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, 2022 AND JUNE 30, 2021

Aprio
Passionate for what's next

Advisory Assurance Tax Private Client

THE ARC SAN FRANCISCO

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Independent Auditors' Report

The Board of Directors
The Arc San Francisco

Opinion

We have audited the accompanying consolidated financial statements of The Arc San Francisco (a California not-for-profit corporation), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Arc San Francisco as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Arc San Francisco to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The consolidated financial statements as of June 30, 2021, were audited by RINA Accountancy LLP, who merged with Aprio LLP as of August 1, 2022, and whose report dated February 24, 2022, expressed an unmodified opinion on those consolidated statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc San Francisco's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arc San Francisco's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arc San Francisco's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Armanino, LLP

San Francisco, California
May 12, 2023

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2022	June 30, 2021
CURRENT:		
Cash and cash equivalents	$ 1,123,236	$ 1,829,736
Receivables, net:		
Trade	863,984	936,909
Pledges	104,610	285,140
Other	-	264
Prepaid expenses and deposits	35,704	41,384
Other assets	25,446	20,371
Restricted cash	-	71,637
Investments	7,264,594	6,984,143
TOTAL CURRENT ASSETS	9,417,574	10,169,584
LONG TERM:		
Receivables, net of current portion:		
Pledges	174,213	215,875
Tenants security deposits (held in trust)	3,641	3,870
Restricted deposits and funded reserves:		
Insurance impound accounts	36,593	24,513
Operating reserve	60,718	59,717
Replacement reserve	144,859	129,538
Restricted endowment	4,305,395	4,932,998
Property and equipment, net	5,935,948	5,804,380
Deposits	2,690	2,690
TOTAL ASSETS	$ 20,081,631	$ 21,343,165
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 496,724	$ 416,425
Accrued compensated absences	448,445	469,228
Interest payable, current portion	12,418	3,900
Tenants' security deposits	3,641	3,870
Notes payable, current portion	133,926	130,289
Deferred rental income	15,626	15,798
TOTAL CURRENT LIABILITIES	1,110,780	1,039,510
LONG TERM LIABILITIES:		
Interest payable, net of current portion	522,388	586,238
Notes payable, net	3,817,779	3,949,669
Deposits	-	20,000
TOTAL LIABILITIES	5,450,947	5,595,417
NET ASSETS:		
Without Donor Restriction	10,115,644	10,134,691
With Donor Restriction	4,515,040	5,613,057
TOTAL NET ASSETS	14,630,684	15,747,748
TOTAL LIABILITIES AND NET ASSETS	$ 20,081,631	$ 21,343,165

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
REVENUE:			
Fees for services	$ 10,138,134	$ -	$ 10,138,134
Contracts	58,188	-	58,188
Contributions	427,981	799,941	1,036,859
Revenue from special events, net of costs of $45,023	175,158	-	175,158
Rental income	660,267	-	660,267
Interest and dividends, net	121,543	66,419	187,962
Other income	104,915	-	104,915
Net assets released from restrictions	1,295,678	(1,295,678)	-
TOTAL REVENUE	12,981,864	(429,318)	12,552,546
EXPENSES:			
Programs and services	10,911,988	-	10,911,988
Supporting services:			
Management and general	376,898	-	376,898
Fundraising	608,345	-	608,345
TOTAL EXPENSES	11,897,231	-	11,897,231
INCREASE (DECREASE) IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	1,084,633	(429,318)	655,315
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	(1,103,680)	(668,699)	(1,772,379)
CHANGE IN NET ASSETS	(19,047)	(1,098,017)	(1,117,064)
NET ASSETS, beginning of year	10,134,691	5,613,057	15,747,748
NET ASSETS, end of year	$ 10,115,644	$ 4,515,040	$ 14,630,684

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 LOSS ON INVESTMENTS	2,744,789	1,936,172	4,680,961
NET REALIZED AND UNREALIZED LOSS 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 FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	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	$ 23,024	$ 1,061,463	$ 1,146,414	$ 6,549,764	$ 8,780,665	$ 145,434	$ 441,991	$ 9,368,090
Professional fees and contract services	32,983	97,207	88,934	548,449	767,573	100,322	101,575	969,470
Occupancy	73,189	28,672	31,529	211,623	345,013	36,227	11,123	392,363
Deprecation and amortization	71,040	18,219	19,741	113,454	222,454	21,816	3,582	247,852
Communication	11,449	17,225	18,663	108,769	156,106	21,871	15,768	193,745
Supplies	-	14,468	15,989	106,112	136,569	15,999	4,241	156,809
Insurance and taxes	47,372	8,916	9,660	55,521	121,469	11,321	1,859	134,649
Interest	3,926	10,488	11,364	65,311	91,090	13,318	2,187	106,594
Transportation	-	9,016	9,868	58,139	77,023	76	-	77,099
Dues and subscriptions	-	5,431	5,884	33,881	45,196	6,821	6,358	58,375
Rental and maintenance of equipment	41,890	1,507	1,632	10,106	55,135	-	-	55,135
Conference and meetings	26	4,183	10,076	29,339	43,624	1,696	2,739	48,059
Bad debts	-	-	-	2,545	2,545	-	10,278	12,823
Miscellaneous	1,448	7,657	9,360	49,062	67,527	1,997	6,644	76,168
TOTAL EXPENSES	$ 306,347	$ 1,284,452	$ 1,379,114	$ 7,942,075	$ 10,911,988	$ 376,898	$ 608,345	$ 11,897,231

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
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
Rental and maintenance of equipment	16,757	1,211	1,382	7,204	26,554	-	-	26,554
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 CASH FLOWS

	Year Ended June 30, 2022		Year Ended June 30, 2021	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets		$ (1,117,064)		$ 6,196,541
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation	$ 245,918		$ 210,711	
Net realized and unrealized gain from investments	(1,308,348)		(1,515,580)	
PPP grant income	-		(1,816,900)	
Interest expense - amortization of loan fees	1,934		1,934	
Decrease (increase) in:				
Receivables, net	295,383		517,039	
Prepaid expenses and deposits	5,684		24,939	
Other assets	(5,080)		57,317	
Restricted cash	71,637		(2,521)	
Tenant's security deposits	229		341	
Mortgage impound accounts	(12,080)		(8,727)	
Increase (decrease) in:				
Accounts payable and accrued expenses	80,299		135,103	
Accrued compensated absences	(20,783)		(35,469)	
Deferred rental income	(172)		2,152	
Tenant's security deposits liability	(229)		-	
Deferred ground lease	(20,000)		-	
Interest payable	(55,332)	(720,940)	(304)	(2,429,965)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		(1,838,004)		3,766,576
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(377,487)		(152,478)	
Net decrease in restricted deposits for replacement reserve	(15,321)		(25,917)	
Net increase in restricted deposits for operating activities	(1,001)		(26,456)	
Proceeds from sale of investments	1,826,826		4,683,421	
Purchase of investments	(171,326)		(9,138,318)	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		1,261,691		(4,659,748)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of notes payable	(130,187)		(126,086)	
NET CASH USED BY FINANCING ACTIVITIES		(130,187)		(126,086)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(706,500)		(1,019,258)
CASH AND CASH EQUIVALENTS, beginning of year		1,829,736		2,848,994
CASH AND CASH EQUIVALENTS, end of year		$ 1,123,236		$ 1,829,736
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest		$ 165,204		$ 114,157

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, 2022 and June 30, 2021 financial statements:

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

Basis of accounting:

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

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

Financial statement presentation:

The Organization 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:

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.

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 $9,937 and $15,541 for the years ended June 30, 2022 and 2021, 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

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

Property and equipment (continued):

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 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, 2022 and June 30, 2021.

Other assets:

The Organization uses an outside organization to reserve for potential unemployment liabilities. The balance at June 30, 2022 and 2021 is $25,446 and $20,371, 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.

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.

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

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, 2022 or 2021. 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 May 12, 2023, 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 institutions. The Organization maintains cash balances at two commercial banks, and these balances can exceed the FDIC insured deposit limit of $250,000 per financial institution. At June 30, 2022 and June 30, 2021, The Organization's cash balances held at the commercial banks exceeded the FDIC limit by approximately $665,000 and $3,045,000. The Organization has not experienced any losses through the date when the financial statements were available to be issued.

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, 2022, GGRC and DOR contributed approximately 94% and 0% of total revenue and support, respectively. For the year ended June 30, 2021, GGRC and DOR contributed approximately 47% and 2%, of total revenue and support, respectively. Trade receivables due from GGRC were 90% and 72% of the total outstanding balance for years ended June 30, 2022 and 2021, 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. 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, 2022	June 30, 2021
Financial assets, at year end:		
Cash and cash equivalents	$ 1,123,236	$ 1,829,736
Investments	7,264,594	6,984,143
Trade receivables	863,984	936,909
Pledges receivables	104,610	285,140
Other receivables	-	264
	9,356,424	10,036,192
Less those unavailable for general expenditure within one year due to:		
Restricted by donor for time or purpose	209,645	680,059
Financial assets available to meet cash needs for general expenditures within one year	$ 9,146,779	$ 9,356,133

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, 2022			
	Level 1	Level 2	Level 3	Total
Corporate bonds	$ 2,679,330	$ -	$ -	$ 2,679,330
Common stock	3,972,930	-	-	3,972,930
Exchange traded products	4,461,815	-	-	4,461,815
	$ 11,114,075	$ -	$ -	11,114,075
Money market				455,914
Total investments at fair value				$ 11,569,989
Total investments				$ 7,264,594
Total restricted endowment				4,305,395
				$ 11,569,989

	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

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, 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
Interest and dividends	132,266
Net realized/unrealized gain	(690,534)
Contributions	-
Investment fee	(21,835)
Appropriations	(47,500)
Balance, June 30, 2022	$ 4,305,395

Year-end endowment balances were as follows:

	2022	2021
Shupin Fund	$ 1,775,180	$ 2,027,163
FLM Fund	776,145	905,835
Directors' Fund	1,754,070	2,000,000
	$ 4,305,395	$ 4,932,998

Note 7. ENDOWMENTS (Continued):

Investment policy:

The Organization has adopted an investment policy that has the following objectives. These policies apply to all four of the investment funds:

- Protect funds from volatility and significant losses
- Earn sufficient returns to protect the Fund from the effects of inflation
- Provide long-term growth in the funds in excess of the 4% annual distribution threshold
- Provide a source of funds that furthers The Arc's mission and relevant strategic initiatives

Spending policy:

The annual distributions of the Shupin Fund, FML 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 distributions, 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 Board Directed Fund in excess of 4% to support portions of the operating budget, as necessary, requires the approval of a majority of the Board.

Note 8. CONTRIBUTIONS RECEIVABLE:

Contributions receivable are comprised of the following at June 30:

	2022	2021
Contribution receivable	$ 286,760	$ 513,956
Less: allowance for doubtful contributions	(7,937)	(12,941)
Balances	$ 278,823	$ 501,015
Classified as:		
Current	$ 104,610	$ 285,140
Long-term	174,213	215,875
	$ 278,823	$ 501,015

Note 9. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following at June 30:

	2022	2021
Land	$ 3,020,660	$ 3,020,660
Buildings and improvements	6,278,503	6,114,327
Office furniture, machinery and equipment	611,475	527,490
Vehicles	103,727	34,845
Software	297,064	236,620
Totals	10,311,429	9,933,942
Less accumulated depreciation	(4,375,481)	(4,129,562)
Property and equipment, net	$ 5,935,948	$ 5,804,380

Depreciation expense was $245,918 and $210,711 for the years ended June 30, 2022 and 2021, 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, 2022 and June 30, 2021. 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, 2023.

Note 11. LONG-TERM DEBT:

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

	June 30, 2022	June 30, 2021
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.	$ 2,621,146	$ 2,714,185
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.	375,492	412,641
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
	3,978,264	4,108,452
Less: Unamortized loan fees	(26,559)	(28,494)
	3,951,705	4,079,958
Less current portion	(133,926)	(130,289)
	$ 3,817,779	$ 3,949,669

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2022 are as follows:

Year Ending June 30,	
2023	$ 133,926
2024	137,681
2025	140,561
2026	145,566
2027	149,686
Thereafter	3,270,844
	$ 3,978,264

Note 12. ACCRUED INTEREST PAYABLE:

Accrued interest payable consists of the following at June 30:

	2022	2021
Short Term:		
First Republic Bank	$ 12,418	$ 3,900
Long Term:		
City and County of San Francisco	214,419	205,209
City and County of San Francisco	307,969	381,029
	$ 534,806	$ 590,138

Note 13. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consisted of the following for the year ended June 30, 2022.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
FLM Fund	$ 949,005	$ (113,448)	$ (47,500)	$ 788,057
Directors Fund	2,000,000	(245,930)	-	1,754,070
Residential & Housing	-	5,000	(5,000)	-
Job development/BAC work life	224,361	201,636	(414,341)	11,656
Youth work development	247,648	-	(128,206)	119,442
Shupin Fund	2,180,014	(257,710)	(150,000)	1,772,304
Path to College	12,029	412,052	(368,644)	55,437
Administration	-	4,407	-	4,407
Wellness	-	159,050	(149,383)	9,667
Client fund	-	17,404	(17,404)	-
Marin service	-	15,200	(15,200)	-
Total net assets with donor restrictions	$ 5,613,057	$ 197,661	$ (1,295,678)	$ 4,515,040

Note 13. NET ASSETS WITH DONOR RESTRICTIONS (Continued):

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

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 $186,048 and $136,970 for the years ended June 30, 2022 and June 30, 2021, 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, 2022 and 2021, were $127,332 and $113,373, respectively. The Organization also has four vehicle leases ending in fiscal year ending 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,	
2023	$ 151,985
2024	170,538
2025	162,348
2026	116,526
2027	106,017
Thereafter	24,830
	$ 732,244

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.