
RECOVERY CAFÉ SAN JOSE

FINANCIAL STATEMENTS

August 31, 2018

(WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2017)

CROSBY & KANEDA

Certified Public Accountants
for Nonprofit Organizations

RECOVERY CAFÉ SAN JOSE

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Recovery Café San Jose
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Recovery Café San Jose (a California nonprofit public benefit corporation) (the "Organization"), which comprise the statement of financial position as of August 31, 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.

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 these 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 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 Recovery Café San Jose as of August 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Recovery Café San Jose's August 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Croody & Lameda CPAs LLP

Oakland, California

April 9, 2019

RECOVERY CAFÉ SAN JOSE

Statement of Financial Position

August 31, 2018

(With Comparative Totals as of August 31, 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 189,644	\$ 221,724
Accounts and contracts receivable	13,554	23,405
Grant receivable	-	267,312
Pledges receivable (Note 3)	29,939	25,630
Prepaid expenses	7,507	12,771
Total Current Assets	<u>240,644</u>	<u>550,842</u>
Pledges receivable, noncurrent (Note 3)	5,000	10,000
Property and equipment, net (Note 4)	1,273,638	34,517
Construction in progress	-	632,976
Total Assets	<u>\$ 1,519,282</u>	<u>\$ 1,228,335</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 20,050	\$ 19,131
Construction costs payable	-	267,312
Accrued vacation	18,265	15,170
Deferred revenue	2,736	-
Total Liabilities	<u>41,051</u>	<u>301,613</u>
Commitment and Contingencies (Notes 5 and 6)		
Net Assets		
Unrestricted (Note 7)	1,473,231	913,297
Temporarily restricted (Note 8)	5,000	13,425
Total Net Assets	<u>1,478,231</u>	<u>926,722</u>
Total Liabilities and Net Assets	<u>\$ 1,519,282</u>	<u>\$ 1,228,335</u>

See Notes to the Financial Statements

RECOVERY CAFÉ SAN JOSE

Statement of Activities For the Year Ended August 31, 2018 (With Comparative Totals for the Year Ended August 31, 2017)

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
Support and Revenue				
Support				
Contributions	\$ 73,360	\$ 2,398	\$ 75,758	\$ 97,398
Foundation and community	115,988	134,066	250,054	135,688
Government	112,786		112,786	38,232
Construction grant (Note 11)	600,966		600,966	599,034
Special events, net (Note 9)	150,427		150,427	112,605
In-kind contributions (Note 10)	106,677		106,677	78,149
Total Support	<u>1,160,204</u>	<u>136,464</u>	<u>1,296,668</u>	<u>1,061,106</u>
Revenue and other				
Program service fees			-	31,770
Loss on disposition of fixed asset	(2,080)		(2,080)	-
Interest	604		604	884
Total Revenue	<u>(1,476)</u>		<u>(1,476)</u>	<u>32,654</u>
Net assets released from donor restrictions (Note 8)	144,889	(144,889)	-	-
Total Support and Revenue	<u>1,303,617</u>	<u>(8,425)</u>	<u>1,295,192</u>	<u>1,093,760</u>
Expenses				
Program	593,239		593,239	376,002
Management and general	110,303		110,303	79,463
Fundraising	40,141		40,141	39,508
Total Expenses	<u>743,683</u>	<u>-</u>	<u>743,683</u>	<u>494,973</u>
Change in Net Assets	559,934	(8,425)	551,509	598,787
Net Assets, beginning of year	913,297	13,425	926,722	327,935
Net Assets, end of year	<u>\$ 1,473,231</u>	<u>\$ 5,000</u>	<u>\$ 1,478,231</u>	<u>\$ 926,722</u>

See Notes to the Financial Statements

RECOVERY CAFÉ SAN JOSE

Statement of Cash Flows For the Year Ended August 31, 2018 (With Comparative Totals for the Year Ended August 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 551,509	\$ 598,787
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation expense	64,369	2,983
Loss on disposition	2,080	-
Donated vehicle	-	(12,500)
Contributions restricted for long term use	(673,630)	(609,959)
Change in assets and liabilities:		
Accounts and contracts receivable	9,851	(5,875)
Grant receivable	267,312	(267,312)
Pledges receivable	691	(24,875)
Prepaid expenses	5,264	(4,200)
Accounts payable and accrued expenses	919	(5,221)
Construction costs payable	(267,312)	267,312
Accrued vacation	3,095	5,886
Deferred revenue	2,736	(257)
Net cash provided (used) by operating activities	<u>(33,116)</u>	<u>(55,231)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(672,594)	(624,774)
Net cash provided (used) by investing activities	<u>(672,594)</u>	<u>(624,774)</u>
Cash flows from financing activities:		
Contributions restricted for long term use	673,630	609,959
Net cash provided (used) by financing activities	<u>673,630</u>	<u>609,959</u>
Net change in cash and cash equivalents	(32,080)	(70,046)
Cash and cash equivalents, beginning of year	<u>221,724</u>	<u>291,770</u>
Cash and cash equivalents, end of year	<u>\$ 189,644</u>	<u>\$ 221,724</u>
Supplemental Disclosure:		
Non-cash transaction		
Donated vehicle	<u>\$ -</u>	<u>\$ 12,500</u>

See Notes to the Financial Statements

RECOVERY CAFÉ SAN JOSE

**Statement of Functional Expenses
For the Year Ended August 31, 2018
(With Comparative Totals for the Year Ended August 31, 2017)**

	Programs			Program	Management and general	Fundraising	Total	
	Meals	Recovery	Residential				2018	2017
Salaries	\$ 57,056	\$ 126,076	\$ 31,026	\$ 214,158	\$ 50,382	\$ 25,163	\$ 289,703	\$ 217,454
Benefits	3,103	8,760	2,077	13,940	8,555	2,744	25,239	20,509
Payroll taxes	4,805	10,771	2,615	18,191	3,347	1,690	23,228	16,376
Total Personnel	<u>64,964</u>	<u>145,607</u>	<u>35,718</u>	<u>246,289</u>	<u>62,284</u>	<u>29,597</u>	<u>338,170</u>	<u>254,339</u>
Fees for service	74	66,127	12,122	78,323	33,866	218	112,407	89,790
Advertising and promotion		384		384	-	324	708	50
Supplies and office expenses	19,319	17,434	2,145	38,898	6,441	4,654	49,993	22,928
Information technology	228	345	147	720	215	339	1,274	746
Occupancy	6,973	4,331	34,158	45,462	4,358	289	50,109	48,747
Travel and meals	330	1,925	8	2,263	426	20	2,709	2,574
Depreciation	18,359	46,010		64,369	-	-	64,369	2,983
Insurance	4,810	1,143	617	6,570	1,458	91	8,119	6,147
In-kind services and rent	3,316	70,050	1,140	74,506	-	-	74,506	50,322
In-kind food and supplies	29,701	2,469		32,170	-	-	32,170	15,327
Other	1,641	1,594	50	3,285	1,255	4,609	9,149	1,020
Total Expenses	<u>\$ 149,715</u>	<u>\$ 357,419</u>	<u>\$ 86,105</u>	<u>\$ 593,239</u>	<u>\$ 110,303</u>	<u>\$ 40,141</u>	<u>\$ 743,683</u>	<u>\$ 494,973</u>

See Notes to the Financial Statements

RECOVERY CAFÉ SAN JOSE

Notes to the Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for the Year Ended August 31, 2017)

NOTE 1: NATURE OF ACTIVITIES

Recovery Cafe San Jose (RCSJ, or the Organization) is a healing community for those traumatized by addiction, homelessness, and mental health challenges. RCSJ is a refuge where members gather for group meals, participate in Recovery Circles, take classes to learn job and life skills, make connections to other community resources, and enjoy social activities in a sober and supportive environment. Recovery Cafe San Jose is founded on the belief that every human being is precious, worthy of love, and deserving of the opportunities to fulfill his or her potential. In this loving community people who cannot afford long-term recovery services come to belong, heal, and know themselves as loved. In this sanctuary from the streets, the Cafe helps members develop tools and access other community resources for stabilizing recovery. Recovery, and the support that RCSJ provides, is at the root of both preventing and ending homelessness.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation

The Organization presents information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes are differentiated by donor restrictions.

Unrestricted net assets – consist of resources which have not been specifically restricted by a donor. Unrestricted net assets may be designated for specific purposes by the Organization or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets – represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets – represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, other asset enhancements and diminishments subject to the same kinds of stipulations or reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations. There were no permanently restricted net assets as of August 31, 2018 and 2017.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Contributions to be received after one year are discounted at an

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Notes to the Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for the Year Ended August 31, 2017)

appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Unrestricted contributions and grants are recorded as unrestricted revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 released from restrictions.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of August 31, 2018 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Pledges Receivable

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend on are substantially met and the promises become unconditional. If amounts become uncollectible, they are charged to expense in the period in which that determination is made.

Estimates

The preparation of financial statements in conformity with GAAP 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. Accordingly, actual results could differ from those estimates.

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Notes to the Financial Statements For the Year Ended August 31, 2018 (With Comparative Totals for the Year Ended August 31, 2017)

Fair Value Measurements

Fair value is defined 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 on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the assets or liability.

The Organization had no assets or liabilities recorded at fair value on August 31, 2018.

Concentration of Credit Risk

At times, the Organization may have deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over \$1,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Furniture and equipment	10 years
Vehicles	5 years
Leasehold improvements	15 years or related lease term

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time, square footage and estimated supplies and services usage.

Prior Year Summarized Information

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 GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2017, from which the summarized information was derived.

RECOVERY CAFÉ SAN JOSE

Notes to the Financial Statements
For the Year Ended August 31, 2018
(With Comparative Totals for the Year Ended August 31, 2017)

Reclassifications

Certain accounts in the prior year's summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of April 9, 2019 the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

NOTE 3: PLEDGES RECEIVABLE

Pledges received consist of the follows as of August 31:

	<u>2018</u>	<u>2017</u>
Receivable due in less than one year	\$ 33,439	\$ 25,630
Receivable due in one to five years	<u>5,000</u>	<u>10,000</u>
Total pledges receivable	38,439	35,630
Less allowance for doubtful accounts	<u>(3,500)</u>	<u>-</u>
Total	<u>\$ 34,939</u>	<u>\$ 34,630</u>

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 84,354	\$ 30,275
Vehicles	12,500	12,500
Leasehold improvements	1,246,688	-
Less accumulated depreciation	<u>(69,904)</u>	<u>(8,258)</u>
Total	<u>\$ 1,273,638</u>	<u>\$ 34,517</u>

NOTE 5: COMMITMENT

Operating Leases

The Organization is party to a lease for meeting, kitchen, office, parking and storage space in San Jose which expires December 2032. Future minimum expected operating lease payments are as follows for the years ending August 31:

2019	\$ 31,200
2020	31,200
2021	31,200
2022	31,200
2023	31,200
Thereafter	<u>291,200</u>
Total	<u>\$ 447,200</u>

Rent for the years ended August 31, 2018 and 2017 was \$49,422 and \$46,334, respectively.

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Notes to the Financial Statements
For the Year Ended August 31, 2018
(With Comparative Totals for the Year Ended August 31, 2017)

NOTE 6: CONTINGENCIES

Grant Compliance

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants and that no reasonable estimate of an amount, if any, that would be returnable is available.

Restrictions on Use of Property

The Organization has agreed to comply with grant terms related to a grant received from the City of San Jose for 15 years following the completion of a renovation project of program space. Use of the space renovated with this funding is subject to certain charitable use restrictions. Failure to comply with such restrictions may result in required repayment of a portion or all of the original grant. Management of the Organization is of the opinion that they have complied with such restrictions.

NOTE 7: UNRESTRICTED NET ASSETS

Unrestricted net assets consisted of the following as of August 31:

	<u>2018</u>	<u>2017</u>
Invested in property and equipment	\$ 1,273,638	\$ 667,493
Undesignated	<u>199,593</u>	<u>245,804</u>
Total	<u>\$ 1,473,231</u>	<u>\$ 913,297</u>

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available as follows as of August 31:

	<u>2018</u>	<u>2017</u>
Acquisition of assets	\$ -	\$ 13,425
For future use	<u>5,000</u>	<u>-</u>
Total	<u>\$ 5,000</u>	<u>\$ 13,425</u>

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the purposes specified by donors or by occurrence of other events specified by donors as follows during the years ended August 31:

	<u>2018</u>	<u>2017</u>
Acquisition of assets	\$ 86,089	\$ -
Specific purposes	<u>58,800</u>	<u>6,667</u>
Total	<u>\$ 144,889</u>	<u>\$ 6,667</u>

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**Notes to the Financial Statements
For the Year Ended August 31, 2018
(With Comparative Totals for the Year Ended August 31, 2017)**

NOTE 9: SPECIAL EVENTS

The Organization held its Closing the Gap, Homecoming and other events during the year. Activity related to these events was as follows during the years ended August 31:

	<u>2018</u>	<u>2017</u>
Contributions	\$ 169,139	\$ 128,624
Less direct cost of events	<u>(18,712)</u>	<u>(16,019)</u>
Total	<u>\$ 150,427</u>	<u>\$ 112,605</u>

NOTE 10: IN-KIND CONTRIBUTIONS

The Organization received the benefit of the following in-kind contributions during the years ended August 31:

	<u>2018</u>	<u>2017</u>
Donated services	\$ 74,506	\$ 50,322
In-kind food and supplies	32,171	15,327
In-kind vehicle donation	<u>-</u>	<u>12,500</u>
Total	<u>\$ 106,677</u>	<u>\$ 78,149</u>

Donated Services

Donated services consist of time donated by a database manager, volunteer coordinator, behavioral health consultant and other instructors. The Organization estimated the value of donated services at \$26/hour for the volunteer coordinator, \$50/hour for the behavioral health consultant and other instructors and \$100/hour for database management.

Volunteer Efforts

In addition to the amounts recognized in the financial statements, the Organization received the benefit of in-kind services that did not meet the requirements for recognition under generally accepted accounting principles. These trained community and organizational volunteers contribute a substantial amount of support towards the success of the Organizations programs and activities.

NOTE 11: CITY OF SAN JOSE GRANT

The Organization received a grant for tenant leasehold improvements paid for by a Community Development Block Grant grant from the City of San Jose, California. The management and reporting required of this grant resulted in an increase of resources allocated to the management and general functional category of expenses.

Grant Activity

Activity related to the grant was as follows for the year ended August 31, 2018:

Grantor	City of San Jose
Grant identification number	CDI-14-019
Grant award	\$ 1,200,000
Expended (accrual basis) during the year ended August 31, 2018	\$ 600,966

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**Notes to the Financial Statements
For the Year Ended August 31, 2018
(With Comparative Totals for the Year Ended August 31, 2017)**

NOTE 12: RELATED PARTY TRANSACTIONS

Contract Services

A member of the board of directors, who is a member of the clergy, provided contract services to the Organization through the Church which she serves. The Church was compensated \$42,533 under the contract for the year ended August 31, 2018.

Donations

Board members made contributions to support the Organization of \$28,680 during the year ended August 31, 2018.

NOTE 13: UPCOMING ACCOUNTING STANDARDS UPDATES

The FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14).

ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires amended presentation and disclosures. These include qualitative and quantitative requirements in the following areas:

- (1) net asset classes;
- (2) investment return;
- (3) expenses;
- (4) liquidity and availability of resources; and
- (5) presentation of operating cash flows.

ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization is in the process of evaluating the potential impact of this guidance on its financial statements.