The Arc
San Francisco
For people with intellectual and developmental disabilities

THE ARC SAN FRANCISCO

(A California Not-For-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND JUNE 30, 2017

RINA
accountancy corporation

THE ARC SAN FRANCISCO

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JUNE 30, 2018 AND 2017

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Independent Auditors' Report

The Board of Directors
The Arc San Francisco

We have audited the accompanying consolidated financial statements of The Arc San Francisco (a California not-for-profit corporation), which comprise the consolidated statements of financial position as of June 30, 2018 and June 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 misstatements, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatements of the consolidated 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 in 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 principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Arc San Francisco as of June 30, 2018 and June 30, 2017 and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rina Accountancy Corporation

Certified Public Accountants

San Francisco, California
December 17, 2018

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2018	June 30, 2017
CURRENT:		
Cash and cash equivalents	$ 202,139	$ 303,289
Receivables, net:		
Trade	847,363	891,457
Pledges	666,519	741,191
Other	11,080	202
Prepaid expenses and deposits	30,156	34,510
Other assets	100,759	105,392
Restricted cash	70,705	65,230
Investments	2,142,030	2,197,569
TOTAL CURRENT ASSETS	4,070,751	4,338,840
LONG TERM:		
Receivables, net of current portion:		
Pledges	538,928	84,484
Tenants security deposits (held in trust)	4,284	4,524
Restricted deposits and funded reserves:		
Insurance impound accounts	14,337	18,741
Operating reserve	25,928	24,833
Replacement reserve	76,871	64,628
Restricted endowment	2,388,681	2,357,127
Property and equipment, net	6,123,008	6,261,105
Deposits	7,674	7,683
TOTAL ASSETS	$ 13,250,462	$ 13,161,965

LIABILITIES AND NET ASSETS	June 30, 2018	June 30, 2017
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 274,905	$ 273,969
Accrued compensated absences	438,272	418,078
Interest payable, current portion	4,985	4,450
Tenants' security deposits	4,018	4,258
Notes payable, current portion	125,236	122,211
Line of credit	280,000	-
Deferred rental income	7,694	7,866
TOTAL CURRENT LIABILITIES	1,135,110	830,832
LONG TERM LIABILITIES:		
Interest payable, net of current portion	646,204	634,526
Notes payable, net of current portion	4,412,688	4,538,336
Deposits	9,500	9,500
TOTAL LIABILITIES	6,203,502	6,013,194
NET ASSETS:		
Unrestricted	3,412,370	4,037,289
Temporarily restricted	3,634,590	3,111,482
TOTAL NET ASSETS	7,046,960	7,148,771
TOTAL LIABILITIES AND NET ASSETS	$ 13,250,462	$ 13,161,965

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 8,317,723	$ -	$ 8,317,723
Contracts	632,779	-	632,779
Contributions	822,558	547,993	1,370,551
Revenue from special events, net of costs of $85,958	216,807	-	216,807
Rental income	581,673	-	581,673
Interest and dividends	46,418	48,667	95,085
Other income	128,374	-	128,374
Net assets released from restrictions	188,276	(188,276)	-
TOTAL REVENUE	10,934,608	408,384	11,342,992
EXPENSES:			
Program services	10,719,275	-	10,719,275
Supporting services:			
Management and general	533,755	-	533,755
Fundraising	391,978	-	391,978
TOTAL EXPENSES	11,645,008	-	11,645,008
INCREASE (DECREASE) IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	(710,400)	408,384	(302,016)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	85,481	114,724	200,205
CHANGE IN NET ASSETS	(624,919)	523,108	(101,811)
NET ASSETS, beginning of year	4,037,289	3,111,482	7,148,771
NET ASSETS, end of year	$ 3,412,370	$ 3,634,590	$ 7,046,960

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 8,727,629	$ -	$ 8,727,629
Contracts	529,977	-	529,977
Contributions	186,239	849,411	1,035,650
Revenue from special events, net of costs of $70,510	305,207	-	305,207
Revenue from special activities	1,285	-	1,285
Rental income	463,773	-	463,773
Interest and dividends	36,449	38,684	75,133
Other income	45,924	-	45,924
Net assets released from restrictions	885,858	(885,858)	-
TOTAL REVENUE	11,182,341	2,237	11,184,578
EXPENSES:			
Program services	10,386,860	-	10,386,860
Supporting services:			
Management and general	461,539	-	461,539
Fundraising	389,416	-	389,416
TOTAL EXPENSES	11,237,815	-	11,237,815
INCREASE (DECREASE) IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CHANGE IN VALUE OF SWAP AGREEMENT	(55,474)	2,237	(53,237)
INCREASE IN FAIR VALUE OF INTEREST RATE SWAP	72,632	-	72,632
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	200,203	237,463	437,666
CHANGE IN NET ASSETS	217,361	239,700	457,061
NET ASSETS, beginning of year	3,819,928	2,871,782	6,691,710
NET ASSETS, end of year	$ 4,037,289	$ 3,111,482	$ 7,148,771

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Programs and Services							
	Arc Apartments	Residential Services	Seniors, Health and Wellness Services	Employment, Rental and Other Services	Total	Management and General	Fundraising	Total Functional Expenses
EXPENSES:								
Salaries and related payroll costs	$ 23,567	$ 1,185,447	$ 1,302,872	$ 6,351,537	$ 8,863,423	$ 241,557	$ 297,091	$ 9,402,071
Professional fees and contract services	14,860	89,868	70,618	372,456	547,802	114,874	61,484	724,160
Occupancy	67,556	52,438	25,727	183,841	329,562	39,655	4,260	373,477
Depreciation and amortization	77,319	15,779	15,608	77,616	186,322	26,111	2,369	214,802
Communication	-	23,122	22,872	118,841	164,835	35,271	7,263	207,369
Insurance and taxes	44,579	9,093	8,537	42,817	105,026	14,281	1,296	120,603
Interest	5,383	16,430	12,665	62,978	97,456	21,187	1,922	120,565
Transportation	-	19,023	19,425	111,352	149,800	11	-	149,811
Supplies	8,343	7,793	7,784	51,743	75,663	12,513	1,137	89,313
Dues and subscriptions	-	4,884	4,831	24,422	34,137	6,879	5,180	46,196
Rental and maintenance	25,162	1,339	1,365	7,297	35,163	67	6	35,236
Conference and meeting	42	2,654	2,947	13,740	19,383	3,149	365	22,897
Bad debts	-	-	-	2,265	2,265	-	7,440	9,705
Miscellaneous	138	15,115	14,999	78,186	108,438	18,200	2,165	128,803
TOTAL EXPENSES	$ 266,949	$ 1,442,985	$ 1,510,250	$ 7,499,091	$ 10,719,275	$ 533,755	$ 391,978	$ 11,645,008

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Programs and Services								
	ARC Apartments	Day Services	Residential Services	Seniors, Health and Wellness Services	Employment, Rental and Other Services	Total	Management and General	Fundraising	Total Functional Expenses
EXPENSES:									
Salaries and related payroll costs	$ 17,288	$ 4,160,369	$ 1,283,107	$ 1,241,045	$ 1,983,857	$ 8,685,666	$ 219,386	$ 303,653	$ 9,208,705
Professional fees and contract services	28,506	193,862	80,045	57,923	100,514	460,850	83,018	39,481	583,349
Occupancy	78,994	91,378	44,733	27,651	100,266	343,022	39,846	5,399	388,267
Depreciation and amortization	57,534	54,493	21,429	16,229	28,429	178,114	24,358	2,436	204,908
Communication	-	74,885	23,778	22,302	42,152	163,117	30,040	5,567	198,724
Interest	4,757	55,358	21,392	16,487	27,916	125,910	24,744	2,474	153,128
Transportation	-	63,810	16,121	16,521	25,905	122,357	145	87	122,589
Insurance and taxes	36,227	29,389	9,332	8,753	14,915	98,616	13,136	1,314	113,066
Miscellaneous	1,036	33,850	10,500	9,942	17,872	73,200	9,353	1,880	84,433
Supplies	4,120	20,847	6,766	6,209	22,543	60,485	8,077	1,442	70,004
Dues and subscriptions	-	14,312	4,544	4,262	7,217	30,335	6,022	7,543	43,900
Rental and maintenance	17,933	5,760	1,824	1,711	3,058	30,286	710	81	31,077
Conference and meeting	39	6,874	2,183	2,047	3,759	14,902	2,704	478	18,084
Bad debts	-	-	-	-	-	-	-	17,581	17,581
TOTAL EXPENSES	$ 246,434	$ 4,805,187	$ 1,525,754	$ 1,431,082	$ 2,378,403	$ 10,386,860	$ 461,539	$ 389,416	$ 11,237,815

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2018		Year Ended June 30, 2017	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets		$ (101,811)		$ 457,061
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	$ 212,869		$ 202,352	
Net realized and unrealized gain from investments	(200,205)		(437,666)	
Realized (gain) loss on swap agreement	-		(72,632)	
Loss on fixed asset disposal	(10,563)		1,266	
Interest expense - amortization of loan fees	1,933		2,556	
Loss on write off of loan fees	-		8,683	
Decrease (increase) in:				
Receivables, net	(335,994)		(495,305)	
Related party receivables	-		549,312	
Prepaid expenses and deposits	4,366		2,738	
Other assets	4,630		(7,720)	
Restricted cash	(1,036)		570	
Tenant's security deposits	240		(339)	
Mortgage impound accounts	4,404		(6,702)	
Increase (decrease) in:				
Accounts payable and accrued expenses	936		24,350	
Accrued compensated absences	20,194		52,048	
Deferred rental income	(172)		1,010	
Tenant's security deposits liability	(240)		339	
Deferred ground lease	-		(476,819)	
Management fee payable	-		(44,000)	
Interest payable	12,213	(286,425)	21,882	(674,077)
NET CASH USED BY OPERATING ACTIVITIES		(388,236)		(217,016)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(74,772)		(4,500)	
Net increase in restricted deposits for replacement reserve	(12,243)		(34,199)	
Net increase in restricted deposits for operating activities	(1,095)		(843)	
Proceeds from sale of investments	1,520,581		1,430,194	
Purchase of investments	(1,300,830)		(1,459,173)	
Net decrease (increase) in operating reserve	-		58,374	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		131,641		(10,147)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payoff of swap agreement	-		(235,500)	
Loan fees	-		(22,691)	
Line of credit, net	280,000		-	
Issuance of notes payable	-		3,100,000	
Repayment of notes payable	(124,556)		(2,713,100)	
NET CASH PROVIDED BY FINANCING ACTIVITIES		155,444		128,709
NET DECREASE IN CASH AND CASH EQUIVALENTS		(101,151)		(98,454)
CASH AND CASH EQUIVALENTS, beginning of year		303,289		401,743
CASH AND CASH EQUIVALENTS, end of year		$ 202,139		$ 303,289
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest		$ 108,352		$ 140,456

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2018 AND JUNE 30, 2017

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

The Arc San Francisco was incorporated on May 18, 1951, to serve, support and advocate for people with intellectual and developmental disabilities and their families by providing access to a full range of services that advance self-determination, dignity, and quality of life. Services focus on self-advocacy, employment support, educational achievement, housing and independent living, wellness and aging support, and arts and leisure activities.

Arc Apartments Holding, LLC is a California limited liability company. This single member LLC is owned by Arc San Francisco. The LLC owns 99.99% of the Arc Apartments L.P.

The Arc Apartments, L.P. (the “Partnership”) was formed in California as a limited partnership on December 22, 1998 for the purpose of developing, constructing, owning, maintaining and operating a 9-unit residential rental apartment building for rental to low-income tenants (“The Arc Apartments, L.P.”).

The Partnership’s income is principally derived from rents received from qualified tenants. Various agreements dictate maximum levels of new tenants and also provide rent restrictions for 55 years.

Principles of consolidation:

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include the accounts of the Organization and its wholly-owned subsidiaries (collectively referred to as the Organization). All intercompany accounts and transactions have been eliminated in consolidation.

On August 31, 2016, the Arc San Francisco exercised its option to acquire the housing development (Arc Apartments, L.P) from the limited partner. Arc Apartments, LP became a wholly-owned subsidiary on that day.

The following entities are consolidated in the June 30, 2018 and June 30, 2017 financial statements:

The Arc San Francisco, a California nonprofit public benefit corporation
The Arc Apartments, L.P., a California limited partnership
Arc Apartments Holding, LLC, a California limited liability company

Basis of accounting:

The financial statements have been prepared on the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Financial statement presentation:

The Organization prepares its financial statements following professional accounting standards where the Organization is required to report 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. A description of the three net asset categories follows:

Unrestricted net assets:

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations

Temporarily restricted net assets:

The portion of net assets whose use by the Organization is limited by donor-imposed stipulations with respect to time and/or purpose that either will be fulfilled by actions of the Organization or expire by passage of time.

Permanently restricted net assets:

The portion of net assets whose use by the Organization is limited by donor-imposed stipulations that the principal be held in perpetuity and its income be used for the stipulated purposes.

Cash equivalents:

Cash equivalents includes demand deposit accounts, money market accounts and cash on hand which are not managed as part of long-term investment strategies. Not included in operating cash are funds restricted as to their use, regardless of liquidity, such as tenant security deposits, replacement reserve and operating reserve. At times, these accounts may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash.

Receivables:

Accounts receivable represent amounts billed but not yet collected for services.

Contributions and trade receivables are stated at the amounts management expects to collect from outstanding balances. Management provides an allowance for doubtful accounts based on management's assessment of collectability of the current aging of the accounts. The allowance for doubtful accounts was $15,813 and $25,776 for the years ended June 30, 2018 and 2017, respectively. Receivable balances still outstanding after management has used reasonable collection efforts are written off.

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and equipment:

All acquisitions of property and equipment in excess of $2,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over useful lives ranging from 3 to 40 years. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements. Gifts of long-lived assets such as land, buildings, or equipment are reported 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 long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred costs were incurred in order to obtain permanent financing and tax credits for The Arc Apartments, L.P. Deferred costs are stated at cost and are amortized on a straight-line basis over the term of the permanent loan and the 10-year tax credit period. Costs are expensed as incurred.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized for the years ended June 30, 2018 and June 30, 2017.

Other assets:

The Organization uses an outside organization to reserve for potential unemployment liabilities. The balance at June 30, 2018 and 2017 is $100,759 and $105,392, respectively.

Loan fees:

Loan fees incurred in connection with the issuance of long term debt are amortized over the term of the underlying note using the straight-line method. Upon the refinancing of a loan, unamortized fees are written off.

Debt issuance costs are presented as a reduction of the carrying value of the debt rather than as an asset.

Income taxes:

The Organization has received tax-exempt status under the Internal Revenue Code Section 501(c)(3) and under the California Revenue Code Section 23701(d). The Organization is subject only to California minimum tax in the amount of $800. Due to federal tax law changes effective January 1, 2018, management believes the Organization may be subject to unrelated business income tax on certain employee benefits. Management is monitoring related tax matters and believes any tax will be immaterial to the financial statements.

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments:

The Organization reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Organization invests in various investment vehicles. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Professional accounting standards establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under professional accounting standards are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2	Inputs to the valuation methodology include: • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data, by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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.

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Revenue recognition:

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support or permanently restricted support, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions where the restrictions are met in the same year as the contributions are received are reported as increases in unrestricted net assets.

Contributions restricted for the purchase of long-lived assets are reported as unrestricted support when spent for that purpose.

Fees and grants from governmental agencies are deemed to be exchange transactions and are therefore not treated as contributions. Revenue from such activities is shown under the caption "fees for services" in the statements of activities.

Rental income is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations.

Contributed services:

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of specialized nature. There were no contributed services meeting this criteria for the years ended June 30, 2018 or 2017. A substantial number of volunteers have donated significant time and effort to the Organization's fundraising campaigns and agency services programs, the dollar value of which is not reflected in the financial statements since no objective basis is available to measure the fair value of such services.

Functional allocation of expenses:

Costs of providing the 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.

Date of management's review:

Management has evaluated events through December 17, 2018, the date which the financial statements were available for issue. No significant events were identified that require any additional disclosure.

Note 2. NATURE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Organization places its cash with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Organization has not experienced any losses in such accounts.

A significant amount of the Organization's costs of providing services are reimbursed by the Golden Gate Regional Center (GGRC) and State Department of Rehabilitation (DOR). These services and programs are entitlements for persons with developmental disabilities. The Organization depends heavily on these reimbursements for its revenue, and its ability to obtain reimbursements at a sufficient economic level may be dependent upon current and future overall economic conditions. For the year ended June 30, 2018, GGRC and DOR contributed approximately 69% and 2% of total revenue and support. For the year ended June 30, 2017, GGRC and DOR contributed approximately 72% and 2%, of total revenue and support. Trade receivables due from GGRC were 32% and 40% of the total outstanding balance for years ended June 30, 2018 and 2017, respectively.

The Organization is vulnerable to the inherent risk associated with revenue that is substantially dependent on government funding, public support and contributions. The continued growth and well-being of the Organization is contingent upon successful achievement of its long-term revenue-raising goals.

Note 4. RESTRICTED DEPOSITS AND RESERVES:

Under the terms of the Arc Apartments Limited Partnership Agreement (the "Agreement"), the Organization provides for the following:

Impound deposits:

The Organization is required to make monthly deposits to impound accounts to cover insurance premiums in accordance with the California Housing Finance Agency (CalHFA) regulatory agreement. The balance held by CalHFA and expenditure is subject to the supervision and approval by CalHFA.

Replacement reserve:

The Organization is required to maintain a reserve for replacement and repair of property and equipment in accordance with the Agreement and the lenders' regulatory agreements. The reserve, which will be held by CalHFA, is required to be funded in the amount of $320 per month. Beginning October 2016, the Organization determined it was important to increase the monthly amount to $958.

Operating reserve:

The Organization is required to maintain an operating reserve in accordance with the Agreement and the lender's regulatory agreements. The required initial funding is $15,000 using proceeds from the General Partner's capital contribution.

Note 4. RESTRICTED DEPOSITS AND RESERVES (Continued):

Tenant security deposits:

The Organization is required to hold security deposits in a separate bank account in the name of The Arc Apartments, L.P.

Note 5. FAIR VALUE MEASUREMENTS:

The following tables sets forth by level (the fair value hierarchy) the fair value of the Organization's assets:

	Investments at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,512,110	$ -	$ -	$ 4,512,110
	$ 4,512,110	$ -	$ -	4,512,110
Money market				23,040
Total investments at fair value				$ 4,535,150
Total investments				$ 2,142,030
Total restricted endowment				2,388,681
				$ 4,530,711

	Investments at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,519,822	$ -	$ -	$ 4,519,822
	$ 4,519,822	$ -	$ -	4,519,822
Money market				34,874
Total investments at fair value				$ 4,554,696
Total investments				$ 2,197,569
Total restricted endowment				2,357,127
				$ 4,554,696

Note 6. ENDOWMENTS:

As required by professional accounting standards, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Barbara Shupin Endowment for Independent Living (Shupin Fund) was created to provide one or more grants, on an annual basis, to help adults with intellectual and other development disabilities live independently.

The Friends Like Me Fund (FLM Fund) was created to combat the social isolation of adults with developmental disabilities through recreational activities and games that encourage friendship, conversations and socialization. Friends Like Me is an integral Arts & Recreation program of the Organization.

Net changes in temporarily restricted net assets in endowment funds were as follows:

Balance, June 30, 2016	$ 2,131,417
Interest and dividends	38,684
Net realized/unrealized gain	264,068
Contributions	-
Investment fee	(11,812)
Appropriations	(65,230)
Balance, June 30, 2017	2,357,127
Interest and dividends	48,667
Net realized/unrealized gain	183,987
Contributions	-
Investment fee	(13,472)
Appropriations	(187,628)
Balance, June 30, 2018	$ 2,388,681

	2018	2017
Shupin Fund	$ 1,698,824	$ 1,662,121
FLM Fund	689,857	695,006
	$ 2,388,681	$ 2,357,127

Investment policy:

The Organization has adopted an investment objective in which Shupin investment funds are to be invested and disbursed in such a way to at least maintain the original value of the gift, with a long-term goal of growth equaling or exceeding disbursements plus inflation.

The Organization has adopted an investment objective in which FLM investment funds are invested following prudent investment policies and expected to support programs for at least ten years from the date the FLM Fund was established.

Note 6. ENDOWMENTS (Continued):

Spending policy:

The annual distribution of the Shupin Fund will be restricted to 4% of the average value of the Fund (including both corpus and interest income) over the thirty-six (36) month periods prior to June 30 of each year. From this annual distribution, one or more grants may be made annually, according to the purposes for which this Fund is established. The grantor and/or family and friends may supplement the annual distributions with outright gifts of cash or securities.

The annual distribution of the FLM Fund will be as needed to fund the program needs and a share of indirect costs. The Organization will look to increase contributions to grow this fund over time.

Note 7. CONTRIBUTIONS RECEIVABLE:

Contributions receivable are comprised of the following at June 30:

	2018	2017
Contribution receivable	$ 1,221,260	$ 850,870
Less: allowance for doubtful contributions	(15,813)	(25,195)
Balances	$ 1,205,447	$ 825,675
Classified as:		
Current	$ 666,519	$ 741,191
Long-term	538,928	84,484
	$ 1,205,447	$ 825,675

Note 8. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	June 30, 2018	June 30, 2017
Land	$ 3,036,510	$ 3,025,408
Buildings and improvements	6,100,155	6,072,670
Office furniture, machinery and equipment	494,885	487,968
Vehicles	-	29,990
Software	178,300	149,035
Totals	9,809,850	9,765,071
Less accumulated depreciation	(3,686,842)	(3,503,966)
Property and equipment, net	$ 6,123,008	$ 6,261,105

Depreciation expense was $212,869 and $202,352 for the years ended June 30, 20188 and 20177, respectively.

Note 9. LINE OF CREDIT:

The Organization has a $500,000 revolving line of credit with First Republic Bank, of which $280,000 was outstanding at June 30, 2018 and $0 was outstanding at June 30, 2017. Bank advances on the credit line are payable on a monthly basis and carry an interest rate equal to the index plus one half of one percent per annum and not less than three percent per annum. The credit line matures on March 15, 2019.

Note 10. LONG-TERM DEBT:

Maturities of long-term notes are as follows:

	June 30, 2018	June 30, 2017
First Republic Bank $3,100,000 loan, established December 15, 2016, secured by real property with a book value of $4,100,000. Beginning December 15, 2016, monthly payments of principal and interest of $15,518, interest is equal to 3.45% per annum. Final payment due November 15, 2026.	$ 2,973,275	$ 3,056,951
City and County of San Francisco $307,000 loan, bears 3.00% simple interest; due 2039; secured by real property with a book value of $4,100,000; payments of principal and interest are payable out of residual receipts, as defined, annually on March 1.	307,000	307,000
Wells Fargo $160,000 loan; bears variable interest; requires monthly payment of principal and interest and is payable in full in 2032. Interest rate as of June 30, 2018 was 3.9%.	95,431	100,618
CalHFA $1,065,000 permanent loan, fully amortized for 30 years, bears 1% simple interest annually; monthly payments of principal and interest of $3,425 commencing January 1, 2002, due in 2032; interest incurred during the year was $5,412	521,886	557,579
City and County of San Francisco maximum amount $530,626, loan, bears 5% simple interest annually; payments of principal and interest are deferred during the loan term, due in 2039; interest in the amount of $26,531 was incurred during the year.	530,626	530,626
Bank of the West under the Affordable Housing Program (AHP) maximum amount $144,000 loan, bears 1% simple interest annually; payments of principal and interest are deferred during the loan term, due in 2039; Interest in the amount of $1,440 was incurred during the year.	144,000	144,000
	4,572,218	4,696,774
Less: Unamortized loan fees	(34,294)	(36,227)
	4,537,924	4,660,547
Less current portion	(125,236)	(122,211)
	$ 4,412,688	$ 4,538,336

Note 10. LONG-TERM DEBT (Continued):

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2018 are as follows:

Years Ending June 30,		
2019	$	125,236
2020		129,317
2021		132,579
2022		136,318
2023		140,180
Thereafter		3,908,588
	$	4,572,218

Note 11. ACCRUED INTEREST PAYABLE:

Accrued interest payable consists of the following at June 30:

	2018		2017	
Short Term				
First Republic Bank	$	4,985	$	4,450
Long Term				
Wells Fargo		177,579		168,369
City and County of San Francisco		468,625		466,157
	$	651,189	$	638,976

Note 12. ACQUISITION OF ARC APARTMENTS L.P.:

On August 31, 2016, the Arc San Francisco exercised its option to acquire the housing development (Arc Apartments, L.P) from the limited partner. Arc Apartments, LP became a wholly-owned subsidiary on that day. Liabilities in the amount of $2,242,703 and assets with a book value of $1,904,468 were acquired. The book value of the property and equipment was increased by $351,076 the amount by which liabilities assumed, plus partners' capital of $12,841, exceeded assets received.

Note 13. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2018.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ 94,260	$ -	$ -	$ 94,260
FLM Fund	747,347	125,246	(122,398)	750,195
Residential & Housing	43,025	34,708	-	77,733
Job development/BAC work life	499,500	-	(188,276)	311,224
Youth work development	-	631,650	-	631,650
Shupin Fund	1,727,350	107,408	(65,230)	1,769,528
Total temporarily restricted assets	$ 3,111,482	$ 899,012	$ (375,904)	$ 3,634,590

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2017.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ 94,260	$ 4,500	$ (4,500)	$ 94,260
Operating deficit reserve	58,373	29	(58,402)	-
FLM Fund	728,222	182,631	(163,506)	747,347
Residential & Housing	-	98,890	(55,865)	43,025
Job development/BAC work life	310,000	612,541	(423,041)	499,500
Senior program/wellness	30,529	28,616	(59,145)	-
Shupin Fund	1,603,118	198,351	(74,119)	1,727,350
Marin services	27,280	-	(27,280)	-
Major gifts	20,000	-	(20,000)	-
Total temporarily restricted assets	$ 2,871,782	$ 1,125,558	$ (885,858)	$ 3,111,482

Note 14. RETIREMENT PLAN:

The Organization maintains a 403(b) plan for all qualified employees. The Organization contributes 2% of each qualified employee's salary into the Plan which totaled $98,416 and $117,810 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 15. LEASE COMMITMENTS:

The Organization leases facilities in San Rafael and Daly City. Rentals under these leases for the years ended June 30, 2018 and 2017 were $166,770 and $157,875, respectively. The Organization also has six vehicle leases for the year ended June 30, 2018. One lease is a 48-month lease expiring in 2019, two leases are 36-month leases expiring in 2019, one lease is a 36-month lease expiring in 2020 and two leases are 36-month leases expiring 2021. In addition, there are also two 60-month copier leases; one expires in 2021 and one expires in 2019.

The Organization's future minimum lease payments are as follows:

Years Ending June 30,	
2019	$ 138,605
2020	130,634
2021	72,385
2022	22,501
	$ 364,125

Note 16. SUBLEASE INCOME:

The Organization subleases a facility in San Francisco beginning November 1, 2015 and expiring June 30, 2019 at a rate of $10,125 per month. Rental income under the lease for the year ended June 30, 2018 and June 30, 2017 was $121,500 and $119,100 respectively.

The Organization's future minimum lease receipts are as follows:

Years Ending June 30,	
2019	$ 121,500
2020	123,000
2021	126,000

Note 17. CONTINGENCIES:

The Organization is aware of certain asserted and unasserted legal claims that arise in the normal course of business. It is management's opinion that the potential liability, if any, from all actions will not have a material adverse effect on the Organization's financial position.