The Arc
San Francisco
For people with intellectual and developmental disabilities

THE ARC SAN FRANCISCO

(A California Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2013

RINA
accountancy corporation

THE ARC SAN FRANCISCO

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RINA *accountancy corporation*
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Independent Auditors' Report

The Board of Directors
The Arc San Francisco

We have audited the accompanying financial statements of The Arc San Francisco (a California not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended.

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 misstatements, 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 of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatements 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of San Francisco as of June 30, 2013 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information (pages 20 and 21) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rina Accountancy Corporation

Certified Public Accountants

San Francisco, California
December 27, 2013

THE ARC SAN FRANCISCO

STATEMENTS OF FINANCIAL POSITION

YEAR ENDED JUNE 30, 2013

ASSETS		
CURRENT:		
Cash and cash equivalents	$	495,692
Receivables, net		
Trade		815,274
Pledges		286,756
Other		1,350
Prepaid expenses and deposits		133,531
Restricted cash		59,451
Investments		1,723,682
TOTAL CURRENT ASSETS		3,515,736
LONG TERM:		
Receivables, net of current portion:		
Pledges		209,413
Related party		432,357
Investments - restricted endowment		2,291,211
Operating reserve		58,144
Investment in partnership		12,861
Property and equipment, net		5,028,373
Loan acquisition costs, net		18,302
Prepaid expenses and deposits		5,311
TOTAL ASSETS	$	11,571,708
LIABILITIES AND NET ASSETS		
CURRENT:		
Accounts payable and accrued expenses	$	300,886
Accrued compensated absences		325,732
Interest payable, current portion		16,433
Notes payable, current portion		63,188
Capital lease payable, current portion		34,411
TOTAL CURRENT LIABILITIES		740,650
LONG TERM:		
Interest payable, net of current portion		131,529
Notes payable, net of current portion		3,189,730
Capital lease payable, net of current portion		75,354
Obligation under interest rate swap		386,020
Deposits		9,658
TOTAL LIABILITIES		4,532,941
NET ASSETS:		
Unrestricted		3,902,002
Temporarily restricted		3,136,765
TOTAL NET ASSETS		7,038,767
TOTAL LIABILITIES AND NET ASSETS	$	11,571,708

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENT OF ACTIVITIES

	Year Ended June 30, 2013		
	Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 7,539,325	$ -	$ 7,539,325
Contracts	588,650	-	588,650
Contributions	209,529	1,468,904	1,678,433
Revenue from special events, net of costs of $89.471	-	216,809	216,809
Revenue from special activities, net of costs of $395.414	84,457	-	84,457
Rental income	169,808	-	169,808
Interest and dividends	54,906	46,947	101,853
Other income	44,156	-	44,156
Net assets released from restrictions	803,023	(803,023)	-
TOTAL REVENUE	9,493,854	929,637	10,423,491
EXPENSES:			
Program services	8,321,517	-	8,321,517
Supporting services:			
Management and general	681,711	-	681,711
Fundraising	395,050	-	395,050
TOTAL EXPENSES	9,398,278	-	9,398,278
INCREASE IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS AND INTEREST RATE SWAP	95,576	929,637	1,025,213
Increase in fair value of interest rate swap	173,194	-	173,194
Net realized and unrealized gain on investments	113,380	100,454	213,834
CHANGE IN NET ASSETS	382,150	1,030,091	1,412,241
NET ASSETS, beginning of year	4,079,066	2,106,674	6,185,740
PRIOR PERIOD ADJUSTMENT, change in valuation of swap	(559,214)	-	(559,214)
NET ASSETS, end of year	$ 3,902,002	$ 3,136,765	$ 7,038,767

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	Program Services	Management and General	Fundraising	Total Expenses
EXPENSES:				
Salaries and related payroll costs	$ 7,109,247	$ 524,136	$ 216,229	$ 7,849,612
Professional fees and contract services	229,996	50,647	72,998	353,641
Occupancy	230,423	16,727	8,047	255,197
Interest	189,518	27,385	9,713	226,616
Supplies	60,334	4,555	3,151	68,040
Communication	101,304	5,872	25,061	132,237
Transportation	74,886	3,975	398	79,259
Insurance and taxes	38,364	12,530	983	51,877
Miscellaneous	35,807	3,723	24,270	63,800
Dues and subscriptions	32,806	740	2,730	36,276
Conference and meeting	17,313	6,223	1,897	25,433
Bad debt	2,855	-	22,968	25,823
Rental and maintenance	6,794	622	88	7,504
Total expenses before depreciation and amortization	8,129,647	657,135	388,533	9,175,315
Depreciation and amortization	191,870	24,576	6,517	222,963
TOTAL EXPENSES	$ 8,321,517	$ 681,711	$ 395,050	$ 9,398,278

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets		$ 1,412,241
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	$ 222,963	
Net realized and unrealized gain from investments	(213,834)	
Net unrealized increase in value of interest rate swap	(173,194)	
Decrease (increase) in:		
Trade receivables, net	15,927	
Pledges receivables, net	(118,963)	
Related party receivables	(54,985)	
Prepaid expenses and deposits	3,824	
Restricted cash	114,856	
Increase (decrease) in:		
Accounts payable and accrued expenses	6,518	
Accrued compensated absences	15,149	
Interest payable	8,874	
Deposits	10,165	(162,700)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,249,541
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(187,589)	
Proceeds from sale of investments	893,058	
Purchase of investments	(1,655,184)	
Net increase in operating reserve	(115)	
NET CASH USED BY INVESTING ACTIVITIES		(949,830)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of capital lease obligation	(35,266)	
Repayment of notes payable	(55,248)	
NET CASH USED BY FINANCING ACTIVITIES		(90,514)
NET INCREASE IN CASH AND CASH EQUIVALENTS		209,197
CASH AND CASH EQUIVALENTS, beginning of year		286,495
CASH AND CASH EQUIVALENTS, end of year		$ 495,692
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest		$ 217,742

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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

Nature of activities:

The Arc San Francisco (the Organization) was incorporated on May 18, 1951 to serve, support and advocate for people with developmental disabilities, individuals with similar needs and their families by providing access to a full range of services that advance self-determination, dignity and quality of life. Services focus on advocacy, employment-related services, housing development, arts and leisure, aging support and services, as well as provision of related services and supports.

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 that either will be fulfilled 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 net assets 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. At times, these accounts may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes they are 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 expect to collect from outstanding balances. Management provides for uncollectible amounts through a charge against revenue and a credit to a valuation allowance based on assessment of historical collectability. The allowance for doubtful accounts was $75,320 for the year ended June 30, 2013. Balances still outstanding after management has used reasonable collection efforts are written off.

Investment in partnership:

Investment in partnership is accounted for using the equity method of accounting. This investment is initially recorded at cost then adjusted for the proportionate share of undistributed earnings or losses.

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 35 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.

Loan acquisition costs:

Loan acquisition costs which are incurred in order to obtain permanent financing for the 1500 Howard Street property are stated at cost and are amortized on a straight-line basis over the loan term.

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 recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a “more-likely-than-not” threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of June 30, 2013, management has determined the organization has no uncertain tax positions. The Organization recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Income tax returns for the year prior to 2008 are no longer subject to examination by tax authorities. The Organization is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status.

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 reports in the statement of financial position.

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

Investments (continued):

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.

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.

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

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 year ended June 30, 2013. 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.

Derivative instruments:

The Organization uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge is included as a component of change in net assets. The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Organization's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contract to convert variable-rate debt to a fixed rate.

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.

Subsequent events:

Management has evaluated subsequent events through December 27, 2013, 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, 2013, GGRC and DOR contributed approximately 64% and 2%, respectively, of total revenue and support. Trade receivables due from GGRC were 76% of the total outstanding balance for the year ended June 30, 2013.

Note 3. CONCENTRATIONS OF CREDIT RISK (Continued):

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. FAIR VALUE MEASUREMENTS:

The following tables sets forth by level, the fair value hierarchy, the organization's assets at fair value as of June 30, 2013:

Assets at Fair Value as of June 30, 2013

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Corporate equities	$ 1,613,192	$ -	$ -	$ 1,613,192
Debt securities	110,490	-	-	110,490
Mutual funds (Endowment)	1,480,607	-	-	1,480,607
	$ 3,204,289	$ -	$ -	3,204,289
Money market (Endowment)				810,604
Total assets at fair value				$ 4,014,893

Note 5. 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 (the 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) 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 will be an integral Arts & Recreation program.

Note 5. ENDOWMENTS (Continued):

Net changes in endowment funds were as follows:

	Temporarily Restricted
Balance, June 30, 2012	$ 1,411,698
Interest and dividends	46,832
Net realized/unrealized loss	100,454
Contributions	799,132
Management fee	(7,453)
Appropriations	(59,452)
Balance, June 30, 2013	$ 2,291,211
Shupin Fund	$ 1,492,079
Friends Like Me	799,132
Total endowment balance	$ 2,291,211

Investment policy:

The Organization has adopted an investment objective in which Shupin endowment 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.

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 6. PLEDGES RECEIVABLE:

Pledges receivable are comprised of the following:	$ 561,254
Less allowance for doubtful contributions	(65,085)
Balances	$ 496,169
Classified as:	
Current	$ 286,756
Long-term	209,413
Totals	$ 496,169

Note 7. INVESTMENT IN PARTNERSHIP AND RELATED PARTY TRANSACTIONS:

The Organization is a general partner and maintains 0.01% interest in The Arc Apartments, LP (Partnership), organized to develop, construct, maintain and operate a nine-unit residential rental apartment building (Project) to low-income tenants with development disabilities under the Organization's program.

As the general partner, the Organization guaranteed to fund up to a maximum total contribution of $50,000 in operating deficits arising from the Partnership's operation. The maximum funding is held in a separate bank account in the name of the Partnership. The obligation to fund the operating deficit will terminate in the date that (1) the Partnership has operated at break-even, as defined in the partnership agreement, for at least three consecutive calendar years beginning in March 2001 and (2) the balance in the Partnership’s operating reserve equals or exceeds $15,000.

Related party transactions with the Partnership include the following fees and charges at June 30, 2013:

Revenue:	
Ground lease	$ 54,985
Partnership management fee	12,000
	$ 66,985
Expense:	
Commercial rent	$ 53,736

The Organization has a land lease commitment (ground lease) from the Partnership for 55 years expiring March 15, 2056. The lease shall be payable to the Organization only to the extent of the sum of the current rent payment ($18,000 for the first 12 years, and zero thereafter) plus 30% of residual receipts, as defined in the ground lease agreement. The Organization will receive a ground lease payment of up to $52,000 annually, payable in arrears, increasing by 3% on January 1, 2005 and every five years thereafter. However, for financial reporting purposes only, ground lease rent is determined on the straight-line basis over the 55-year term, amounting to $60,985 annually.

Any outstanding amounts due to the Organization will be paid at the dissolution of the Partnership in the form of either (1) cash, in the event that a third-party acquires the assets of the Partnership, or (2) a purchase price adjustment, in the event the Organization exercises its buyout option (refer to “Contingencies” note). The balance at June 30, 2013 was $432,357.

In accordance with the partnership agreement, the Organization is entitled to an annual partnership management fee of $12,000 payable from the Project's annual surplus cash.

The Partnership leases a portion of its commercial space to the Organization to operate programs for the Organization’s clients. The term of this lease will expire in December 2040 and requires an annual payment of $53,736.

Note 8. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 2013:

Land	$ 3,025,408
Buildings and improvements	2,990,998
Office furniture, machinery and equipment	448,295
Property held under capital leases	174,442
Vehicles	54,073
Software	126,753
Totals	6,819,969
Less accumulated depreciation and amortization	(1,791,596)
Property and equipment, net	$ 5,028,373

Depreciation expense was $220,147 for the year ended June 30, 2013. Included in depreciation expense for the year ended June 30, 2013 is $0 and $981 allocated to special activities and special events, respectively.

Note 9. LOAN ACQUISITION COSTS:

Loan acquisition costs consist of the following at June 30, 2103:

Permanent loan costs	$ 28,155
Accumulated amortization	9,853
Net	$ 18,302

Amortization expense was $2,816 for the year ended June 30, 2013.

Note 10. LINE OF CREDIT:

The Organization has a $500,000 secured revolving line of credit with Union Bank of California, of which no amount was outstanding at June 30, 2013. Bank advances on the credit line are payable on a monthly basis and carry an interest rate at the bank's reference rate, currently at 4.00% plus 1.25%. The credit line matures April 2, 2014.

Note 11. CAPITAL LEASE OBLIGATIONS:

The Organization leases certain furniture and equipment under capital leases. The amount capitalized and accumulated amortization under these agreements was $174,442 and $74,669, respectively, at June 30, 2013. The leases expire in various years through June 30, 2016. Interest expense under these leases was $8,691 for 2013.

Scheduled future minimum lease payments are as follows:

2014	$ 43,102
2015	43,102
2016	42,440
	128,644
Amount representing interest	18,879
Present value of minimum lease payments	109,765
Current portion	34,411
Long-term portion	$ 75,354

Note 12. LONG-TERM DEBT:

Effective January 1, 2010 the Organization entered into an interest rate swap agreement with Union Bank, N.A. The agreement is in effect until January 2, 2020. The organization paid $15,000 to Union Bank, N.A. for this agreement, which is being amortized over the length of the 10 year agreement. Under the swap agreement, the interest rate on the note is fixed at 6.87%.

Professional accounting standards require the Organization to adjust the carrying amount of the swap to its estimated fair value. The swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to its fair value at June 30, 2013, which because of changes in forecasted levels of LIBOR resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The liability is classified as noncurrent since management does not intend to settle it during the year ended June 30, 2014.

Maturities of long-term notes are as follows at June 30, 2013:

Union Bank, N.A. $3,000,000 loan, established December 11, 2009, secured by real property with a book value of $4,100,000. Monthly payments of principal and interest of $20,955, interest is calculated at LIBOR + 2.75%. Final payment due January 1, 2035.	$ 2,825,868
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. If unpaid interest is accrued.	307,000

Note 12. LONG-TERM DEBT (Continued):

Wachovia $160,000 loan; bears variable interest; requires monthly payment of principal and interest and is payable in full in 2032. Interest charged at June 30, 2011 was at 6.90%.	$ 120,050
	3,252,918
Less current portion	63,188
	$ 3,189,730

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2013 are as follows:

Year Ending June 30,	
2014	$ 63,188
2015	67,593
2016	72,306
2017	77,349
2018	82,746
Thereafter	2,889,736
Total	$ 3,252,918

Note 13. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2013.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Future periods	$ 295,443	$ 193,919	$ (127,878)	$ 361,484
Capital improvements	-	100,000	(92,314)	7,686
Operating deficit reserve	58,029	115	-	58,144
Client needs	77,226	1,066,608	(201,863)	941,971
Housing advocacy	50,000	76,125	(76,125)	50,000
Senior program	17,000	111,770	(28,770)	100,000
Shupin Fund for Independent Living	1,590,428	147,286	(186,183)	1,551,531
Job development	-	54,791	(54,791)	-
Major gifts	18,548	82,500	(35,099)	65,949
Total temporarily	$ 2,106,674	$ 1,833,114	$ (803,023)	$ 3,136,765

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 $85,394 for the year ended June 30, 2013.

Note 15. LEASE COMMITMENTS:

The Organization leases facilities in San Francisco and Daly City. Rentals under these leases for the year ended June 30, 2013 were $121,849.

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

Years Ending June 30,	
2014	$ 114,036
2015	115,242
2016	116,472
2017	110,490
2018	53,736
Thereafter	1,209,060
	$ 1,719,036

Note 16. PRIOR PERIOD ADJUSTMENT:

The financial statements for June 30, 2012 were restated to correct an error in the financial statements related to the valuation of the interest rate swap. Accounting principles require that the swap be adjusted to fair market value on an annual basis. The prior period adjustment increased the obligation under interest rate swap and decreased unrestricted net assets by $559,214.

Note 17. CONTINGENCIES:

In connection with its investment in the Partnership, the Organization has an option to purchase the housing development from the limited partner at the end of the 15-year low-income tax credit compliance period. In addition, the Organization has agreed to fund operating deficits and other obligations up to $50,000. The Organization does not require any collateral or other security from the Partnership related to these guarantees. Furthermore, the Organization has provided indemnifications to the investor limited partner with regard to tax benefits projected for the Partnership. The remaining balance of tax benefits was approximately $0 as of June 30, 2013.

THE ARC SAN FRANCISCO

SUPPLEMENTAL INFORMATION

THE ARC SAN FRANCISCO

SCHEDULE OF REVENUE AND EXPENSES BY PROGRAM SERVICES

YEAR ENDED JUNE 30, 2013

REVENUE AND SUPPORT:		
Leasing operations	$	87,590
Senior Services at 416 Bay Street		704,335
Supported living services		663,792
Client micro enterprises		1,739
Residential services at 5th Avenue		27,233
Housing Advocacy		55,756
Wellness services		449,205
Arts & recreation - restricted		1,004,756
DOR fees for service		188,723
Job placement services		515,926
Community training services		1,064,772
Skills		223,971
Independent living services		483,463
One-to-One services		678,906
Supported living apartments at Daly City		91,008
ArcUS/CDC subcontract		72,363
Artreach at Daly City		274,997
Integrated work services		2,872,081
SF DHS contract		92,322
Clinical therapies grants		29,750
Transition support program grant		3,000
Contributions and other revenue not specific to one program		837,803
Total revenue and support	$	10,423,491
EXPENSES:		
Leasing operations	$	75,448
Senior services at 416 Bay Street		787,651
Supported living services		675,568
Residential services at 5th Avenue		13,177
Housing Advocacy		27,067
Wellness services		344,418
Arts & recreation - restricted		66,452
DOR fees for service		164,835
Job placement services		568,746
Community training services		1,082,608
Skills		281,444
Independent living services		632,476
One-to-One services		645,664
Supported living apartments at Daly City		59,155
ArcUS/CDC subcontract		65,468
Artreach at Daly City		216,197
Integrated work services		2,222,201
SF DHS contract		82,730
Advocacy		40,588
In-take services		67,838
Recreation & socialization		8,034
In-house floaters		126,081
Health care reform grants		14,782
Clinical therapies		19,540
Transition support program grant		33,349
Total program services expenses		8,321,517
Management and general expenses		681,711
Fundraising expenses		395,050
Total expenses	$	9,398,278

THE ARC SAN FRANCISCO

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	Salaries	Employee Benefits	Professional Fees and Contract Services	Occupancy	Supplies	Transpor-tation	Commu-nication	Rental and Maintenance of Equipment	Insurance and Taxes	Conference and Meeting	Interest	Dues and Subscrip-tions	Bad Debts	Miscella-neous	Depreciation and Amortization	Total
Leasing operations	$ 13,945	$ 3,655	$ -	$ 15,100	$ 1,311	$ -	$ -	$ -	$ 1,052	$ -	$ 19,416	$ -	$ -	$ 700	$ 20,269	$ 75,448
Senior services	501,699	148,611	17,571	54,488	11,693	13,792	11,718	169	2,423	1,239	9,859	3,185	-	3,706	7,498	787,651
Supported living services	469,916	146,315	24,130	3,313	2,599	1,502	5,381	169	2,128	1,604	6,210	1,832	-	1,437	9,032	675,568
Residential services	-	-	-	2,476	41	62	-	-	1,452	-	7,496	-	-	51	1,599	13,177
Housing advocacy	17,510	3,611	1,826	571	307	7	239	21	283	123	1,094	22	-	87	1,366	27,067
Wellness services	231,608	55,769	8,525	4,344	1,547	7,469	10,161	1,460	2,680	340	8,301	1,038	-	1,311	9,865	344,418
Arts & recreation - restricted	40,244	9,561	350	6,137	2,438	-	480	-	333	-	6,862	-	-	47	-	66,452
DOR fees for service	112,065	33,726	3,139	1,901	617	990	1,402	21	390	1,337	3,120	2,206	-	1,044	2,877	164,835
Job placement services	399,436	119,395	10,067	3,859	1,767	6,219	6,879	105	1,466	1,662	6,464	1,433	1,022	1,401	7,571	568,746
Community training services	707,848	233,665	23,742	17,528	5,497	5,722	9,648	232	4,228	1,430	33,228	5,401	516	3,087	30,836	1,082,608
Skills	147,073	49,329	5,057	15,513	4,737	189	1,987	42	2,003	266	29,460	1,433	-	1,280	23,075	281,444
Independent living services	429,762	139,770	22,912	2,651	3,171	3,627	6,438	287	3,485	1,974	4,944	1,898	-	1,819	9,738	632,476
One-to-One services	425,364	132,853	18,968	9,516	3,579	3,758	7,249	211	3,200	1,394	17,992	1,287	-	1,372	18,921	645,664
Supported living apartments	35,532	10,751	2,046	8,156	258	384	392	21	229	128	81	354	-	213	610	59,155
ArcUS/CDC subcontract	48,247	9,731	990	336	1,426	2,105	11	27	-	1,272	-	-	-	1,323	-	65,468
Artreach	112,051	25,110	6,440	48,856	7,082	282	5,751	559	3,579	261	163	1,062	-	794	4,207	216,197
Integrated work services	1,491,453	449,595	60,961	34,917	10,750	28,099	31,799	3,235	9,203	4,160	25,022	11,633	1,317	16,048	44,009	2,222,201
SF DHS contract	65,908	7,097	-	-	-	-	-	-	-	-	9,725	-	-	-	-	82,730
Advocacy	33,464	6,748	-	-	-	-	376	-	-	-	-	-	-	-	-	40,588
In-take services	52,167	11,103	1,826	38	278	7	1,244	235	230	123	81	22	-	87	397	67,838
Recreation & socialization	6,404	1,560	-	-	-	-	70	-	-	-	-	-	-	-	-	8,034
In-house floaters	87,873	37,514	-	-	-	660	34	-	-	-	-	-	-	-	-	126,081
Health care reform grants	12,180	2,602	-	-	-	-	-	-	-	-	-	-	-	-	-	14,782
Clinical therapies	-	-	19,540	-	-	-	-	-	-	-	-	-	-	-	-	19,540
Transition support prgm grt	26,622	2,805	1,906	723	1,236	12	45	-	-	-	-	-	-	-	-	33,349
Total program services	5,468,371	1,640,876	229,996	230,423	60,334	74,886	101,304	6,794	38,364	17,313	189,518	32,806	2,855	35,807	191,870	8,321,517
Management and general	435,083	89,053	50,647	16,727	4,555	3,975	5,872	622	12,530	6,223	27,385	740	-	3,723	24,576	681,711
Fundraising	187,413	28,816	72,998	8,047	3,151	398	25,061	88	983	1,897	9,713	2,730	22,968	24,270	6,517	395,050
Total functional expenses	$ 6,090,867	$ 1,758,745	$ 353,641	$ 255,197	$ 68,040	$ 79,259	$ 132,237	$ 7,504	$ 51,877	$ 25,433	$ 226,616	$ 36,276	$ 25,823	$ 63,800	$ 222,963	$ 9,398,278