The Arc
San Francisco
For people with intellectual and developmental disabilities

THE ARC SAN FRANCISCO

(A California Not-For-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND JUNE 30, 2016

RINA
accountancy corporation

THE ARC SAN FRANCISCO

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JUNE 30, 2017 AND 2016

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Independent Auditors' Report

The Board of Directors
The Arc San Francisco

We have audited the accompanying consolidated financial statements of The Arc San Francisco (a California not-for-profit corporation), which comprise the consolidated statements of financial position as of June 30, 2017 and June 30, 2016, 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, 2017 and June 30, 2016 and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rina Accountancy Corporation

Certified Public Accountants

San Francisco, California
January 30, 2018

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2017	June 30, 2016
CURRENT:		
Cash and cash equivalents	$ 303,290	$ 238,224
Receivables, net:		
Trade	891,457	800,153
Pledges	741,191	310,629
Other	202	268
Prepaid expenses and deposits	34,509	32,412
Other assets	105,392	97,675
Restricted cash	65,230	65,800
Investments	2,197,569	1,956,633
TOTAL CURRENT ASSETS	4,338,840	3,501,794
LONG TERM:		
Receivables, net of current portion:		
Pledges	84,484	110,980
Related party	-	549,312
Tenants security deposits (held in trust)	4,524	-
Restricted deposits and funded reserves:		
Mortgage impound accounts	18,741	-
Operating reserve	24,833	58,374
Replacement reserve	64,628	-
Restricted endowment	2,357,127	2,131,417
Investment in partnership	-	12,841
Property and equipment, net	6,261,105	4,457,942
Deposits	7,683	8,336
TOTAL ASSETS	$ 13,161,965	$ 10,830,996

LIABILITIES AND NET ASSETS	June 30, 2017	June 30, 2016
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 273,969	$ 243,034
Accrued compensated absences	418,078	366,031
Interest payable, current portion	4,450	15,088
Tenants' security deposits	4,258	-
Notes payable, current portion	122,211	77,685
Deferred rental income	7,866	-
TOTAL CURRENT LIABILITIES	830,832	701,838
LONG TERM LIABILITIES:		
Interest payable, net of current portion	634,526	159,159
Notes payable, net of current portion	4,538,336	2,960,657
Obligation under interest rate swap	-	308,132
Deposits	9,500	9,500
TOTAL LIABILITIES	6,013,194	4,139,286
NET ASSETS:		
Unrestricted	4,037,289	3,819,928
Temporarily restricted	3,111,482	2,871,782
TOTAL NET ASSETS	7,148,771	6,691,710
TOTAL LIABILITIES AND NET ASSETS	$ 13,161,965	$ 10,830,996

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 8,727,629	$ -	$ 8,727,629
Contracts	529,977	-	529,977
Contributions	186,239	849,411	1,035,650
Revenue from special events, net of costs of $70,510	305,207	-	305,207
Revenue from special activities	1,285	-	1,285
Rental income	344,673	-	344,673
Sublease income	119,100		119,100
Interest and dividends	36,449	38,684	75,133
Other income	45,924	-	45,924
Net assets released from restrictions	885,858	(885,858)	-
TOTAL REVENUE	11,182,341	2,237	11,184,578
EXPENSES:			
Program services	10,386,860	-	10,386,860
Supporting services:			
Management and general	461,539	-	461,539
Fundraising	389,416	-	389,416
TOTAL EXPENSES	11,237,815	-	11,237,815
INCREASE (DECREASE) IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CHANGE IN VALUE OF SWAP AGREEMENT	(55,474)	2,237	(53,237)
INCREASE IN FAIR VALUE OF INTEREST RATE SWAP	72,632	-	72,632
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	200,203	237,463	437,666
CHANGE IN NET ASSETS	217,361	239,700	457,061
NET ASSETS, beginning of year	3,819,928	2,871,782	6,691,710
NET ASSETS, end of year	$ 4,037,289	$ 3,111,482	$ 7,148,771

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE:			
Fees for services	$ 7,928,595	$ -	$ 7,928,595
Contracts	538,073	-	538,073
Contributions	219,330	759,026	978,356
Revenue from special events, net of costs of $93,451	333,136	-	333,136
Revenue from special activities	44,237	-	44,237
Rental income	167,612	-	167,612
Sublease income	79,400	-	79,400
Interest and dividends	39,848	45,284	85,132
Other income	43,081	-	43,081
Net assets released from restrictions	812,761	(812,761)	-
TOTAL REVENUE	10,206,073	(8,451)	10,197,622
EXPENSES:			
Program services	9,419,763	-	9,419,763
Supporting services:			
Management and general	366,254	-	366,254
Fundraising	394,233	-	394,233
TOTAL EXPENSES	10,180,250	-	10,180,250
INCREASE (DECREASE) IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CHANGE IN VALUE OF SWAP AGREEMENT	25,823	(8,451)	17,372
INCREASE IN FAIR VALUE OF INTEREST RATE SWAP	(5)	-	(5)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	(34,982)	(45,224)	(80,206)
CHANGE IN NET ASSETS	(9,164)	(53,675)	(62,839)
NET ASSETS, beginning of year	3,829,092	2,925,457	6,754,549
NET ASSETS, end of year	$ 3,819,928	$ 2,871,782	$ 6,691,710

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

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

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	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	$ 4,929,396	$ 972,358	$ 1,034,365	$ 925,692	$ 7,861,811	$ 179,952	$ 280,205	$ 8,321,968
Professional fees and contract services	217,093	66,719	78,456	43,374	405,642	51,835	44,876	502,353
Occupancy	201,966	29,387	20,886	58,294	310,533	26,148	2,531	339,212
Depreciation and amortization	110,087	25,884	23,268	20,506	179,745	29,195	2,340	211,280
Interest	104,833	24,807	22,350	19,697	171,687	28,044	2,248	201,979
Communication	111,342	16,520	17,950	17,079	162,891	22,522	5,890	191,303
Transportation	82,585	79	27,959	509	111,132	108	165	111,405
Insurance and taxes	37,071	7,679	7,890	6,954	59,594	9,900	794	70,288
Miscellaneous	35,151	3,883	7,528	4,730	51,292	5,255	1,068	57,615
Supplies	32,110	3,781	4,357	4,227	44,475	5,076	665	50,216
Bad debts	-	-	-	-	-	-	49,772	49,772
Dues and subscriptions	19,252	3,491	3,793	3,343	29,879	4,759	3,401	38,039
Conference and meeting	13,529	2,284	2,512	3,384	21,709	3,114	250	25,073
Rental and maintenance	2,900	254	5,976	243	9,373	346	28	9,747
TOTAL EXPENSES	$ 5,897,315	$ 1,157,126	$ 1,257,290	$ 1,108,032	$ 9,419,763	$ 366,254	$ 394,233	$ 10,180,250

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2017		Year Ended June 30, 2016	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets		$ 457,061		$ (62,839)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	$ 202,352		$ 208,464	
Net realized and unrealized (gain) loss from investments	(437,666)		80,206	
Realized (gain) loss on swap agreement	(72,632)		5	
Loss on fixed asset disposal	1,266		-	
Net loss from investment in partnership	-		20	
Interest expense - amortization of loan fees	2,556		2,816	
Loss on write off of loan fees	8,683		-	
Decrease (increase) in:				
Receivables, net	(495,305)		111,965	
Related party receivables	549,312		35,015	
Prepaid expenses and deposits	2,738		(6,098)	
Other assets	(7,720)		10,637	
Restricted cash	570		2,803	
Tenant's security deposits	(339)		-	
Mortgage impound accounts	(6,702)		-	
Increase (decrease) in:				
Accounts payable and accrued expenses	24,350		22,783	
Accrued compensated absences	52,047		2,253	
Deferred rental income	1,010		-	
Tenant's security deposits liability	339		-	
Deferred ground lease	(476,819)		-	
Management fee payable	(44,000)		-	
Interest payable	21,882	(674,077)	8,038	478,907
NET CASH PROVIDED BY OPERATING ACTIVITIES		(217,016)		416,068
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(4,500)		-	
Net increase in restricted deposits for replacement reserve	(34,199)		-	
Net increase in restricted deposits for operating activities	(843)		-	
Proceeds from sale of investments	1,430,194		2,104,015	
Purchase of investments	(1,459,173)		(2,066,147)	
Net decrease (increase) in operating reserve	58,374		(87)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		(10,147)		37,781
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payoff of swap agreement	(235,500)		-	
Loan fees	(22,691)		-	
Line of credit, net	-		(260,000)	
Repayment of capital lease obligation	-		(38,430)	
Issuance of notes payable	3,100,000		-	
Repayment of notes payable	(2,713,100)		(72,733)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		128,709		(371,163)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(98,454)		82,686

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH AND CASH EQUIVALENTS, beginning of year	401,743	155,538
CASH AND CASH EQUIVALENTS, end of year	$ 303,290	$ 238,224
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 140,456	$ 193,941

During the year ended June 30, 2017 the organization aquired the
Apartments L.P.

Cash	$ 163,519
Property and equipment	1,965,791
Other assets	126,234
Investment in partnership (percentage owned before consolidation	(12,841)
Long term debt	(1,261,678)
Other liabilities	$ (981,025)

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, 2017 financial statements:

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

Basis of accounting:

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

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.

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

Financial statement presentation (continued):

Temporarily restricted net assets:

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

Permanently restricted net assets:

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

Cash equivalents:

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

Receivables:

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

Contributions and trade receivables are stated at the amounts management expects to collect from outstanding balances. Management provides an allowance for doubtful accounts based on management's assessment of collectability of the current aging of the accounts. The allowance for doubtful accounts was $25,776 and $12,982 for the years ended June 30, 2017 and 2016, 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 unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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

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

Property and equipment (continued):

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 ending years ended June 30, 2017 and June 30, 2016.

Other assets:

The Organization uses an outside organization to reserve for potential unemployment liabilities. The balance at June 30, 2017 and 2016 is $105,392 and $97,675, respectively.

Loan fees:

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

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

Long term debt as of June 30, 2016 was previously reported on the balance sheet as $2,970,511 with the associated $9,854 unamortized debt issuance costs included in assets.

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's net income or loss is allocated among the partners in the same ratio as their ownership percentage. 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 statement of financial position. Unrealized gains and losses are included in the change in net assets.

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

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

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 unrestricted support, temporarily restricted support or permanently restricted support, depending on the absence or existence of donor-imposed restrictions, as applicable. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions where the restrictions are met in the same year as the contributions are received are reported as increases in unrestricted net assets.

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

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

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

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, 2017 and 2016, 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.

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 the change in net assets or financial position as previously reported.

Date of management's review:

Management has evaluated events through January 30, 2018, the date which the financial statements were available for issue. No significant events were identified that require any additional disclosure.

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS OF CREDIT RISK:

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

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, 2017, GGRC and DOR contributed approximately 72% and 2% of total revenue and support. For the year ended June 30, 2016, GGRC and DOR contributed approximately 75% and 2%, of total revenue and support. Trade receivables due from GGRC were 40% and 83% of the total outstanding balance for years ended June 30, 2017 and 2016, respectively.

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

Note 4. RESTRICTED DEPOSITS AND RESERVES:

Under the terms of the Arc Apartments limited partnership agreement (the "Agreement"), the Organization provides for the following:

Impound deposits:

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

Replacement reserve:

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

Operating reserve:

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

Tenant security deposits:

Under the terms of the Arc Apartments limited partnership agreement (the "Agreement"), the Organization provides for the following: the Organization is required to hold security deposits in a separate bank account in the name of The Arc Apartments, L.P.

Note 5. FAIR VALUE MEASUREMENTS:

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

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

	Investments at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,055,365	$ -	$ -	$ 4,055,365
	$ 4,055,365	$ -	$ -	4,055,365
Money market				32,685
Total investments at fair value				$ 4,088,050
Total investments				$ 1,956,633
Total restricted endowment				2,131,417
				$ 4,088,050

Note 6. ENDOWMENTS:

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

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

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

Note 6. ENDOWMENTS (Continued):

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

Balance, June 30, 2015	$ 2,232,352
Interest and dividends	45,284
Net realized/unrealized gain	(68,235)
Contributions	-
Investment fee	(12,184)
Appropriations	(65,800)
Balance, June 30, 2016	2,131,417
Interest and dividends	38,684
Net realized/unrealized gain	264,068
Contributions	-
Investment fee	(11,812)
Appropriations	(65,230)
Balance, June 30, 2017	$ 2,357,127

	2017	2016
Shupin Fund	$ 1,662,121	$ 1,537,319
FLM Fund	695,006	594,098
	$ 2,357,127	$ 2,131,417

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 7. CONTRIBUTIONS RECEIVABLE:

Contributions receivable are comprised of the following at June 30:

	2017	2016
Contribution receivable	$ 850,870	$ 434,010
Less allowance for doubtful contributions	(25,195)	(12,401)
Balances	$ 825,675	$ 421,609
Classified as:		
Current	$ 741,191	$ 310,629
Long-term	84,484	110,980
	$ 825,675	$ 421,609

Note 8. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	June 30, 2017	June 30, 2016
Land	$ 3,025,408	$ 3,025,408
Buildings and improvements	6,072,670	3,036,167
Office furniture, machinery and equipment	487,968	483,468
Vehicles	29,990	29,990
Software	149,035	149,035
Totals	9,765,071	6,724,068
Less accumulated depreciation	(3,503,966)	(2,266,126)
Property and equipment, net	$ 6,261,105	$ 4,457,942

Depreciation expense was $202,352 and $208,464 for the years ended June 30, 2017 and 2016, respectively.

Note 9. LINE OF CREDIT:

The Organization has a $500,000 revolving line of credit with First Republic Bank, of which $0 was outstanding at June 30, 2017 and 2016, respectively. 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 December 15, 2017.

Note 10. 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, 2016, 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.

Note 10. LONG-TERM DEBT (Continued):

On November 15, 2016, this interest rate swap agreement was refinanced with First Republic Bank and the amount recaptured on the interest rate swap agreement from the refinance of debt was $72,632.

Maturities of long-term notes are as follows:

	June 30, 2017	June 30, 2016
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 payments of principal and interest of $20,955, interest is calculated at LIBOR + 2.75%. Final payment due January 1, 2020.	$ -	$ 2,635,489
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.	3,056,951	-
City and County of San Francisco $307,000 loan, bears 3.00% simple interest; due 2039; secured by real property with a book value of $4,100,000; payments of principal and interest are payable out of residual receipts, as defined, annually on March 1.	307,000	307,000
Wells Fargo $160,000 loan; bears variable interest; requires monthly payment of principal and interest and is payable in full in 2032. Interest rate as of June 30, 2017 was 3.67%.	100,618	105,707
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 $4,757.	557,579	-
City and County of San Francisco maximum amount $530,626 loan, bears 5% simple interest annually; payments of principal and interest are deferred during the loan term, due in 2039; interest in the amount of $22,109 was incurred during the year.	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 $1,200 was incurred during the year.	144,000	-
	4,696,774	3,048,196
Less: Unamortized loan fees	(36,227)	(9,854)
	4,660,547	3,038,342
Less current portion	(122,211)	(77,685)
	$ 4,538,336	$ 2,960,657

Note 10. LONG-TERM DEBT (Continued):

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2017 are as follows:

Years Ending June 30,		
2018	$	122,211
2019		125,269
2020		128,804
2021		132,455
2022		136,227
Thereafter		4,051,808
	$	4,696,774

Note 11. ACCRUED INTEREST PAYABLE:

Accrued interest payable consists of the following at June 30:

		2017		2016
Short Term				
First Republic Bank	$	4,450	$	-
Union Bank		-		15,088
Long Term				
Wells Fargo		168,369		159,159
City and County of San Francisco		466,157		-
	$	638,976	$	174,247

Note 12. CAPITAL LEASE OBLIGATIONS:

The Organization leased certain furniture and equipment under capital leases. The amount capitalized was $174,442 and accumulated amortization under these agreements was $174,442 at June 30, 2016. The leases expired in various years through June 30, 2016. Interest expense under these leases was $2,010 for 2016.

Note 13. AQUISTION OF ARC APARMENTS L.P.:

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

Note 14. TEMPORARILY RESTRICTED NET ASSETS:

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

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

Temporarily restricted net assets consisted of the following for the year ended at June 30, 2016.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ -	$ 94,260	$ -	$ 94,260
Operating deficit reserve	58,287	86	-	58,373
FLM Fund	737,605	238,689	(248,072)	728,222
Housing advocacy	59,149	99	(59,248)	-
Job development/BAC work life	2,500	407,966	(100,466)	310,000
Senior program/wellness	129,089	26,363	(124,923)	30,529
Shupin Fund	1,682,295	(13,377)	(65,800)	1,603,118
Marin services	222,392	5,000	(200,112)	27,280
Major gifts	34,140	-	(14,140)	20,000
Total temporarily restricted assets	$ 2,925,457	$ 759,086	$ (812,761)	$ 2,871,782

Note 15. 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 $117,810 and $108,186 for the years ended June 30, 2017 and 2016, respectively.

Note 16. LEASE COMMITMENTS:

The Organization leases facilities in San Rafael and Daly City. Rentals under these leases for the years ended June 30, 2017 and 2016 were $157,875 and $198,565, respectively. The Organization also has four vehicle leases for the year ended June 30, 2017. One lease is a 48-month lease expiring in 2019, two leases are 36-month leases expiring in 2019 and one lease is a 36-month lease expiring in 2020. In addition, there are also two 60-month copier leases; one expires in 2021 and one expires in 2019.

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

Years Ending June 30,	
2018	$ 153,080
2019	134,095
2020	126,124
2021	71,634
2022	22,501
	$ 507,434

Note 17. SUBLEASE INCOME:

The Organization subleases a facility in San Francisco beginning November 1, 2015 and expiring June 30, 2018 at a rate of $9,700 per month. Rentals under the lease for the year ended June 30, 2017 was $119,100.

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

Years Ending June 30,	
2018	$ 121,500

Note 18. 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.