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, 2019 AND JUNE 30, 2018

RINA

THE ARC SAN FRANCISCO

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JUNE 30, 2019 AND 2018

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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, 2019 and June 30, 2018, 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, 2019 and June 30, 2018 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
November 14, 2019

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2019	June 30, 2018
CURRENT:		
Cash and cash equivalents	$ 650,388	$ 202,139
Receivables, net:		
Trade	946,286	847,363
Pledges	759,046	666,519
Other	3,135	11,080
Prepaid expenses and deposits	37,722	30,156
Other assets	94,217	100,759
Restricted cash	68,132	70,705
Investments	3,325,945	2,142,030
TOTAL CURRENT ASSETS	5,884,871	4,070,751
LONG TERM:		
Receivables, net of current portion:		
Pledges	629,140	538,928
Tenants security deposits (held in trust)	4,211	4,284
Restricted deposits and funded reserves:		
Insurance impound accounts	14,516	14,337
Operating reserve	27,166	25,928
Replacement reserve	89,930	76,871
Restricted endowment	2,414,713	2,388,681
Property and equipment, net	5,985,178	6,123,008
Deposits	7,690	7,674
TOTAL ASSETS	$ 15,057,415	$ 13,250,462

LIABILITIES AND NET ASSETS	June 30, 2019	June 30, 2018
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 298,366	$ 274,905
Accrued compensated absences	415,934	438,272
Interest payable, current portion	4,450	4,985
Tenants' security deposits	4,211	4,018
Notes payable, current portion	123,353	125,236
Line of credit	150,000	280,000
Deferred rental income	7,390	7,694
TOTAL CURRENT LIABILITIES	1,003,704	1,135,110
LONG TERM LIABILITIES:		
Interest payable, net of current portion	683,386	646,204
Notes payable, net	4,201,477	4,412,688
Deposits	20,000	9,500
TOTAL LIABILITIES	5,908,567	6,203,502
NET ASSETS:		
Without Donor Restriction	5,361,704	3,425,843
With Donor Restriction	3,787,144	3,621,117
TOTAL NET ASSETS	9,148,848	7,046,960
TOTAL LIABILITIES AND NET ASSETS	$ 15,057,415	$ 13,250,462

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
REVENUE:			
Fees for services	$ 8,619,929	$ -	$ 8,619,929
Contracts	482,095	-	482,095
Contributions	1,122,541	142,439	1,264,980
Revenue from special events, net of costs of $73,198	296,231	-	296,231
Rental income	624,464	-	624,464
Interest and dividends	39,285	39,292	78,577
Gain on sale of property	2,152,331	-	2,152,331
Other income	67,261	-	67,261
Net assets released from restrictions	77,149	(77,149)	-
TOTAL REVENUE	13,481,286	104,582	13,585,868
EXPENSES:			
Program services	10,677,036	-	10,677,036
Supporting services:			
Management and general	508,847	-	508,847
Fundraising	441,751	-	441,751
TOTAL EXPENSES	11,627,634	-	11,627,634
INCREASE IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	1,853,652	104,582	1,958,234
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	82,209	61,445	143,654
CHANGE IN NET ASSETS	1,935,861	166,027	2,101,888
NET ASSETS, beginning of year	3,425,843	3,621,117	7,046,960
NET ASSETS, end of year	$ 5,361,704	$ 3,787,144	$ 9,148,848

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restriction	With Donor Restriction	Total
REVENUE:			
Fees for services	$ 8,317,723	$ -	$ 8,317,723
Contracts	632,779	-	632,779
Contributions	822,558	547,993	1,370,551
Revenue from special events, net of costs of $85,958	216,807	-	216,807
Rental income	581,673	-	581,673
Interest and dividends	34,281	35,194	69,475
Other income	128,374	-	128,374
Net assets released from restrictions	188,276	(188,276)	-
TOTAL REVENUE	10,922,471	394,911	11,317,382
EXPENSES:			
Program services	10,715,178	-	10,715,178
Supporting services:			-
Management and general	512,242	-	512,242
Fundraising	391,978	-	391,978
TOTAL EXPENSES	11,619,398	-	11,619,398
INCREASE (DECREASE) IN NET ASSETS BEFORE NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CHANGE IN VALUE OF SWAP AGREEMENT	(696,927)	394,911	(302,016)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	85,481	114,724	200,205
CHANGE IN NET ASSETS	(611,446)	509,635	(101,811)
NET ASSETS, beginning of year	4,037,289	3,111,482	7,148,771
NET ASSETS, end of year	$ 3,425,843	$ 3,621,117	$ 7,046,960

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	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	$ 23,215	$ 1,133,102	$ 1,352,860	$ 6,550,687	$ 9,059,864	$ 287,289	$ 332,534	$ 9,679,687
Professional fees and contract services	22,880	58,744	48,851	252,434	382,909	55,981	58,668	497,558
Occupancy	69,327	37,911	26,267	191,697	325,202	43,857	6,199	375,258
Deprecation and amortization	79,993	14,145	13,250	66,066	173,454	22,355	2,007	197,816
Communication	-	18,231	20,598	109,112	147,941	32,937	6,755	187,633
Transportation	-	13,762	15,903	96,600	126,265	276	746	127,287
Insurance and taxes	46,004	7,849	8,497	42,791	105,141	14,905	1,338	121,384
Interest	5,024	13,733	12,762	63,632	95,151	22,388	2,010	119,549
Supplies	7,904	4,970	5,417	41,220	59,511	8,712	1,112	69,335
Dues and subscriptions	-	5,611	6,439	32,493	44,543	7,273	4,466	56,282
Rental and maintenance of equipment	34,363	1,229	1,423	8,423	45,438	164	15	45,617
Bad debts	-	-	-	17,107	17,107	-	24,181	41,288
Conference and meetings	131	1,181	6,086	7,055	14,453	2,012	236	16,701
Miscellaneous	1,188	9,721	10,678	58,470	80,057	10,698	1,484	92,239
TOTAL EXPENSES	$ 290,029	$ 1,320,189	$ 1,529,031	$ 7,537,787	$ 10,677,036	$ 508,847	$ 441,751	$ 11,627,634

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	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 and related payroll costs	$ 23,567	$ 1,185,447	$ 1,302,872	$ 6,351,537	$ 8,863,423	$ 241,557	$ 297,091	$ 9,402,071
Professional fees and contract services	14,860	89,177	70,075	369,593	543,705	93,361	61,484	698,550
Occupancy	67,556	52,438	25,727	183,841	329,562	39,655	4,260	373,477
Depreciation and amortization	77,319	15,779	15,608	77,616	186,322	26,111	2,369	214,802
Communication	-	23,122	22,872	118,841	164,835	35,271	7,263	207,369
Insurance and taxes	44,579	9,093	8,537	42,817	105,026	14,281	1,296	120,603
Interest	5,383	16,430	12,665	62,978	97,456	21,187	1,922	120,565
Transportation	-	19,023	19,425	111,352	149,800	11	-	149,811
Supplies	8,343	7,793	7,784	51,743	75,663	12,513	1,137	89,313
Dues and subscriptions	-	4,884	4,831	24,422	34,137	6,879	5,180	46,196
Rental and maintenance	25,162	1,339	1,365	7,297	35,163	67	6	35,236
Conference and meeting	42	2,654	2,947	13,740	19,383	3,149	365	22,897
Bad debts	-	-	-	2,265	2,265	-	7,440	9,705
Miscellaneous	138	15,115	14,999	78,186	108,438	18,200	2,165	128,803
TOTAL EXPENSES	$ 266,949	$ 1,442,294	$ 1,509,707	$ 7,496,228	$ 10,715,178	$ 512,242	$ 391,978	$ 11,619,398

See notes to consolidated financial statements.

THE ARC SAN FRANCISCO

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2019		Year Ended June 30, 2018	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets		$ 2,101,888		$ (101,811)
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	$ 195,787		$ 212,869	
Net realized and unrealized gain from investments	(143,654)		(200,205)	
Gain on fixed asset disposal	(2,152,331)		(10,563)	
Interest expense - amortization of loan fees	2,029		1,933	
Decrease (increase) in:				
Receivables, net	(273,718)		(335,994)	
Prepaid expenses and deposits	(7,578)		4,366	
Other assets	6,539		4,630	
Restricted cash	2,573		(1,036)	
Tenant's security deposits	73		240	
Mortgage impound accounts	(179)		4,404	
Increase (decrease) in:				
Accounts payable and accrued expenses	81,603		936	
Accrued compensated absences	(22,338)		20,194	
Deferred rental income	(304)		(172)	
Tenant's security deposits liability	193		(240)	
Deferred ground lease	10,500		-	
Interest payable	36,647	(2,264,158)	12,213	(286,425)
NET CASH USED BY OPERATING ACTIVITIES		(162,270)		(388,236)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(70,401)		(74,772)	
Net decrease in restricted deposits for replacement reserve	(13,059)		(12,243)	
Net increase in restricted deposits for operating activities	(1,238)		(1,095)	
Proceeds from sale of property	2,106,633		-	
Proceeds from sale of investments	3,648,303		1,520,581	
Purchase of investments	(4,714,596)		(1,300,830)	
NET CASH PROVIDED BY INVESTING ACTIVITIES		955,642		131,641
CASH FLOWS FROM FINANCING ACTIVITIES:				
Line of credit, net	(130,000)		280,000	
Repayment of notes payable	(215,123)		(124,556)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		(345,123)		155,444
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		448,249		(101,151)
CASH AND CASH EQUIVALENTS, beginning of year		202,139		303,290
CASH AND CASH EQUIVALENTS, end of year		$ 650,388		$ 202,139
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest		$ 83,918		$ 108,352

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2019 AND JUNE 30, 2018

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, 2019 and June 30, 2018 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. 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 $33,347 and $15,813 for the years ended June 30, 2019 and 2018, respectively. Receivable balances still outstanding after management has used reasonable collection efforts are written off.

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

Property and equipment:

All acquisitions of property and equipment in excess of $2,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over useful lives ranging from 3 to 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 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, 2019 and June 30, 2018.

Other assets:

The Organization uses an outside organization to reserve for potential unemployment liabilities. The balance at June 30, 2019 and 2018 is $94,217 and $100,759, 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.

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. Due to federal tax law changes effective January 1, 2018, management believes the Organization may be subject to unrelated business income tax on certain employee benefits. Management is monitoring related tax matters and believes any tax will be immaterial to the financial statements.

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

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).

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.

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

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.

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, 2019 or 2018. 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 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 change in net assets or financial position as previously reported.

Accounting changes:

In August 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-14 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and noes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. ASU 2016-14 has been adopted for the June 30, 2019 financial statements.

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

Date of management's review:

Management has evaluated events through November 14, 2019, the date which the financial statements were available for issue. No significant events were identified that require any additional disclosure.

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS OF CREDIT RISK:

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

A significant amount of the Organization's costs of providing services are reimbursed by the Golden Gate Regional Center (GGRC) and State Department of Rehabilitation (DOR). These services and programs are entitlements for persons with developmental disabilities. The Organization depends heavily on these reimbursements for its revenue, and its ability to obtain reimbursements at a sufficient economic level may be dependent upon current and future overall economic conditions. For the year ended June 30, 2019, GGRC and DOR contributed approximately 61% and 1% of total revenue and support. For the year ended June 30, 2018, GGRC and DOR contributed approximately 69% and 2%, of total revenue and support. Trade receivables due from GGRC were 32**%** of the total outstanding balance for years ended June 30, 2019 and 2018, 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:

Financial assets, at year end:	
Cash and cash equivalents	$ 650,388
Investments	3,325,945
Trade receivables	946,286
Pledges receivables	759,046
Other receivables	3,135
	5,684,800
Less those unavailable for general expenditure within year year due to:	
Restricted by donor for time or purpose	1,372,431
Financial assets available to meet cash needs for general expenditures within one year	$ 4,312,369

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.

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

	Investments at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 5,674,286	$ -	$ -	$ 5,674,286
	$ 5,674,286	$ -	$ -	5,674,286
Money market				66,372
Total investments at fair value				$ 5,740,658
Total investments				$ 3,325,945
Total restricted endowment				2,414,713
				$ 5,740,658

	Investments at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,507,671	$ -	$ -	$ 4,507,671
	$ 4,507,671	$ -	$ -	4,507,671
Money market				23,040
Total investments at fair value				$ 4,530,711
Total investments				$ 2,142,030
Total restricted endowment				2,388,681
				$ 4,530,711

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.

Note 7. ENDOWMENTS (Continued):

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

Balance, June 30, 2017	$ 2,357,127
Interest and dividends	48,667
Net realized/unrealized gain	183,987
Contributions	-
Investment fee	(13,472)
Appropriations	(187,628)
Balance, June 30, 2018	2,388,681
Interest and dividends	52,731
Net realized/unrealized gain	53,112
Contributions	-
Investment fee	(13,439)
Appropriations	(66,372)
Balance, June 30, 2019	$ 2,414,713

	2019	2018
Shupin Fund	$ 1,705,766	$ 1,698,824
FLM Fund	708,947	689,857
	$ 2,414,713	$ 2,388,681

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 8. CONTRIBUTIONS RECEIVABLE:

Contributions receivable are comprised of the following at June 30:

	2019	2018
Contribution receivable	$ 1,421,533	$ 1,221,260
Less: allowance for doubtful contributions	(33,347)	(15,813)
Balances	$ 1,388,186	$ 1,205,447
Classified as:		
Current	$ 759,046	$ 666,519
Long-term	629,140	538,928
	$ 1,388,186	$ 1,205,447

Note 9. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30:

	2019	2018
Land	$ 3,020,660	$ 3,036,510
Buildings and improvements	5,971,393	6,100,155
Office furniture, machinery and equipment	493,682	494,885
Vehicles	34,845	-
Software	202,701	178,300
Totals	9,723,281	9,809,850
Less accumulated depreciation	(3,738,103)	(3,686,842)
Property and equipment, net	$ 5,985,178	$ 6,123,008

Depreciation expense was $195,787 and $212,869 for the years ended June 30, 2019 and 2018, respectively.

Note 10. LINE OF CREDIT:

The Organization has a $750,000 revolving line of credit with First Republic Bank, of which $150,000 and $280,000 were outstanding at June 30, 2019 and June 30, 2018, 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 April 30, 2020.

Note 11. LONG-TERM DEBT:

Maturities of long-term notes are as follows:

	June 30, 2019	June 30, 2018
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.	$ 2,889,730	$ 2,973,275
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, 2018 was 3.9%.	-	95,431
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	485,835	521,886
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
	4,357,191	4,572,218
Less: Unamortized loan fees	(32,361)	(34,294)
	4,324,830	4,537,924
Less current portion	(123,353)	(125,236)
	$ 4,201,477	$ 4,412,688

Note 11. LONG-TERM DEBT (Continued):

Scheduled principal repayments on long-term obligations for the years subsequent to June 30, 2019 are as follows:

Year Ending June 30,	
2020	$ 123,353
2021	126,766
2022	130,289
2023	133,927
2024	137,683
Thereafter	3,705,173
	$ 4,357,191

Note 12. ACCRUED INTEREST PAYABLE:

Accrued interest payable consists of the following at June 30:

	2019	2018
Short Term:		
First Republic Bank	$ 4,450	$ 4,985
Long Term:		
City and County of San Francisco	186,789	177,579
City and County of San Francisco	496,597	468,625
	$ 687,836	$ 651,189

Note 13. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consisted of the following for the year ended June 30, 2019.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ 94,260	$ -	$ (600)	$ 93,660
FLM Fund	746,099	39,639	(4,011)	781,727
Residential & Housing	77,733	-	(32,438)	45,295
Job development/BAC work life	311,224	144,645	-	455,869
Youth work development	631,650	-	(44,111)	587,539
Shupin Fund	1,760,151	47,696	(9,440)	1,798,407
Administration	-	19,647	-	19,647
Wellness	-	5,000	-	5,000
Total net assets with donor restrictions	$ 3,621,117	$ 256,627	$ (90,600)	$ 3,787,144

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

Net assets with donor restrictions consisted of the following for the year ended June 30, 2018.

	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
Capital improvements	$ 94,260	$ -	$ -	$ 94,260
FLM Fund	747,347	125,246	(126,494)	746,099
Residential & Housing	43,025	34,708	-	77,733
Job development/BAC work life	499,500	-	(188,276)	311,224
Youth work development	-	631,650	-	631,650
Shupin Fund	1,727,350	107,408	(74,607)	1,760,151
Total net assets with donor restrictions	$ 3,111,482	$ 899,012	$ (389,377)	$ 3,621,117

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 $116,739 and $116,808 for the years ended June 30, 2019 and June 30, 2018, 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, 2019 and 2018 were $157,193 and $166,770, respectively. The Organization also has seven vehicle leases for the year ended June 30, 2019. One lease is a 48-month lease with a 6-month extension expiring in 2019, two leases are 36-month leases with 6-month extensions expiring in 2019, one is a 36-month lease expiring in 2019, two leases are 36-month leases expiring in 2020 and one lease is a 38-month leases expiring 2021. In addition, there are 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,	
2020	$ 135,223
2021	75,081
2022	53,892
2023	30,627
2024	30,558
Thereafter	7,640
	$ 333,021

Note 16. SUBLEASE INCOME:

The Organization subleases a facility in San Francisco beginning July 1, 2018 and expiring June 30, 2021 at a rate of $10,000 per month. Rental income under the lease for the year ended June 30, 2019 and June 30, 2018 was $125,460 and $121,500, respectively.

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

Year Ending June 30,	
2020	$ 123,000
2021	$ 126,000

Note 17. 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.