



Certified Public Accountants  
and Financial Advisors

**SAN FRANCISCO LADIES' PROTECTION  
AND RELIEF SOCIETY**

Financial Statements  
December 31, 2019 and 2018

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
San Francisco Ladies' Protection and Relief Society

### Report on the Financial Statements

We have audited the accompanying financial statements of San Francisco Ladies' Protection and Relief Society (dba The Heritage or Heritage on the Marina) (the "Society"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 audits 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 Society'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 Society'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 San Francisco Ladies' Protection and Relief Society as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**SQUAR MILNER LLP**

*SQUAR MILNER LLP*

San Francisco, California  
April 21, 2020

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 223,431	\$ 182,401
Accounts receivable		
Residents	11,328	10,295
Medicare - net of contractual allowances of \$64,846 and \$0, respectively	527,898	382,348
Entrance fees	25,000	50,625
Prepaid expenses	442,547	350,878
Investments	74,066,150	67,253,288
Custodian funds	9,034	11,014
Total current assets	75,305,388	68,240,849
<b>Property and equipment - net</b>	18,031,898	15,456,250
<b>Other Assets</b>		
Investments - endowment	735,811	639,651
Other	2,524	2,524
Total other assets	738,335	642,175
Total assets	\$ 94,075,621	\$ 84,339,274
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 570,876	\$ 590,395
Accrued salaries and other expenses	387,503	397,140
Custodian funds	4,981	5,620
Total current liabilities	963,360	993,155
<b>Other Liabilities</b>		
Unamortized entrance fees - refundable	1,392,500	363,750
Unamortized entrance fees - non-refundable	6,407,238	5,421,735
Total other liabilities	7,799,738	5,785,485
Total liabilities	8,763,098	6,778,640
<b>Net Assets</b>		
Without donor restrictions	84,355,717	76,713,701
With donor restrictions		
Purpose restrictions	456,806	346,933
Endowments	500,000	500,000
Total net assets with donor restrictions	956,806	846,933
Total net assets	85,312,523	77,560,634
Total liabilities and net assets	\$ 94,075,621	\$ 84,339,274

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**

**STATEMENTS OF ACTIVITIES**

**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Operating revenue:		
Resident monthly fees	\$ 3,649,634	\$ 3,469,864
Entrance fee amortization	1,069,037	895,697
Private patient fees	1,799,640	2,060,268
Medicare program - net of contractual adjustments of \$267,038 and \$179,723, respectively	1,549,119	1,835,611
Guest charges	90,017	82,122
Other income	<u>8,880</u>	<u>16,920</u>
Total operating revenue	<u>8,166,327</u>	<u>8,360,482</u>
Operating expenses:		
Program	10,231,094	9,996,670
Supporting services		
General and administrative	2,251,375	2,189,588
Fundraising	<u>95,694</u>	<u>97,830</u>
Total operating expenses	<u>12,578,163</u>	<u>12,284,088</u>
Loss from operations	(4,411,836)	(3,923,606)
Other income (expense) - net:		
Dividends and interest	1,346,941	1,933,351
Net realized and unrealized gain/(loss) on investments	10,854,457	(7,584,239)
Investment management fee	(331,716)	(359,990)
Donations and bequests	81,956	32,317
Other income	<u>123</u>	<u>17,673</u>
Total other income (expense) - net	<u>11,951,761</u>	<u>(5,960,888)</u>
Net assets released from restrictions	<u>102,091</u>	<u>84,621</u>
Change in net assets without donor restrictions	<u>7,642,016</u>	<u>(9,799,873)</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Dividends and interest	11,974	10,758
Net realized and unrealized gain/(loss) on investments	107,627	(64,900)
Investment management fee	(3,257)	(3,350)
Donations and bequests	95,620	78,190
Net assets released from restrictions	<u>(102,091)</u>	<u>(84,621)</u>
Change in net assets with donor restrictions	<u>109,873</u>	<u>(63,923)</u>
Change in net assets	7,751,889	(9,863,796)
<b>TOTAL NET ASSETS - beginning of year</b>	<u>77,560,634</u>	<u>87,424,430</u>
<b>TOTAL NET ASSETS - end of year</b>	<u>\$ 85,312,523</u>	<u>\$ 77,560,634</u>

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2019**

	Program					Supporting Services			Totals
	Food Service	Housekeeping and Maintenance	Health Center	Medicare	Activities	Total Program	General and Administrative	Fundraising	
Salaries	\$ 579,907	\$ 594,790	\$ 2,854,322	\$ -	\$ 315,515	\$ 4,344,534	\$ 1,109,824	\$ -	\$ 5,454,358
Food	1,647,833	-	-	-	-	1,647,833	-	-	1,647,833
Employee Benefits	176,118	200,544	812,877	-	100,229	1,289,768	236,591	-	1,526,359
Depreciation	157,929	84,582	242,954	24,093	34,797	544,355	144,814	4,667	693,836
Utilities	126,900	67,963	195,219	19,359	27,960	437,401	116,361	3,750	557,512
Outside Services	-	-	-	320,053	-	320,053	-	-	320,053
Supplies	109,003	103,411	9,233	63,213	-	284,860	-	-	284,860
Security	-	205,505	-	-	-	205,505	-	-	205,505
Medical	-	-	174,335	-	-	174,335	-	-	174,335
Insurance	38,438	20,586	59,133	5,864	8,469	132,490	35,246	1,137	168,873
Miscellaneous	7,581	24,784	-	-	-	32,365	135,664	-	168,029
Building Maintenance	-	166,403	-	-	-	166,403	-	-	166,403
Program Activities	-	-	-	-	164,805	164,805	-	-	164,805
Contract Maintenance	2,193	125,192	-	-	-	127,385	-	-	127,385
Administrative Dues	-	-	-	-	-	-	122,891	-	122,891
Professional Fees	-	-	98,113	19,245	-	117,358	-	-	117,358
Drugs	-	-	91,569	-	-	91,569	-	-	91,569
Repairs	60,105	14,743	14,286	-	-	89,134	-	-	89,134
Marketing	-	-	-	-	-	-	-	86,140	86,140
Accounting Fees	-	-	-	-	-	-	77,235	-	77,235
Legal Fees	-	-	-	-	-	-	69,360	-	69,360
Management Fees	55,729	-	-	-	-	55,729	-	-	55,729
Planning and Development	-	-	-	-	-	-	50,686	-	50,686
Office Supplies	-	-	-	-	-	-	47,940	-	47,940
Travel	-	-	-	-	-	-	41,289	-	41,289
Transportation	-	-	-	-	-	-	27,863	-	27,863
Telephone	-	-	5,212	-	-	5,212	18,295	-	23,507
Consulting Fees	-	-	-	-	-	-	17,316	-	17,316
	<u>\$ 2,961,736</u>	<u>\$ 1,608,503</u>	<u>\$ 4,557,253</u>	<u>\$ 451,827</u>	<u>\$ 651,775</u>	<u>\$ 10,231,094</u>	<u>\$ 2,251,375</u>	<u>\$ 95,694</u>	<u>\$ 12,578,163</u>

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2018**

	Program					Supporting Services			Totals
	Food Service	Housekeeping and Maintenance	Health Center	Medicare	Activities	Total Program	General and Administrative	Fundraising	
Salaries	\$ 587,928	\$ 519,606	\$ 3,031,154	\$ -	\$ 195,898	\$ 4,334,586	\$ 1,067,270	\$ -	\$ 5,401,856
Employee benefits	238,246	179,884	867,910	-	67,200	1,353,240	212,128	-	1,565,368
Food	1,515,881	-	-	-	-	1,515,881	-	-	1,515,881
Depreciation	158,312	79,666	264,947	26,472	24,847	554,244	149,264	5,424	708,932
Utilities	115,198	57,970	192,792	19,263	18,081	403,304	108,613	3,947	515,864
Outside services	-	-	-	316,964	-	316,964	-	-	316,964
Supplies	93,086	80,446	5,776	95,116	-	274,424	-	-	274,424
Security	-	211,101	-	-	-	211,101	-	-	211,101
Miscellaneous	7,106	17,267	-	160	-	24,533	148,414	-	172,947
Medical	-	-	156,085	-	-	156,085	-	-	156,085
Building Maintenance	-	151,407	-	-	-	151,407	-	-	151,407
Administrative dues	-	-	-	-	-	-	145,656	-	145,656
Insurance	32,410	16,309	54,240	5,419	5,087	113,465	30,557	1,110	145,132
Activities	-	-	-	-	137,050	137,050	-	-	137,050
Contract maintenance	15,429	103,708	-	-	-	119,137	-	-	119,137
Pharmacy	-	-	104,094	-	-	104,094	-	-	104,094
Professional fees	-	-	80,712	14,069	-	94,781	-	-	94,781
Marketing	-	-	-	-	-	-	-	87,349	87,349
Transportation	-	-	-	-	-	-	83,712	-	83,712
Accounting fees	-	-	-	-	-	-	69,150	-	69,150
Repairs	37,708	10,441	15,253	-	-	63,402	-	-	63,402
Legal fees	-	-	-	-	-	-	54,588	-	54,588
Management fees	54,106	-	-	-	-	54,106	-	-	54,106
Office supplies	-	-	-	-	-	-	32,720	-	32,720
Travel	-	-	-	-	-	-	29,822	-	29,822
Telephone	-	-	5,766	-	-	5,766	21,825	-	27,591
Planning and development	-	-	-	-	-	-	22,603	-	22,603
Consulting fees	-	9,100	-	-	-	9,100	13,266	-	22,366
	<u>\$ 2,855,410</u>	<u>\$ 1,436,905</u>	<u>\$ 4,778,729</u>	<u>\$ 477,463</u>	<u>\$ 448,163</u>	<u>\$ 9,996,670</u>	<u>\$ 2,189,588</u>	<u>\$ 97,830</u>	<u>\$ 12,284,088</u>



**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Resident fees	\$ 3,648,601	\$ 3,485,530
Medicare	1,403,569	1,794,514
Proceeds from new entrance fees	3,164,000	2,056,903
Entrance fees refunded	(80,710)	(51,465)
Private patient fees	1,799,640	2,060,268
Donations and bequests	177,576	110,507
Interest and dividend income	1,358,915	1,944,109
Other cash receipts	98,897	99,042
Cash paid for salaries and related expense	(5,463,996)	(5,354,635)
Cash paid to suppliers	(6,849,041)	(6,383,167)
<b>Net cash used in operating activities</b>	<u>(742,549)</u>	<u>(238,394)</u>
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Purchases of investments	(5,874,908)	(15,527,128)
Proceeds from sales of investments	9,927,971	17,827,013
Additions to property and equipment	(3,269,484)	(1,889,857)
<b>Net cash provided by investing activities</b>	<u>783,579</u>	<u>410,028</u>
<b>NET INCREASE IN CASH</b>	41,030	171,634
<b>Cash - beginning of year</b>	<u>182,401</u>	<u>10,767</u>
<b>Cash - end of year</b>	<u>\$ 223,431</u>	<u>\$ 182,401</u>

(continued)

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2019 and 2018**

Reconciliation of change in net assets to net cash used in operating activities:

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Change in net assets	\$ 7,751,889	\$ (9,863,796)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	693,836	708,932
Entrance fee amortization	(1,069,037)	(895,697)
Net realized and unrealized (gain) loss on investments	(10,962,084)	7,649,139
Changes in operating assets and liabilities:		
Accounts receivable - net	(120,958)	(76,055)
Prepaid expenses	(91,669)	263
Accounts payable and accrued expenses	(27,816)	233,382
Proceeds from new entrance fees	3,164,000	2,056,903
Entrance fees refunded	(80,710)	(51,465)
<b>Net cash used in operating activities</b>	<u>\$ (742,549)</u>	<u>\$ (238,394)</u>

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

San Francisco Ladies' Protection and Relief Society (dba The Heritage or Heritage on the Marina) (the "Society"), which was formed in 1853, is a nonprofit California corporation. The Society owns and operates The Heritage on the Marina in San Francisco, California, a continuing care retirement community.

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

***Basis of Accounting***

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

***Basis of Presentation***

Net assets and changes therein are classified as follows:

*Net assets without donor restrictions*

Net assets available for use in general operations and not subject to donor restrictions.

*Net assets with donor restrictions*

Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed temporary restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-imposed contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Out and About Endowment Fund***

The Society has a \$500,000 endowment fund for the Out and About program for the residents. This fund's corpus is classified as net assets with donor restrictions. Earnings from the fund are used for program costs.

The Society is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing endowments. The Society has interpreted this law as requiring the preservation of the fair value of the original gift as of the date of the gift. Accordingly, the Society classified the original value of the gift as net assets with donor restrictions.

Earnings from the donor restricted endowment fund are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed under the law.

From time to time, the fair market value of assets associated with the endowment funds may fall below the level required to be retained as funds of perpetual duration. The Society has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At December 31, 2019, the fair market value of endowment assets exceeded the required corpus of the funds.

In accordance with UPMIFA, the Society has adopted investment and spending policies for the endowment assets in order to preserve and enhance the value of the corpus in perpetuity, provide a relatively steady stream of earnings, and to balance the current and future funding needs of the Out and About Program.

The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments and fixed income mutual funds to achieve its long-term return objectives, with prudent risk constraints. To satisfy its long-term rate of return objective, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield (interest and dividends). The endowment assets are co-mingled with other marketable investment securities of the Society and are invested in a manner that is intended to earn an average annual rate of return of 3% over and above expenditures of 3% per year.

Annual spending is at the discretion of management with the goal of maintaining the program, while preserving the corpus of the endowment.

***Investments***

Investments in equity securities and fixed income mutual funds with readily determinable fair values are carried at fair value based on quoted prices in active markets. Other investments, consisting of international business trusts, which invest primarily in publicly traded equity securities, are valued at fair value using the Net Asset Value per Share (NAV).

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Investments*** (continued)

Realized and unrealized gains and losses are included in the accompanying Statements of Activities as net assets with or without restrictions depending on the purpose of the investments. Realized gains and losses are computed using the first-in, first-out method.

***Fair Value Measurements***

The Society considers the use of market-based information over entity specific information in valuing its marketable investment securities, using a three-level hierarchy for fair value measurements, based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology are unobservable and require significant judgment in determining fair value.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

***Fair Value of Financial Instruments***

The carrying values of accounts receivable, prepaid expenses, and accounts payable approximate fair values based on the short-term maturities of these financial instruments.

***Concentrations of Credit Risk***

The Society maintains its cash balances at financial institutions located in San Francisco, California. At various times, the Society has maintained cash balances in excess of insured amounts (currently \$250,000 per depositor). Investments are protected under the Securities Investor Protection Corporation (SIPC) up to \$500,000 (including \$250,000 for cash). The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Revenue Recognition***

*Medicare*

Medicare revenue is recognized as revenue once services are provided and amounts are billed, less any contractual allowances. The contractual allowance represents differences between charges billed, which are computed using established rates, and amounts to be reimbursed from third party payors. The difference is between full charges for services provided and the allowable and reimbursable cost of the services provided. Contractual adjustments arising from various reimbursement arrangements with third-party payors are estimated in the period in which the services are rendered and adjusted when the reimbursement amounts are known. At December 31, 2019 and 2018, there was a contractual adjustment allowance estimate of \$64,846 and \$0, respectively for uncollected Medicare accounts receivable. Medicare receivables, net of contractual allowances are collectible in full; therefore, no allowance for doubtful accounts is provided.

*Entrance Fees*

The Society has agreements with a majority of the residents whereby the Society provides lifetime care and lodging for the residents in exchange for a one-time fee paid upon entrance plus adjustable monthly care fees thereafter.

Entrance fees are recognized as revenue on a straight-line basis over the expected remaining life of the residents based on actuarial tables at the end of each year. Any unamortized entrance fees at the time of a residents' death are immediately recognized as revenue. For the years ended December 31, 2019 and 2018, amounts recognized as revenue due to deaths amounted to \$123,201 and \$102,581, respectively.

The resident agreement provides for the right to a full refund upon termination for up to 90 days from the date of the agreement. Thereafter, a proportionate refund is provided to the resident upon termination for a period of approximately 67 months from the date of the agreement. The maximum amount of potential refund obligations under existing agreements at December 31, 2019 and 2018 amounted to \$5,090,648 and \$3,376,836, respectively. Under the Accounting Standards Update ("ASU") 2014-09 (refer to Note 2), the refundable entrance fees are defined as the entrance fees that are guaranteed to be refunded regardless of when the contract is terminated. Nonrefundable entrance fees defined as those entrance fees that are either nonrefundable at contract inception or are refundable on a decreasing basis for a fixed period of time. The amount of refundable entrance fees, under ASU 2014-09, at December 31, 2019 and 2018 amounted to \$1,392,500 and \$363,750, respectively.

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Revenue Recognition*** (continued)

***Resident Monthly Fees and Private Patient Fees***

The Society has Type A and Type C continuing care resident contracts. These contracts define amounts for monthly fees, which are similar to rent for use of an apartment at the facility and are cancellable at any time. Other ancillary services are also defined in these contracts. The Society also has private patient contracts that are either skilled nursing or assisted living. These contracts define either monthly or daily rates for use of the facility and are cancellable at any time.

Under ASU 2014-09 (refer to Note 2), if a contract can be terminated by each party at any time without compensating the other party for the termination (that is, other than paying amounts due as a result of goods or services transferred up to the termination date), the duration of the contract does not extend beyond the goods or services already transferred. Therefore, the resident and private patient fees are recognized as services are provided to the residents.

***Accounts Receivable – Residents and Entrance Fees***

Accounts receivable consist of balances due from residents and reimbursements due from Medicare and are stated at net realizable amounts. In the opinion of management, substantially all accounts receivable from residents are collectible in full; therefore, no allowance for doubtful accounts is provided. Management's determination of the need for an allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience and contractual terms.

***Property and Equipment***

The Society's policy is to capitalize all expenditures in excess of \$5,000, with a useful life of one year or longer, at cost if purchased, or fair value at the date of donation, if property is contributed. Depreciation on these assets is taken on the straight-line method of accounting over the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	10-40
Furniture, equipment and fixtures	3-20

Gains or losses on dispositions of property and equipment are included in other income (expense).

***Statutory Reserve Requirements and Obligation to Provide Future Services***

The Society is required to meet certain annual reserve requirements required by the California Department of Social Services to help assure adequate resources are available to provide for the lifetime welfare of the residents. At December 31, 2019 and 2018, the Society was in compliance with such requirements.

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Statutory Reserve Requirements and Obligation to Provide Future Services*** (continued)

The Society is also required to record a liability recognizing an obligation to provide future services and the use of facilities to all current residents if the Society is not in actuarial balance. Actuarial balance occurs when the present value of future net cash out-flows, adjusted for certain non-cash items, is less than or equal to the present value of future net cash in-flows. The Society makes this calculation on an annual basis and was in actuarial balance for the years ended December 31, 2019 and 2018. The discount rate used in the calculations for the years ended December 31, 2019 and 2018 was 4%.

The Society is required to have an actuarial study done every five years. The latest study, dated December 31, 2014, indicated that the Society was in actuarial balance, assuming that future investment returns are sufficient to fund operating deficits. The Society is currently in process of obtaining a new study.

***Income Taxes***

The Society is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d (or other states and code sections, as relevant). Accordingly, it has not provided for income taxes in these financial statements. Effective February 2004, the Society became an exempt private operating foundation as defined in Section 4940(d)(2) of the Internal Revenue Code. Accordingly, the Society is exempt from the 2% excise tax imposed on the net investment income of exempt private foundations. Certain other income and support tests must be met each year in order to remain exempt. Management believes the Society continues to meet these tests as of December 31, 2019 and 2018.

Each year, management considers whether the Society has engaged in any activities that could affect the Society's income tax status or result in taxable income. Management believes that any positions the Society has taken are supported by substantial authority and would more likely than not be sustained upon examination by the applicable taxing authority. Accordingly, there are no potential tax liabilities to be recorded or disclosed in the financial statements.

***Use of Estimates***

Management of the Society has made estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reporting of revenue and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

The Society amortizes entrance fees over the estimated remaining lives of the residents using actuarial tables based on current age and gender. The actual remaining lives will likely differ from the actuarial tables and the differences may be significant.

***Reclassifications***

Certain prior year balances have been reclassified to conform to the financial statement presentation adopted for the current year.



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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Subsequent Events***

Management has evaluated events and transactions for potential recognition or disclosure through April 21, 2020 (refer to Note 10).

**2. NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which replaces most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. ASU 2014-09 and its amendments are included primarily in Accounting Standards Codification ("ASC") 606.

The core principle of ASC 606 is that an entity should recognize revenue according to 5 steps as follows:

- 1) Identify the contract with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price
- 5) Recognize revenue when or as the entity satisfies a performance obligation

ASC 606 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments used. The Society adopted ASC 606 effective January 1, 2019, using the modified retrospective method. The adoption of ASC 606 did not have a material effect on the Society's financial position or results of operations and there was no cumulative effect adjustment to the opening balance of net assets as of January 1, 2019 as a result of the ASC 606 implementation.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU clarified and improved the scope and accounting guidance around contributions of cash and other assets received and made by all entities, including business entities. The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional or unconditional.

The Society adopted ASU 2018-08 effective January 1, 2019, using the modified retrospective method. The adoption of ASU 2018-08 did not have a material effect on the Society's financial position or results of operations and there was no cumulative effect adjustment to the opening balance of net assets as of January 1, 2019 as a result of the ASU 2018-08 implementation.

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**3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Society's primary source of revenue is a one-time fee paid upon a resident's entrance plus adjustable monthly care fees thereafter.

The Society considers investment income and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include programmatic expenses, administrative and general expenses, and fundraising expenses that are expected to be paid in the subsequent year.

The Society has an endowment fund for the Out and About program for the residents. The endowment will exist in perpetuity; the income generated from the endowment is used to fund the Out and About program.

The Society's endowment assets are co-mingled with other marketable investment securities and are invested in a manner that is intended to earn an average annual rate of return of 3% over and above expenditures of 3% per year.

The Society also receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions.

The table below presents financial assets available to fund general operating expenses within one year at December 31, 2019 and 2018:

Financial assets at December 31:

	<u>2019</u>	<u>2018</u>
Cash	\$ 223,431	\$ 182,401
Accounts receivable - net	564,226	443,268
Investments	<u>74,066,150</u>	<u>67,253,288</u>
Total financial assets	<u>74,853,807</u>	<u>67,878,957</u>
Less amounts not available to be used within one year:		
Investments held for endowments	(500,000)	(500,000)
Purpose restricted net assets	<u>(456,806)</u>	<u>(346,933)</u>
Financial assets not available to be used within one year	<u>(956,806)</u>	<u>(846,933)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 73,897,001</u>	<u>\$ 67,032,024</u>

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
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**4. UNAMORTIZED ENTRANCE FEES**

For the years ended December 31, 2019 and 2018, unamortized entrance fees had the following activity:

	<u>2019</u>	<u>2018</u>
Balance - beginning of year	\$ 5,785,485	\$ 4,675,744
New entrance fees	<u>3,164,000</u>	<u>2,056,903</u>
	8,949,485	6,732,647
Less: refunds paid	(80,710)	(51,465)
Less: amortization included in operating revenue	<u>(1,069,037)</u>	<u>(895,697)</u>
Balance - end of year	<u>\$ 7,799,738</u>	<u>\$ 5,785,485</u>

Unamortized entrance fees are summarized as follows:

	<u>2019</u>	<u>2018</u>
Refundable	\$ 1,392,500	\$ 363,750
Non-refundable	<u>6,407,238</u>	<u>5,421,735</u>
Total	<u>\$ 7,799,738</u>	<u>\$ 5,785,485</u>

**5. PROPERTY AND EQUIPMENT**

At December 31, 2019 and 2018, property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,911,689	\$ 2,911,689
Land improvements	1,103,308	1,103,308
Building and improvements	21,017,609	17,020,355
Equipment and furnishings	<u>4,490,795</u>	<u>4,346,492</u>
	29,523,401	25,381,844
Less: accumulated depreciation	<u>(11,781,335)</u>	<u>(11,087,500)</u>
	17,742,066	14,294,344
Projects in progress	<u>289,832</u>	<u>1,161,906</u>
	<u>\$ 18,031,898</u>	<u>\$ 15,456,250</u>

For the years ended December 31, 2019 and 2018, depreciation expense amounted to \$693,836 and \$708,932, respectively.

**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
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**6. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

As of December 31, 2019 and 2018, market values of investments are as follows:

	<u>2019</u>	<u>2018</u>
Equity securities:		
Financial	\$ 5,857,761	\$ 4,369,130
Consumer growth	3,840,710	3,436,581
Consumer cyclicals	3,039,620	2,983,143
Technology	6,098,423	4,202,200
Energy	1,058,346	1,309,599
Other	5,870,575	5,051,440
Total equity securities	<u>25,765,435</u>	<u>21,352,093</u>
Fixed income mutual fund:		
Bernstein international duration institutional	21,949,089	21,392,026
International business trusts:		
Bernstein global style blend series	15,431,995	12,998,513
International value	10,540,405	8,936,645
Total international business trusts	<u>25,972,400</u>	<u>21,935,158</u>
Cash held for anticipated withdrawals	<u>1,115,037</u>	<u>3,213,662</u>
	<u>\$ 74,801,961</u>	<u>\$ 67,892,939</u>

All of the Society's investments are classified as Level 1 except for the international business trusts, which are excluded from classification in the fair value hierarchy because they are valued using the net asset value per share.

The investment strategy for the Bernstein global style blend series international business trust is to outperform the global equity markets over full market cycles. The strategy utilizes a balanced growth and value style approach that helps the portfolio perform well across a variety of economic environments, providing more consistent outcomes.

The investment strategy for the international value business trust is to outperform the international equity markets over full market cycles. The strategy focuses on company specific insights to invest in stocks that are attractively valued relative to their future cash earnings power and that offer a compelling investment catalyst.

There are no unfunded commitments on the international business trusts. Shares are redeemable within four days' notice.

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**6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)**

There have been no changes in the valuation techniques for the years ended December 31, 2019 and 2018.

For the years ended December 31, 2019 and 2018, net realized and unrealized gains on investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gain (loss) on investments	<u>\$ 10,962,084</u>	<u>\$ (7,649,139)</u>
Classified in the statement of activities according to the following net asset classifications:		
Net assets without donor restrictions	\$ 10,854,457	\$ (7,584,239)
Net assets with donor restrictions	<u>107,627</u>	<u>(64,900)</u>
	<u>\$ 10,962,084</u>	<u>\$ (7,649,139)</u>

Cash withdrawn from marketable investment securities to fund current operations and capital projects totaled \$5,722,000 and \$3,879,000 in 2019 and 2018, respectively.

**7. NET ASSETS WITH DONOR RESTRICTIONS**

***Purpose Restrictions***

At December 31, 2019 and 2018, net assets with purpose restrictions, consist of the following:

	<u>2019</u>	<u>2018</u>
Out and About Endowment Fund		
- Accumulated Unspent Earnings	\$ 235,811	\$ 139,651
Grace and Favor Program	143,514	132,651
Gorman Fund	22,015	24,975
Education and Benevolence Fund	32,637	24,702
Employee Appreciation Fund	10,025	12,350
Technology Fund	<u>12,804</u>	<u>12,604</u>
	<u>\$ 456,806</u>	<u>\$ 346,933</u>

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**7. NET ASSETS WITH DONOR RESTRICTIONS (continued)**

***Out and About Endowment Fund***

For the years ended December 31, 2019 and 2018, changes in endowment net assets are as follows:

	<b>Accumulated Unspent Endowment Earnings</b>	<b>Endowments</b>	<b>Total</b>
Endowment net assets - December 31, 2017	\$ 213,619	\$ 500,000	\$ 713,619
Investment return:			
Interest & dividends	10,758	-	10,758
Net gain on investments - net of investment management fees	(68,250)	-	(68,250)
Total investment return	(57,492)	-	(57,492)
Appropriated for expenditure	(16,476)	-	(16,476)
Endowment net assets - December 31, 2018	139,651	500,000	639,651
Investment return:			
Interest & dividends	11,974	-	11,974
Net gain on investments including investment management fees	104,370	-	104,370
Total investment return	116,344	-	116,344
Appropriated for expenditure	(20,184)	-	(20,184)
Endowment net assets - December 31, 2019	<u>\$ 235,811</u>	<u>\$ 500,000</u>	<u>\$ 735,811</u>

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**SAN FRANCISCO LADIES' PROTECTION AND RELIEF SOCIETY**  
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**8. RETIREMENT PLAN**

The Society has a 401(k) plan which is available to eligible employees, twenty-one years and older, generally after 90 days of employment. The Society makes non-elective Safe Harbor contributions to the Plan of 4% of eligible compensation after one year of service.

The Society's contributions to the 401(k) Plan for the years ended December 31, 2019 and 2018 amounted to \$171,016 and \$155,000, respectively.

**9. OTHER DISCLOSURES**

In accordance with the requirements of the California Department of Social Services, the Society is required to disclose all amounts accumulated for contingencies or accumulated or expended for identified projects or purposes. At December 31, 2019, the Society has not accumulated any funds for contingencies or identified projects or purposes.

**10. SUBSEQUENT EVENT**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. There is uncertainty as to the duration of the disruption and its impact. Currently, the Society is not accepting any new residents or patients. The COVID-19 pandemic has led to severe disruptions and uncertainty in capital markets and economies, which has led to volatility in the investment portfolio. The volatility is currently expected to be temporary; however, there is uncertainty around the duration. While the Society expects this matter to negatively impact its results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.