THE ARC SAN FRANCISCO

(A California Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2015 AND JUNE 30, 2014

THE ARC SAN FRANCISCO

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JUNE 30, 2015 AND 2014

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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, 2015 and June 30, 2014, 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 misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc San Francisco as of June 30, 2015 and June 30, 2014 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.

Rina Accountancy Corporation

Certified Public Accountants

San Francisco, California
December 9, 2015

THE ARC SAN FRANCISCO

STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2015	June 30, 2014
CURRENT:		
Cash and cash equivalents	$ 155,538	$ 288,930
Receivables, net:		
Trade	835,654	741,395
Pledges	306,933	310,205
Other	2,488	728
Prepaid expenses and deposits	26,317	20,815
Other assets	108,312	100,352
Restricted cash	68,603	65,147
Investments	1,973,772	1,938,104
TOTAL CURRENT ASSETS	3,477,617	3,465,676
LONG TERM:		
Receivables, net of current portion:		
Pledges	188,918	190,780
Related party	584,327	511,342
Restricted endowment	2,232,352	2,422,236
Operating reserve	58,287	58,201
Investment in partnership	12,861	12,861
Property and equipment, net	4,666,405	4,878,412
Loan acquisition costs, net	12,670	15,485
Prepaid expenses and deposits	8,336	8,336
TOTAL ASSETS	$ 11,241,773	$ 11,563,329

LIABILITIES AND NET ASSETS	June 30, 2015	June 30, 2014
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 220,093	$ 266,551
Accrued compensated absences	363,778	350,611
Interest payable, current portion	16,260	16,046
Line of credit	260,000	50,000
Notes payable, current portion	72,306	67,761
Capital lease payable, current portion	38,430	36,924
TOTAL CURRENT LIABILITIES	970,867	787,893
LONG TERM LIABILITIES:		
Interest payable, net of current portion	149,949	140,739
Notes payable, net of current portion	3,048,623	3,121,386
Capital lease payable, net of current portion	-	38,430
Obligation under interest rate swap	308,127	350,029
Deposits	9,658	9,658
TOTAL LIABILITIES	4,487,224	4,448,135
NET ASSETS:		
Unrestricted	3,829,092	3,819,987
Temporarily restricted	2,925,457	3,295,207
TOTAL NET ASSETS	6,754,549	7,115,194
TOTAL LIABILITIES AND NET ASSETS	$ 11,241,773	$ 11,563,329

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENT OF ACTIVITIES

	Year Ended June 30, 2015 Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 7,985,244	$ -	$ 7,985,244
Contracts	537,817	-	537,817
Contributions	302,378	659,833	962,211
Revenue from special events, net of costs of $191,408	241,351	-	241,351
Revenue from special activities	50,488	-	50,488
Rental income	178,234	-	178,234
Interest and dividends	36,045	30,803	66,848
Other income	157,192	-	157,192
Net assets released from restrictions	1,031,355	(1,031,355)	-
TOTAL REVENUE	10,520,104	(340,719)	10,179,385
EXPENSES:			
Program services	9,188,449	-	9,188,449
Supporting services:			
Management and general	930,980	-	930,980
Fundraising	409,559	-	409,559
TOTAL EXPENSES	10,528,988	-	10,528,988
DECREASE IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CHANGE IN VALUE OF SWAP AGREEMENT	(8,884)	(340,719)	(349,603)
Increase in fair value of interest rate swap	41,902	-	41,902
Net realized and unrealized loss on investments	(23,913)	(29,031)	(52,944)
CHANGE IN NET ASSETS	9,105	(369,750)	(360,645)
NET ASSETS, beginning of year	3,819,987	3,295,207	7,115,194
NET ASSETS, end of year	$ 3,829,092	$ 2,925,457	$ 6,754,549

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENT OF ACTIVITIES

	Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 7,701,813	$ -	$ 7,701,813
Contracts	495,712	-	495,712
Contributions	192,404	482,076	674,480
Revenue from special events, net of costs of $136,073	-	325,091	325,091
Revenue from special activities, net of costs of $185,094	77,446	-	77,446
Rental income	188,387	-	188,387
Interest and dividends	65,650	28,166	93,816
Other income	31,416	-	31,416
Net assets released from restrictions	899,867	(899,867)	-
TOTAL REVENUE	9,652,695	(64,534)	9,588,161
EXPENSES:			
Program services	8,845,065	-	8,845,065
Supporting services:			
Management and general	727,138	-	727,138
Fundraising	423,066	-	423,066
TOTAL EXPENSES	9,995,269	-	9,995,269
INCREASE IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CHANGE IN VALUE OF SWAP AGREEMENT	(342,574)	(64,534)	(407,108)
Increase in fair value of interest rate swap	35,990	-	35,990
Net realized and unrealized gain (loss) on investments	224,569	222,976	447,545
CHANGE IN NET ASSETS	(82,015)	158,442	76,427
NET ASSETS, beginning of year	3,902,002	3,136,765	7,038,767
NET ASSETS, end of year	$ 3,819,987	$ 3,295,207	$ 7,115,194

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Programs and Services							
	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	$ 4,702,815	$ 1,038,453	$ 1,079,232	$ 843,370	$ 7,663,870	$ 666,829	$ 229,420	$ 8,560,119
Professional fees and contract services	219,234	78,380	49,849	32,144	379,607	132,518	74,556	586,681
Occupancy	180,823	21,127	64,414	43,055	309,419	25,448	10,837	345,704
Supplies	27,784	2,728	12,129	5,852	48,493	7,576	1,716	57,785
Transportation	51,840	6,223	29,045	11,514	98,622	879	645	100,146
Communication	96,062	19,398	32,412	14,774	162,646	14,478	26,798	203,922
Rental and maintenance	3,554	409	5,078	305	9,346	120	35	9,501
Insurance and taxes	23,643	6,723	10,275	5,627	46,268	19,404	767	66,439
Conference and meeting	9,584	1,934	2,905	1,730	16,153	3,713	802	20,668
Dues and subscriptions	20,218	3,759	6,684	4,323	34,984	289	2,741	38,014
Miscellaneous	22,290	3,067	8,015	7,331	40,703	8,827	20,105	69,635
Interest	92,665	14,696	19,757	46,960	174,078	26,863	7,055	207,996
Bad debts	69	-	-	84	153	-	28,615	28,768
Depreciation and amortization	114,342	25,832	21,439	42,494	204,107	24,036	5,467	233,610
TOTAL EXPENSES	$ 5,564,923	$ 1,222,729	$ 1,341,234	$ 1,059,563	$ 9,188,449	$ 930,980	$ 409,559	$ 10,528,988

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	Programs and Services							
	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	$ 4,439,504	$ 1,230,399	$ 1,087,252	$ 710,445	$ 7,467,600	$ 546,725	$ 254,652	$ 8,268,977
Professional fees and contract services	169,470	71,155	40,160	27,048	307,833	76,109	68,733	452,675
Occupancy	147,539	17,919	62,529	45,257	273,244	14,565	7,645	295,454
Supplies	34,880	4,598	15,690	5,955	61,123	3,246	5,413	69,782
Transportation	46,309	5,312	23,742	6,690	82,053	2,709	1,100	85,862
Communication	67,757	12,340	22,178	10,326	112,601	4,321	27,014	143,936
Rental and maintenance	5,819	414	8,482	266	14,981	459	38	15,478
Insurance and taxes	22,836	6,672	11,252	4,915	45,675	15,756	725	62,156
Conference and meeting	16,841	2,789	2,585	2,796	25,011	3,830	2,238	31,079
Dues and subscriptions	18,685	3,393	6,295	3,995	32,368	439	2,882	35,689
Miscellaneous	20,565	2,741	6,976	5,466	35,748	6,379	15,611	57,738
Interest	95,991	17,654	19,301	48,194	181,140	27,585	8,097	216,822
Bad debts	240	-	-	178	418	-	23,292	23,710
Depreciation and amortization	102,791	20,583	38,927	42,969	205,270	25,015	5,626	235,911
TOTAL EXPENSES	$ 5,189,227	$ 1,395,969	$ 1,345,369	$ 914,500	$ 8,845,065	$ 727,138	$ 423,066	$ 9,995,269

See notes to financial statements.

THE ARC SAN FRANCISCO

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2015		Year Ended June 30, 2014	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets		$ (360,645)		$ 76,427
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation and amortization	$ 233,610		$ 235,911	
Net realized and unrealized (gain) loss from investments	52,944		(447,545)	
Net unrealized increase in value of interest rate swap	(41,902)		(35,990)	
Decrease (increase) in:				
Receivables, net	(90,883)		69,686	
Related party receivables	(72,985)		(78,985)	
Prepaid expenses and deposits	(5,504)		22,464	
Other assets	(7,960)		(13,122)	
Restricted cash	(3,456)		(5,695)	
Increase (decrease) in:				
Accounts payable and accrued expenses	(46,458)		(34,335)	
Accrued compensated absences	13,167		24,879	
Interest payable	9,424		8,823	
Deposits	-	39,997	-	(253,909)
NET CASH USED BY OPERATING ACTIVITIES		(320,648)		(177,482)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(18,788)		(83,133)	
Proceeds from sale of investments	423,062		964,708	
Purchase of investments	(321,790)		(862,616)	
Net increase in operating reserve	(86)		(57)	
NET CASH USED BY INVESTING ACTIVITIES		82,398		18,902
CASH FLOWS FROM FINANCING ACTIVITIES:				
Line of credit, net	210,000		50,000	
Repayment of capital lease obligation	(36,923)		(34,411)	
Repayment of notes payable	(68,219)		(63,771)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		104,858		(48,182)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(133,392)		(206,762)
CASH AND CASH EQUIVALENTS, beginning of year		288,930		495,692
CASH AND CASH EQUIVALENTS, end of year		$ 155,538		$ 288,930
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest		$ 198,572		$ 219,608

See notes to financial statements.

THE ARC SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2015 AND JUNE 30, 2014

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 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. 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 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 $17,806 and $59,478 for the years ended June 30, 2015 and 2014, respectively. Receivable 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 30 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.

Other assets:

The Organization uses an outside organization to reserve for potential unemployment liabilities. The balance at June 30, 2015 and 2014 is $108,312 and $100,352, respectively.

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, 2015, 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. Tax returns are generally subject to examination by federal and state tax authorities for three and four years, respectively. 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.

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

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.

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.

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

Revenue recognition (continued):

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.

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, 2015 and 2014, respectively. 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 initially is included as a component of income (expense). 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 9, 2015, the date which the financial statements were available for issue. No significant events were identified that require any additional disclosure.

Reclassification:

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the current year presentation. These reclassifications have no effect on change in net assets or financial position as previously reported.

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, 2015, GGRC and DOR contributed approximately 75% and 2%, respectively, of total revenue and support. For the year ended June 30, 2014, GGRC and DOR contributed approximately 73% and 1%, respectively, of total revenue and support. Trade receivables due from GGRC were 83% and 86% of the total outstanding balance for years ended June 30, 2015 and 2014, 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. 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, 2015 and 2014:

Assets at Fair Value as of June 30, 2015

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Corporate equities	$ 1,877,659	$ -	$ -	$ 1,877,659
Debt securities	48,121	-	-	48,121
Mutual funds	2,261,430	-	-	2,261,430
	$ 4,187,210	$ -	$ -	$ 4,187,210
Money market				18,914
Total assets at fair value				$ 4,206,124
Total investments				$ 1,973,772
Total restricted endowment				2,232,352
				$ 4,206,124

Note 4. FAIR VALUE MEASUREMENTS (Continued):

Assets at Fair Value as of June 30, 2014

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Corporate equities	$ 1,888,768	$ -	$ -	$ 1,888,768
Debt securities	49,336	-	-	49,336
Mutual funds	1,674,399	-	-	1,674,399
	$ 3,612,503	$ -	$ -	$ 3,612,503
Money market				747,837
Total assets at fair value				$ 4,360,340
Total investments				$ 1,938,104
Total restricted endowment				2,422,236
				$ 4,360,340

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 (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 will be an integral Arts & Recreation program.

Note 5. ENDOWMENTS (Continued):

Net changes in endowment funds were as follows:

	Temporarily Restricted
Balance, June 30, 2013	$ 2,291,211
Interest and dividends	28,166
Net realized/unrealized gain	172,960
Contributions	-
Management fee	(8,426)
Appropriations	(61,675)
Balance, June 30, 2014	2,422,236
Interest and dividends	29,753
Net realized/unrealized gain	(145,426)
Contributions	-
Management fee	(9,081)
Appropriations	(65,130)
Balance, June 30, 2015	$ 2,232,352

	2015	2014
Shupin Fund	$ 1,613,694	$ 1,673,104
FLM Fund	618,658	749,132
Total endowment balance	$ 2,232,352	$ 2,422,236

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.

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. CONTRIBUTIONS RECEIVABLE:

Contributions receivable are comprised of the following:

	Years Ended June 30, 2015	Years Ended June 30, 2014
Contributions receivable	$ 511,657	$ 549,810
Less allowance for doubtful contributions	(15,806)	(48,825)
Balances	$ 495,851	$ 500,985
Classified as:		
Current	$ 306,933	$ 310,205
Long-term	188,918	190,780
Totals	$ 495,851	$ 500,985

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 (the 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 on 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, 2015 and 2014:

	2015	2014
Revenue:		
Ground lease	$ 60,985	$ 66,985
Partnership management fee	12,000	12,000
	$ 72,985	$ 78,985
Expense:		
Commercial rent	$ 53,736	$ 53,736

Note 7. INVESTMENT IN PARTNERSHIP AND RELATED PARTY TRANSACTIONS (Continued):

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.

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.

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). Balances due to the Organization from the Partnership at June 30, 2015 and 2014 were $584,327 and $511,342, respectively.

Note 8. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	June 30,	
	2015	2014
Land	$ 3,025,408	$ 3,025,408
Buildings and improvements	3,036,167	3,032,687
Office furniture, machinery and equipment	483,468	478,326
Property held under capital leases	174,442	174,442
Vehicles	36,855	54,073
Software	149,035	138,165
Totals	6,905,375	6,903,101
Less accumulated depreciation	(2,238,970)	(2,024,689)
Property and equipment, net	$ 4,666,405	$ 4,878,412

Depreciation expense was $230,794 and $233,094 for the years ended June 30, 2015 and 2014, respectively.

Note 9. LOAN ACQUISITION COSTS:

Loan acquisition costs consist of the following at June 30:

	2015	2014
Permanent loan costs	$ 28,155	$ 28,155
Accumulated amortization	(15,485)	(12,670)
Net	$ 12,670	$ 15,485

Amortization expense was $2,815 and $2,817 for the years ended June 30, 2015 and 2014, respectively.

Note 10. LINE OF CREDIT:

The Organization has a $500,000 revolving line of credit with Union Bank of California, of which $260,000 and $50,000 were outstanding at June 30, 2015 and 2014, respectively. Bank advances on the credit line are payable on a monthly basis and carry an interest rate at the bank's reference rate plus .75%, currently at 4.00%. The credit line matures on June 30, 2016.

Note 11. 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, 2015, 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, 2015.

Note 11. LONG-TERM DEBT (Continued):

Maturities of long-term notes are as follows:

	June 30, 2015	June 30, 2014
Union Bank, N.A. $3,000,000 loan, established December 11, 2009, secured by real property with a book value of $4,100,000. Beginning February 1, 2010, monthly of principal and interest of $20,955, interest is calculated at LIBOR + 2.75%. Final payment due January 1, 2035.	$ 2,703,342	$ 2,766,703
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, 2015 was 5.09%.	110,587	115,444
	3,120,929	3,189,147
Less current portion	72,306	67,761
	$ 3,048,623	$ 3,121,386

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2015 are as follows:

Years Ending June 30,	
2016	$ 72,306
2017	77,458
2018	82,820
2019	88,557
2020	94,694
Thereafter	2,705,094
Total	$ 3,120,929

Note 12. CAPITAL LEASE OBLIGATIONS:

The Organization leases certain furniture and equipment under capital leases. The amount capitalized was $174,442 and accumulated amortization under these agreements was $142,711 and $109,017, respectively, at June 30, 2015 and June 30, 2014. The leases expire in various years through June 30, 2016. Interest expense under these leases was $5,513 and $8,691 for 2015 and 2014, respectively.

Scheduled future minimum lease payments are as follows:

Years Ending June 30,	
2016	$ 40,440
	40,440
Amount representing interest	2,010
Present value of minimum lease	38,430
Current portion	38,430
Long-term portion	$ -

Note 13. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2015.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Future periods	$ 375,516	$ -	$ (375,516)	$ -
Operating deficit reserve	58,201	86	-	58,287
FLM Fund	972,418	163,662	(398,475)	737,605
Housing advocacy	50,000	50,020	(40,871)	59,149
Job development/BAC work life	-	12,336	(9,836)	2,500
Senior program	3,300	162,606	(36,817)	129,089
Shupin Fund	1,734,780	12,645	(65,130)	1,682,295
Job development	51,357	260,250	(89,215)	222,392
Major gifts	49,635	-	(15,495)	34,140
Total temporarily restricted assets	$ 3,295,207	$ 661,605	$ (1,031,355)	$ 2,925,457

Note 13. TEMPORARILY RESTRICTED NET ASSETS (Continued):

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2014.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Future periods	$ 361,484	$ 197,920	$ (183,888)	$ 375,516
Capital improvements	7,686	19,014	(26,700)	-
Operating deficit reserve	58,144	57	-	58,201
FLM Fund	941,971	275,353	(244,906)	972,418
Housing advocacy	50,000	72,998	(72,998)	50,000
Senior program	100,000	61,835	(158,535)	3,300
Shupin Fund	1,551,531	251,216	(67,967)	1,734,780
Job development	-	179,616	(128,259)	51,357
Building maintenance	-	300	(300)	-
Major gifts	65,949	-	(16,314)	49,635
Total temporarily restricted assets	$ 3,136,765	$ 1,058,309	$ (899,867)	$ 3,295,207

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 $106,843 and $105,580 for the years ended June 30, 2015 and 2014, respectively.

Note 15. LEASE COMMITMENTS:

The Organization leases facilities in San Francisco, San Rafael, Marin City and Daly City. Rentals under these leases for the years ended June 30, 2015 and 2014 were $156,077 and $135,093, respectively. The Organization also has four vehicle leases for the year ended June 30, 2015. Three of these leases are 36 month leases expiring at various dates in 2017 and one lease is a 48 month lease expiring in 2019.

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

Years Ending June 30,	
2016	$ 155,455
2017	125,089
2018	56,733
2019	55,984
2020	53,736
Thereafter	1,101,588
	$ 1,548,585

Note 16. 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. These tax benefits end December 31, 2015. 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. There were no remaining tax benefits as of June 30, 2015 and 2014, respectively.

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.