Commitments and Contingencies

*Leases*

In March 2012, the Prevention Center entered into a 10-year lease to provide space for the CAC (as described above in Note 1). Contemporaneously with the exercise of the lease, the Prevention Center entered into sublease agreements with both Sutter Health/CPMC and the Center for Youth Wellness through the end of the 10-year lease option. In June 2014, the Prevention Center signed a nine-year sub-lease for space in the CAC with the Human Services Agency of the City and County of San Francisco.

In June 2016, the Prevention Center purchased the 3450 Third Street building as more fully described in Note 10. Upon purchase of the property, the Prevention Center became the landlord and was no longer obligated to pay rent. The terms of the sublease agreements as amended remain in effect. Total rental expense for the years ended December 31, 2016 and 2015 was $112,375 and $224,749, respectively.

The Prevention Center's future minimum estimated rental income, as of December 31, 2016 are as follows:

| *Year Ending December 31,* | | Rental Income |
|---|---|---|
| 2017 | $ | 349,000 |
| 2018 | | 399,000 |
| 2019 | | 424,000 |
| 2020 | | 435,000 |
| 2021 | | 447,000 |
| Thereafter | | 575,000 |
| | $ | 2,629,000 |

## 10. Property Acquisition

On June 28, 2016, the Prevention Center acquired 3450 Third Street, Building 2, which is home to our strategic partnership and community education programs. The acquisition of the property was recorded as an asset acquisition. The purchase price was $4,000,000 plus closing costs of approximately $133,000. In addition, there were approximately $57,000 of in-kind legal services rendered associated with the property acquisition which was capitalized to property and equipment.

In connection with the property acquisition, the Prevention Center recorded non-operating write-offs of $1,423,313, as reported on the statement of activities as write-offs due to property acquisition. These write-offs are non-cash items which did not affect operating cash flows and are summarized as follows:

| | | 2016 |
|---|---|---|
| Write-off of unamortized in-kind legal asset related to the master lease | $ | 35,223 |
| Write-off of leasehold improvements upon purchase of property | | 1,517,837 |
| Write-off of straight-line rent liability related to the master lease | | (129,747) |
| Total write-offs due to property acquisition | $ | 1,423,313 |

## 11. Subsequent Events

Subsequent events have been evaluated through August 25, 2017, the date the financial statements were available to be issued.