THE ARC SAN FRANCISCO

(A California Not-For-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021 AND JUNE 30, 2020

THE ARC SAN FRANCISCO

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RINA

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, 2021 and June 30, 2020, 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, 2021 and June 30, 2020 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 LLP

Certified Public Accountants

San Francisco, California
February 24, 2022

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2021	June 30, 2020
CURRENT:		
Cash and cash equivalents	$ 1,829,736	$ 2,848,994
Receivables, net:		
Trade	936,909	1,108,226
Pledges	285,140	499,335
Other	264	12,055
Prepaid expenses and deposits	41,384	61,319
Other assets	20,371	77,691
Restricted cash	71,637	69,116
Investments	6,984,143	3,582,845
TOTAL CURRENT ASSETS	10,169,584	8,259,581
LONG TERM:		
Receivables, net of current portion:		
Pledges	215,875	335,609
Tenants security deposits (held in trust)	3,870	4,211
Restricted deposits and funded reserves:		
Insurance impound accounts	24,513	15,786
Operating reserve	59,717	33,261
Replacement reserve	129,538	103,621
Restricted endowment	4,932,998	2,363,820
Property and equipment, net	5,804,380	5,862,615
Deposits	2,690	7,690
TOTAL ASSETS	$ 21,343,165	$ 16,986,194
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 416,425	$ 281,322
Accrued compensated absences	469,228	504,697
Interest payable, current portion	3,900	4,450
Tenants' security deposits	3,870	3,870
Notes payable, current portion	130,289	126,766
Deferred rental income	15,798	13,646
TOTAL CURRENT LIABILITIES	1,039,510	934,751
LONG TERM LIABILITIES:		
Interest payable, net of current portion	586,238	585,992
Notes payable, net	3,949,669	5,894,244
Deposits	20,000	20,000
TOTAL LIABILITIES	5,595,417	7,434,987
NET ASSETS:		
Without Donor Restriction	10,134,691	6,462,899
With Donor Restriction	5,613,057	3,088,308
TOTAL NET ASSETS	15,747,748	9,551,207
TOTAL LIABILITIES AND NET ASSETS	$ 21,343,165	$ 16,986,194

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Without Donor Restriction	With Donor Restriction	Total
REVENUE:			
Fees for services	$ 10,477,497	$ -	$ 10,477,497
Contracts	108,659	-	108,659
Contributions	338,058	2,514,951	2,853,009
Revenue from special events, net of costs of $55,222	170,008	-	170,008
Rental income	646,566	-	646,566
Interest and dividends, net	54,498	31,525	86,023
Paycheck Protection Grant	1,816,900		1,816,900
Other income	114,429	-	114,429
Net assets released from restrictions	610,304	(610,304)	-
TOTAL REVENUE	14,336,919	1,936,172	16,273,091
EXPENSES:			
Programs and services	10,702,063	-	10,702,063
Supporting services:			
Management and general	389,060	-	389,060
Fundraising	501,007	-	501,007
TOTAL EXPENSES	11,592,130	-	11,592,130
INCREASE IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	2,744,789	1,936,172	4,680,961
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	927,003	588,577	1,515,580
CHANGE IN NET ASSETS	3,671,792	2,524,749	6,196,541
NET ASSETS, beginning of year	6,462,899	3,088,308	9,551,207
NET ASSETS, end of year	$ 10,134,691	$ 5,613,057	$ 15,747,748

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
REVENUE:			
Fees for services	$ 10,015,491	$ -	$ 10,015,491
Contracts	333,012	-	333,012
Contributions	182,103	810,347	992,450
Revenue from special events, net of costs of $82,876	188,517	-	188,517
Rental income	633,189	-	633,189
Interest and dividends, net	65,893	42,526	108,419
Gain on sale of property	-	-	-
Other income	64,480	-	64,480
Net assets released from restrictions	1,545,516	(1,545,516)	-
TOTAL REVENUE	13,028,201	(692,643)	12,335,558
EXPENSES:			
Programs and services	11,001,661	-	11,001,661
Supporting services:			
Management and general	428,364	-	428,364
Fundraising	491,709	-	491,709
TOTAL EXPENSES	11,921,734	-	11,921,734
INCREASE IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	1,106,467	(692,643)	413,824
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	(5,272)	(6,193)	(11,465)
CHANGE IN NET ASSETS	1,101,195	(698,836)	402,359
NET ASSETS, beginning of year	5,361,704	3,787,144	9,148,848
NET ASSETS, end of year	$ 6,462,899	$ 3,088,308	$ 9,551,207

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Programs and Services					Supporting Services		
	ARC Apartments	Residential Services	Seniors, Health and Wellness Services	Employment, Rental and Other Services	Total	Management and General	Fundraising	Total Functional Expenses
Salaries, employee taxes and benefits	$ 22,952	$ 1,155,279	$ 1,330,960	$ 6,653,185	$ 9,162,376	$ 193,613	$ 342,974	$ 9,698,963
Professional fees and contract services	17,163	66,657	54,860	308,815	447,495	72,451	84,084	604,030
Occupancy	67,366	20,348	23,234	134,546	245,494	32,447	3,919	281,860
Deprecation and amortization	79,241	13,724	15,669	81,043	189,677	20,527	2,441	212,645
Communication	-	12,701	14,765	78,427	105,893	20,278	17,313	143,484
Transportation	-	13,659	15,579	87,940	117,178	-	-	117,178
Insurance and taxes	46,450	8,289	9,463	48,947	113,149	13,233	1,574	127,956
Interest	4,295	10,736	12,258	63,403	90,692	17,141	2,039	109,872
Supplies	11,348	4,280	5,051	43,005	63,684	3,936	902	68,522
Dues and subscriptions	-	6,083	6,945	36,542	49,570	9,229	4,314	63,113
Rental and maintenance of equipment	16,757	1,211	1,382	7,204	26,554	-	-	26,554
Bad debts	-	1,957	2,235	11,558	15,750	-	39,139	54,889
Conference and meetings	26	3,232	3,689	19,401	26,348	1,218	285	27,851
Miscellaneous	1,344	5,749	6,707	34,403	48,203	4,987	2,023	55,213
TOTAL EXPENSES	$ 266,942	$ 1,323,905	$ 1,502,797	$ 7,608,419	$ 10,702,063	$ 389,060	$ 501,007	$ 11,592,130

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Programs and Services					Supporting Services		
	ARC Apartments	Residential Services	Seniors, Health and Wellness Services	Employment, Rental and Other Services	Total	Management and General	Fundraising	Total Functional Expenses
Salaries, employee taxes and benefits	$ 22,498	$ 1,117,410	$ 1,447,651	$ 6,842,324	$ 9,429,883	$ 243,658	$ 303,421	$ 9,976,962
Professional fees and contract services	18,069	54,569	54,034	269,976	396,648	41,701	87,717	526,066
Occupancy	68,587	31,043	25,475	179,984	305,089	35,031	4,288	344,408
Deprecation and amortization	78,315	12,431	16,704	76,985	184,435	22,299	2,253	208,987
Communication	-	13,931	18,721	95,905	128,557	25,843	22,261	176,661
Transportation	-	11,242	15,651	87,710	114,603	58	39	114,700
Insurance and taxes	48,130	7,345	9,871	45,492	110,838	14,103	1,425	126,366
Interest	4,661	10,252	13,777	63,491	92,181	19,683	1,989	113,853
Supplies	11,197	4,323	6,299	38,423	60,242	5,905	1,065	67,212
Dues and subscriptions	-	4,387	5,981	27,703	38,071	6,594	2,223	46,888
Rental and maintenance of equipment	18,260	1,200	1,927	8,329	29,716	261	26	30,003
Bad debts	-	-	-	11,183	11,183	-	55,937	67,120
Conference and meetings	64	2,181	3,376	13,691	19,312	4,006	637	23,955
Miscellaneous	331	8,778	14,665	57,129	80,903	9,222	8,428	98,553
TOTAL EXPENSES	$ 270,112	$ 1,279,092	$ 1,634,132	$ 7,818,325	$ 11,001,661	$ 428,364	$ 491,709	$ 11,921,734

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets		$ 6,196,541		$ 402,359
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	$ 210,711		$ 206,958	
Net realized and unrealized gain from investments	(1,515,580)		(96,954)	
PPP grant income	(1,816,900)		-	
Interest expense - amortization of loan fees	1,934		2,029	
Donated securities	-		(26,084)	
Decrease (increase) in:				
Receivables, net	517,039		382,381	
Prepaid expenses and deposits	24,939		(23,594)	
Other assets	57,317		16,523	
Restricted cash	(2,521)		(984)	
Tenant's security deposits	341		-	
Mortgage impound accounts	(8,727)		(1,270)	
Increase (decrease) in:				
Accounts payable and accrued expenses	135,103		(17,043)	
Accrued compensated absences	(35,469)		88,763	
Deferred rental income	2,152		6,256	
Tenant's security deposits liability	-		(341)	
Interest payable	(304)	(2,429,965)	(97,394)	439,246
NET CASH PROVIDED BY OPERATING ACTIVITIES		3,766,576		841,605
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(152,478)		(84,395)	
Net decrease in restricted deposits for replacement reserve	(25,917)		(13,691)	
Net increase in restricted deposits for operating activities	(26,456)		(6,095)	
Proceeds from sale of investments	4,683,421		2,292,050	
Purchase of investments	(9,138,318)		(2,375,019)	
NET CASH USED BY INVESTING ACTIVITIES		(4,659,748)		(187,150)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from PPP loan	-		1,816,900	
Line of credit, net	-		(150,000)	
Repayment of notes payable	(126,086)		(122,749)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		(126,086)		1,544,151
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,019,258)		2,198,606
CASH AND CASH EQUIVALENTS, beginning of year		2,848,994		650,388
CASH AND CASH EQUIVALENTS, end of year		$ 1,829,736		$ 2,848,994
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest		$ 114,157		$ 211,247

See notes to consolidated financial statements.

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, 2021 and June 30, 2020 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.

Financial statement presentation:

The Organization adopted the provisions of ASU 2016-14 and classifies net assets and activities as without donor restrictions and with donor restrictions. Descriptions of these categories are as follows:

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

Financial statement presentation (continued)

Without donor restrictions:

Net assets without donor restrictions consist of all resources of the Organization, which have not been specifically restricted by a donor. Certain net assets without donor restriction have been internally designated by management and the Board of Directors for specific purposes.

With donor restrictions:

Net assets with donor restrictions consist of cash and other assets received with donor stipulations that limit the use of the donated assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, net assets with donor restrictions are classified to net assets without restrictions and reported in the statement of activities as net assets released from restriction. In accordance with professional accounting standards, net assets with donor restrictions also includes accumulated earnings on endowment corpus funds which have not been appropriated for use.

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 amount 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 $15,541 and $16,935 for the years ended June 30, 2021 and 2020, respectively. Receivable balances still outstanding after management has used reasonable collection efforts are written off.

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 support without restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets

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

Property and equipment (continued):

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, 2021 and June 30, 2020.

Other assets:

The Organization uses an outside organization to reserve for potential unemployment liabilities. The balance at June 30, 2021 and 2020 is $20,371 and $77,691, respectively.

Paycheck protection program:

On April 24, 2020, the Organization received loan proceeds in the amount of $1,816,900, under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), provides for loans to qualifying business for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. At management’s discretion the relief funds could be treated as either a long-term loan or as a conditional grant. Management has elected to treat the funds as a loan for the year ended June 30, 2020. As further discussed below, in 2021, this was converted to a grant in accordance with GAAP.

The loan and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness may be reduced if the borrower terminates employees or reduces salaries during the 24-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first ten months. The Organization used the proceeds for purposes consistent with the PPP.

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

Paycheck protection program (continued):

At management's discretion the relief funds could be treated as either a long-term loan or as a conditional grant when received. Management has elected to treat the funds as a loan for the year ended June 30, 2020. Full forgiveness was received in full on May 13, 2021 and the full balance of $1,816,900 was recognized as grant revenue in the year ended June 30, 2021.

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.

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 statements 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).

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

Investments (continued):

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 support without donor restriction or with donor restriction, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. Contributions with donor restriction where the restrictions are met in the same year as the contributions are received are reported as increases in net assets without restriction.

Contributions restricted for the purchase of long-lived assets are reported as support without donor restriction 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.

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 years ended June 30, 2021 or 2020. 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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Recent Accounting Pronouncements:

In February 2016, and as amended, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The updated standard is effective for annual periods beginning after December 15, 2021 with early adoption permitted. The Organization has not determined the potential effects of this ASU on its financial statements but does expect that it will result in an increase in its long-term assets and liabilities.

Subsequent Events:

Management has evaluated subsequent events through February 23, 2022, the date which financial statements were available for issue.

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.

Note 3. CONCENTRATIONS OF CREDIT RISK (Continued):

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, 2021, GGRC and DOR contributed approximately 47% and 2% of total revenue and support, respectively. For the year ended June 30, 2020, GGRC and DOR contributed approximately 75% and 5%, of total revenue and support, respectively. Trade receivables due from GGRC were 72% and 80% of the total outstanding balance for years ended June 30, 2021 and 2020, respectively.

Concentration percentages decreased in during the year ended June 30, 2021 due to the increase in Covid related revenues.

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. LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	June 30, 2021	June 30, 2020
Financial assets, at year end:		
Cash and cash equivalents	$ 1,829,736	$ 2,848,994
Investments	6,984,143	3,582,845
Trade receivables	936,909	1,108,226
Pledges receivables	285,140	499,335
Other receivables	264	12,055
	10,036,192	8,051,455
Less those unavailable for general expenditure within one year due to:		
Restricted by donor for time or purpose	680,059	724,488
Financial assets available to meet cash needs for general expenditures within one year	$ 9,356,133	$ 7,326,967

Note 5. 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.

Note 5. RESTRICTED DEPOSITS AND RESERVES (Continued):

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 $958 per month.

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.

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 6. FAIR VALUE MEASUREMENTS:

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

	Investments at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 6,984,143	$ -	$ -	$ 6,984,143
	$ 6,984,143	$ -	$ -	6,984,143
Money market				4,932,998
Total investments at fair value				$ 11,917,141
Total investments				$ 6,984,143
Total restricted endowment				4,932,998
				$ 11,917,141

	Investments at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 5,854,920	$ -	$ -	$ 5,854,920
	$ 5,854,920	$ -	$ -	5,854,920
Money market				91,745
Total investments at fair value				$ 5,946,665
Total investments				$ 3,582,845
Total restricted endowment				2,363,820
				$ 5,946,665

Note 7. 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.

The Director's Fund was created for strategic priorities or program investments. Consistent with the organization's spending policy, money is released annually. The donor agreement specifies that the ED has discretion on how the money is utilized.

Net changes in net assets with donor restrictions in endowment funds were as follows:

Balance, June 30, 2019	$ 2,414,713
Interest and dividends	56,144
Net realized/unrealized gain	(1,674)
Contributions	-
Investment fee	(13,618)
Appropriations	(91,745)
Balance, June 30, 2020	2,363,820
Interest and dividends	46,427
Net realized/unrealized gain	588,577
Contributions	2,000,000
Investment fee	(14,902)
Appropriations	(50,924)
Balance, June 30, 2021	$ 4,932,998

Note 7. ENDOWMENTS (Continued):

Year-end endowment balances were as follows:

	2021	2020
Shupin Fund	$ 2,027,163	$ 1,662,072
FLM Fund	905,835	701,748
Directors' Fund	2,000,000	-
	$ 4,932,998	$ 2,363,820

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 distributions of the Shupin Fund and the Director's 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 these annual distribution, expenditures or grants may be made annually, according to the purposes for which these Funds are 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 8. CONTRIBUTIONS RECEIVABLE:

Contributions receivable are comprised of the following at June 30:

	2021	2020
Contribution receivable	$ 513,956	$ 847,776
Less: allowance for doubtful contributions	(12,941)	(12,832)
Balances	$ 501,015	$ 834,944
Classified as:		
Current	$ 285,140	$ 499,335
Long-term	215,875	335,609
	$ 501,015	$ 834,944

Note 9. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30:

	2020	2019
Land	$ 3,020,660	$ 3,020,660
Buildings and improvements	6,114,327	5,978,313
Office furniture, machinery and equipment	527,490	534,056
Vehicles	34,845	34,845
Software	236,620	236,620
Totals	9,933,942	9,804,494
Less accumulated depreciation	(4,129,562)	(3,941,879)
Property and equipment, net	$ 5,804,380	$ 5,862,615

Depreciation expense was $210,711 and $206,958 for the years ended June 30, 2021 and 2020, respectively.

Note 10. LINE OF CREDIT:

The Organization has a $750,000 revolving line of credit with First Republic Bank, of which $0 was outstanding at June 30, 2021 and June 30, 2020. 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 June 30, 2022.

Note 11. LONG-TERM DEBT:

Maturities of long-term notes are as follows:

	June 30, 2021	June 30, 2020
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.	$ 2,714,185	$ 2,803,490
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
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.	412,641	449,421
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
First Republic Bank $1,817,000 payroll protection program loan, established April 24, 2020, bears 1% interest annually; payments of principal and interest are deferred during the loan term, due in 2022.	-	1,816,900
	4,108,452	6,051,437
Less: Unamortized loan fees	(28,494)	(30,427)
	4,079,958	6,021,010
Less current portion	(130,289)	(126,766)
	$ 3,949,669	$ 5,894,244

Note 11. LONG-TERM DEBT (Continued):

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2021 are as follows:

Year Ending June 30,	
2022	$ 130,289
2023	133,927
2024	137,683
2025	141,561
Thereafter	3,536,498
	$ 4,079,958

Note 12. ACCRUED INTEREST PAYABLE:

Accrued interest payable consists of the following at June 30:

	2021	2020
Short Term:		
First Republic Bank	$ 3,900	$ 4,450
Long Term:		
City and County of San Francisco	205,209	195,999
City and County of San Francisco	381,029	389,993
	$ 590,138	$ 590,442

Note 13. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consisted of the following for the year ended June 30, 2021.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ 72,569	$ -	$ (72,569)	$ -
FLM Fund	759,444	199,058	(9,497)	949,005
Directors Fund	-	2,000,000	-	2,000,000
Residential & Housing	2,310	15,592	(17,902)	-
Job development/BAC work life	193,348	363,494	(332,481)	224,361
Youth work development	311,005	5,300	(68,657)	247,648
Shupin Fund	1,746,133	433,881	-	2,180,014
Path to College	-	56,708	(44,679)	12,029
Administration	3,499	-	(3,499)	-
Wellness	-	50,000	(50,000)	-
Client fund	-	10,970	(10,970)	-
Marin service	-	50	(50)	-
Total net assets with donor restrictions	$ 3,088,308	$ 3,135,053	$ (610,304)	$ 5,613,057

Net assets with donor restrictions consisted of the following for the year ended June 30, 2020.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ 93,660	$ -	$ (21,091)	$ 72,569
FLM Fund	781,727	124,753	(147,036)	759,444
Residential & Housing	45,295	2,000	(44,985)	2,310
Job development/BAC work life	455,869	410,426	(672,947)	193,348
Youth work development	587,539	22,130	(298,664)	311,005
Shupin Fund	1,798,407	94,538	(146,812)	1,746,133
Administration	19,647	34,938	(51,086)	3,499
Wellness	5,000	70,000	(75,000)	-
Client fund	-	21,799	(21,799)	-
Marin service	-	66,096	(66,096)	-
Total net assets with donor restrictions	$ 3,787,144	$ 846,680	$ (1,545,516)	$ 3,088,308

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 $136,970 and $125,783 for the years ended June 30, 2021 and June 30, 2020, 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, 2021 and 2020 were $113,373 and $159,260, respectively. The Organization also has five vehicle leases, one ending in 2022 and four ended in 2025. In addition, there is also a 60-month copier lease expiring in 2024 and a 39-month postage meter lease expiring in 2022.

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

Year Ending June 30,		
2022	$	55,437
2023		30,627
2024		30,588
2025		7,640
	$	124,292

Note 16. 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.

Note 17. COVID 19 IMPACT:

As a result of the spread of COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact revenue and operating results. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The related financial statement impact and duration cannot be reasonably estimated at this time.