

LARKIN STREET YOUTH SERVICES

JUNE 30, 2018



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Larkin Street Youth Services

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
LARKIN STREET YOUTH SERVICES
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **LARKIN STREET YOUTH SERVICES (Larkin Street)**, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Larkin Street's preparation and fair presentation of 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 Larkin Street's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Larkin Street Youth Services as of June 30, 2018, 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.

Other Matter

Report on Summarized Comparative Information

We have previously audited Larkin Street's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
December 12, 2018

Larkin Street Youth Services

Statement of Financial Position

<i>June 30, 2018 (with comparative totals for 2017)</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 86,178	\$ 1,709,005
Restricted cash	453,186	500,144
Short-term investments	938,263	35,329
Contributions receivable	2,325,362	1,698,249
Government contracts receivable	2,621,868	981,408
Property and equipment, net	13,683,054	12,662,622
Other assets	420,028	477,728
Total Assets	\$ 20,527,939	\$ 18,064,485
Liabilities and Net Assets		
Liabilities:		
Line of credit		\$ 750,000
Accounts payable and accrued expenses	\$ 1,944,937	1,924,637
Client deposits	320,770	333,710
Notes payable	5,671,031	5,209,497
Loans payable	3,820,949	3,820,949
Total liabilities	11,757,687	12,038,793
Net Assets:		
Unrestricted	6,073,810	2,950,915
Temporarily restricted	2,696,442	3,074,777
Total net assets	8,770,252	6,025,692
Total Liabilities and Net Assets	\$ 20,527,939	\$ 18,064,485

See accompanying notes to financial statements.

Larkin Street Youth Services

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018 (with comparative totals for 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Support:				
Government contract revenue	\$ 12,417,015		\$ 12,417,015	\$ 10,873,766
Grants and other contributions	3,975,807	\$ 3,130,582	7,106,389	4,919,299
Capital campaign			-	348,000
Special events (net of direct expenses of \$329,178 for 2018)	809,684	388,997	1,198,681	1,263,437
Net investment (loss)	(12,831)		(12,831)	
Other income	297,546		297,546	226,853
Net assets released from restrictions	2,633,457	(2,633,457)	-	-
Total revenue and support	20,120,678	886,122	21,006,800	17,631,355
Expenses:				
Program services	18,224,136		18,224,136	15,648,847
Fundraising	1,115,166		1,115,166	937,644
General and administrative	2,032,002		2,032,002	2,076,181
Total expenses	21,371,304	-	21,371,304	18,662,672
Change in Net Assets Before Other Changes in Net Assets	(1,250,626)	886,122	(364,504)	(1,031,317)
Other Changes in Net Assets:				
Net assets release from restriction - contributions for fixed assets	1,264,457	(1,264,457)	-	-
Bequest contribution	3,109,064		3,109,064	-
Total other changes in net assets	4,373,521	(1,264,457)	3,109,064	-
Total Changes in Net Assets	3,122,895	(378,335)	2,744,560	(1,031,317)
Net Assets, beginning of year	2,950,915	3,074,777	6,025,692	7,057,009
Net Assets, end of year	\$ 6,073,810	\$ 2,696,442	\$ 8,770,252	\$ 6,025,692

See accompanying notes to financial statements.

Larkin Street Youth Services

Statement of Functional Expenses

Year Ended June 30, 2018 (with comparative totals for 2017)

	2018								2017
	Housing Services	Education and Employment Services	Engagement Services	Total Program Services	Supporting Services			Total	Total
					Fundraising	Management and General	Total Supporting Services		
Salaries and benefits	\$ 4,491,712	\$ 2,349,598	\$ 3,219,725	\$ 10,061,035	\$ 625,384	\$ 1,769,125	\$ 2,394,509	\$ 12,455,544	\$ 11,108,744
Direct program expenses	3,589,870	971,605	1,321,561	5,883,036				5,883,036	5,052,140
Subcontractors	216,579	29,600	347,316	593,495				593,495	287,237
Consultants and professional services	157,722	154,464	171,900	484,086	139,234	137,930	277,164	761,250	598,433
Development and marketing					306,379		306,379	306,379	278,110
Travel, training, retention and recruitment	80,668	42,197	57,824	180,689	11,231	31,772	43,003	223,692	174,955
Rent and property maintenance	47,129	24,653	33,783	105,565	6,562	18,562	25,124	130,689	156,116
Insurance	5,271	2,757	3,778	11,806	734	2,076	2,810	14,616	16,173
Telecommunications	8,254	4,318	5,917	18,489	1,149	3,251	4,400	22,889	23,101
Office and computer supplies	7,395	3,868	5,301	16,564	1,030	2,913	3,943	20,507	21,484
Interest and finance	64,997	34,000	46,591	145,588	9,050	25,600	34,650	180,238	255,891
Licenses, fees, and permits	22,173	11,598	15,894	49,665	3,087	8,733	11,820	61,485	55,195
Property tax	5,556	2,906	3,983	12,445	774	2,188	2,962	15,407	14,938
Equipment	35,805	18,730	25,666	80,201	4,985	14,102	19,087	99,288	44,731
Other expense	23,486	12,286	16,837	52,609	3,270	9,251	12,521	65,130	65,601
Total expenses before depreciation and amortization	8,756,617	3,662,580	5,276,076	17,695,273	1,112,869	2,025,503	3,138,372	20,833,645	18,152,849
Depreciation - assisted care and transitional living facilities and emergency shelter	64,126		25,000	89,126				89,126	104,126
Depreciation and amortization	148,581	112,475	178,681	439,737	2,297	6,499	8,796	448,533	405,697
Total Expenses	\$ 8,969,324	\$ 3,775,055	\$ 5,479,757	\$ 18,224,136	\$ 1,115,166	\$ 2,032,002	\$ 3,147,168	\$ 21,371,304	\$ 18,662,672

See accompanying notes to financial statements.

Larkin Street Youth Services

Statement of Cash Flows

<i>Year Ended June 30, 2018 (with comparative totals for 2017)</i>	2018	2017
Operating Activities:		
Change in net assets	\$ 2,744,560	\$ (1,031,317)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	537,659	509,823
Net realized and unrealized loss on investments	13,763	112
Contributions - capital campaign		(348,000)
Bequest contribution - land	(1,000,000)	
Changes in:		
Contributions receivable	(627,113)	290,193
Government contracts receivable	(1,640,460)	1,571,637
Other assets	57,700	(120,853)
Accounts payable and accrued expenses	20,300	519,883
Client deposits	(12,940)	17,691
Net cash provided by operating activities	93,469	1,409,169
Investing Activities:		
Purchase of short term investments	(916,697)	
Purchases of property and equipment	(558,091)	(442,080)
Net cash used by investing activities	(1,474,788)	(442,080)
Financing Activities:		
Collections on capital campaign		348,000
Principal payments on notes payable	(1,784,987)	(717,731)
Principal payments on line of credit	(1,000,000)	
Proceeds from line of credit	250,000	550,000
Proceeds from notes payable	2,246,521	
Net cash (used) provided by financing activities	(288,466)	180,269
Change in Restricted Cash and Cash Equivalents	(1,669,785)	1,147,358
Restricted Cash and Cash Equivalents, beginning of year	2,209,149	1,061,791
Restricted Cash and Cash Equivalents, end of year	\$ 539,364	\$ 2,209,149
Components of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 86,178	\$ 1,709,005
Restricted cash	453,186	500,144
	\$ 539,364	\$ 2,209,149
Supplemental Information:		
Interest paid	\$ 249,988	\$ 253,733

See accompanying notes to financial statements.

Larkin Street Youth Services

Notes to Financial Statement

Note 1 - Organization and Summary of Significant Accounting Policies:

Founded in 1984, Larkin Street Youth Services (Larkin Street) is a community-based nonprofit organization dedicated to helping homeless, runaway, and at-risk youth in San Francisco find healthy and lasting alternatives to street life. Larkin Street is a nationally recognized continuum of youth-centered services designed to support a young person's permanent transition from street life to independence.

Larkin Street provides more than 350 beds of emergency, transitional, and subsidized housing citywide, as well as extensive street outreach service, wrap-around case management, health care (including mental health, substance abuse, HIV prevention and treatment), and education and employment support. In 2017-18, Larkin Street served approximately 2,300 homeless and runaway youth between the ages of 12 and 24 through its onsite programs and made approximately 3,990 outreach contacts on the streets of San Francisco. The integration of crisis intervention, housing, rehabilitation and supportive services has proven extremely successful in breaking the cycle of homelessness: Larkin Street estimates that 75% of young people who complete comprehensive programs successfully leave street life permanently.

Larkin Street's primary source of revenues is from government contracts, grants and contributions from the general public.

A summary of the Larkin Street's significant accounting policies applied in the preparation of the accompanying financial statements follows:

a. Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements have been presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets predicated upon the existence of donor-imposed restrictions. As of June 30, 2018, Larkin Street did not have any permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets represent the portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the portion of net assets the use of which by Larkin Street is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Larkin Street.

Larkin Street Youth Services

Notes to Financial Statement

b. Revenue Recognition

Contributions are recognized at their fair value when the donor makes an unconditional promise to give to Larkin Street. Contributions that are restricted by the donor, and grants and contracts are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions, grants and contracts are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows only when material and are discounted at an appropriate discount rate. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Government grants and contracts are recognized when Larkin Street incurs expenditures related to the required services. Amounts billed or received in advance are recorded as deferred revenue until the related services are performed. Amounts due at June 30, 2018 are included in government contracts receivable.

Larkin Street is the beneficiary under various wills and trust agreements. Such amounts are recognized in the financial statements as planned gifts when clear title is established, and the proceeds are measurable.

c. Cash and Cash Equivalents

Cash and cash equivalents, for the purposes of the Statement of Financial Position and cash flows, consist of amounts held with banks, highly liquid money market funds, and other investments with a maturity of three months or less.

Larkin Street maintains restricted operating and capital reserve balances as required by its contracts. At June 30, 2018, total restricted operating and capital reserves were \$142,545. In addition, Larkin Street's restricted cash also includes \$310,641 related to its client savings program.

d. Short-Term Investments

Short-term investments are reported at fair value. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains or losses are recognized in the Statement of Activities and Changes in Net Assets in the period such fluctuations occur. Dividend and interest income are accrued when earned.

Short-term investments are comprised of money market funds of \$476,603, marketable equities of \$273,487 and fixed income securities of \$188,173 and are classified as level 1.

Larkin Street Youth Services

Notes to Financial Statement

e. Fair Value Measurement

Larkin carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Larkin classifies its financial assets and liabilities according to three levels and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

f. Contributions and Government Contracts Receivable

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Larkin Street uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific promises made. Management has deemed all receivables to be fully collectable; therefore, no allowance has been recognized in the accompanying financial statements.

g. Property and Equipment

Property and equipment are stated at cost, if purchased or at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Asset lives range from three years to forty years. Leasehold improvements are amortized over the life of the lease or the useful life of the asset, whichever is shorter. Expenditures for maintenance and repairs are charged to expense as incurred.

h. Donated Materials and Services

Contributions of donated noncash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Larkin Street Youth Services

Notes to Financial Statement

As of June 30, 2018, Larkin Street received in-kind donations worth \$27,337.

A number of unpaid volunteers have made significant contributions of their time to Larkin Street. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

i. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited based on time records and on estimates made by Larkin Street's management.

Direct program expenses of \$5,883,036 are comprised primarily of occupancy costs for clients of \$3,932,948, direct client payments of \$356,533 and food costs of \$374,418.

j. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from these estimates.

k. Tax Exempt Status

Larkin Street is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code.

Larkin Street follows the guidance of Accounting for Uncertainty in Income Taxes issued by the Financial Accounting Standards Board (FASB). As of June 30, 2018, management evaluated Larkin Street's tax positions and concluded that Larkin Street had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

l. Comparative Information and Reclassifications

The financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with Larkin Street's financial statements for the year ended June 30, 2017, from which the summarized information is derived.

Certain reclassifications have been made to the 2017 financial statements in order to conform to the 2018 presentation. These reclassifications had no impact on net assets or the changes in net assets.

Larkin Street Youth Services

Notes to Financial Statement

m. Recent Accounting Pronouncements Under Consideration

In August 2016, the FASB issued Accounting Standards Updated (ASU) 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments in the ASU is permitted and applied retrospectively. Larkin is currently evaluating the impact of this pronouncement on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU does not apply to transfers of assets from governments to businesses. The amendments in the ASU are effective for fiscal years beginning after December 15, 2018. Larkin is currently evaluating the impact of this pronouncement on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. Larkin has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02 - *Leases (Topic 842)*. Under the ASU, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months for the rights and obligations created by those leases. The ASU is effective for fiscal years beginning after December 15, 2019. Early application will be permitted for all organizations. Larkin is currently evaluating the impact of this pronouncement on its financial statements.

Larkin Street Youth Services

Notes to Financial Statement

n. Subsequent Events

The management of Larkin Street has reviewed the changes in its net assets for the period of time from its fiscal year ended June 30, 2018 through December 12, 2018, the date the financial statements were available to be issued and has determined that there were no material subsequent events that required recognition or additional disclosures in these financial statements.

Note 2 - Contributions Receivable:

Contributions receivable consists of the following at June 30, 2018:

Foundations	\$ 1,010,000
Corporations	825,940
Individuals	489,422
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	\$ 2,325,362

Contributions receivable as of June 30, 2018 are expected to be received as follows: \$2,014,218 within one year and \$311,144 within two to five years.

Additionally, during 2018, Larkin also received two conditional gifts for a combined total of \$320,000 in support of general operating expenses. The conditional gifts are subject to annual approval by the donor and is excluded from the outstanding receivable and contribution revenue at year-end. As of June 30, 2018, the remaining balance of the intent to give is \$240,000.

During 2018, Larkin received a bequest from a donor that included cash and investments of \$2,109,064 and land in Napa with an estimated value of \$1,000,000 (see Note 3). The land is currently being marketed for sale.

Larkin Street Youth Services

Notes to Financial Statement

Note 3 - Property and Equipment:

Property and equipment consist of the following at June 30, 2018:

Land	\$ 3,850,370
Buildings and improvements	8,085,876
Leasehold improvements	3,872,343
Furniture and equipment	895,518
Construction work-in-progress	6,235
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	16,710,342
Less: accumulated depreciation	4,027,288
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Land held for sale (Note 2)	1,000,000
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	\$ 13,683,054

Depreciation and amortization expense for the year ended June 30, 2018 was \$537,659.

Note 4 - Line of Credit:

Larkin Street has an operating line of credit with a local bank which provides for borrowings up to \$500,000. The credit agreement calls for interest at prime rate plus the applicable margin of 2% per annum, (7% at June 30, 2018) which is payable monthly. The line of credit is collateralized by all of the assets of Larkin Street, excluding the buildings and expires September 1, 2018. At June 30, 2018, there was no balance outstanding. The line of credit agreement contains various financial covenants. Larkin Street was not in compliance with these covenants at June 30, 2018. However, a waiver was obtained from the bank. The line of credit is perpetual and is renewed by the bank on an annual basis.

Larkin Street Youth Services

Notes to Financial Statement

Note 5 - Notes Payable:

Notes payable at June 30, 2018 are as follows:

In November 2012, Larkin Street entered into a note payable of \$1,980,000 with First Republic Bank, secured by a deed of trust on the land and building at 850 Van Ness. The interest rate is fixed at 3.95% for the first 7 years, and variable at the one-month LIBOR plus 2.15% for the next 3 years. Loan payments of approximately \$6,790 on the first three years of the loan are interest only with principal and interest payments of \$10,459 beginning December 1, 2015. The note matures on November 1, 2022 at which point the outstanding balance on the note is payable. Balance at June 30, 2018.

\$ 1,854,464

In December 2015, Larkin Street entered into a note payable of \$1,600,000 with Dignity Health, secured by a deed of trust on the land and building at 1251 Second Avenue. The loan has a fixed interest rate of 3.00% per annum, payable over 84 months, maturing November 30, 2022. Monthly payments are interest only for the first 36 months in the amount of \$4,000, and principal and interest for the remaining 48 months in the amount of \$7,587.38. Balance at June 30, 2018.

1,600,000

In March 2018, Larkin Street refinanced a note payable to Comerica Bank, secured by a deed of trust on the land and building at 61-63 Moss Street. The note of \$1,266,000 with interest rate of 3% per annum above LIBOR-Base rate or Prime Reference rate and matures February 1, 2020. Monthly payments are \$4,220 of principle amount plus interest. Balance at June 30, 2018.

1,249,120

In March 2018, Larkin Street entered into a note payable of \$980,521 with Comerica Bank, secured by a deed of trust on the land and building at 536 Central. It is a 2 year note with interest rate of 3% per annum above LIBOR-based Rate or Prime Reference Rate. Monthly payments are \$3,268 of principal amount plus interest. The note matures on February 1, 2020 at which point the outstanding balance on the note is payable. Balance at June 30, 2018.

967,447

Total	5,671,031
Less: current portion	163,710

Long-term portion	\$ 5,507,321
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Larkin Street Youth Services

Notes to Financial Statement

The notes are payable as follows:

Year Ended June 30,	
2019	\$ 163,710
2020	2,225,134
2021	102,178
2022	105,872
2023	3,074,137
<hr/>	
Total	\$ 5,671,031

Total interest expense on these notes amounted to \$255,975 for the year ended June 30, 2018. During the year ended June 30, 2018, Larkin refinanced certain loans and paid in full two loans held by Comerica Bank, total principal payments for both loans were \$1,458,100.

Larkin Street Youth Services

Notes to Financial Statement

Note 6 - Loans Payable:

Loans payable at June 30, 2018 are as follows:

Larkin Street entered into a loan agreement with the Redevelopment Agency of the City and County of San Francisco (Agency) for \$1,749,936. Loan proceeds were from Housing Opportunities for Persons with AIDS (HOPWA) funds. The funds were used to purchase and convert a building into 12 residential units for an assisted care facility for youth in the later stages of AIDS. During the term of the loan, the building must be used for this purpose and Larkin Street must comply with other Federal requirements. The loan is secured by the property and rents. The term of the loan is for fifty years (through 2046). Larkin Street's obligation to repay the loan will be waived at the end of the loan term providing that the loan is not in default. Default would be caused if a change in purpose, transfer of title or delinquent in reporting. Principal and interest, at a rate of 10% per annum, is only due upon default.

\$ 1,749,936

Larkin Street entered into a loan agreement with the California Department of Housing and Community Development (HCD) for \$1,000,100. During the term of the loan, the building must be used for programmatic purposes and Larkin Street must comply with other State requirements. The loan is secured by a deed of trust and is subject to a regulatory agreement with HCD. The term of the loan will be for ten years (through 2018). Larkin Street's obligation to repay the loan will be waived at the end of the loan term providing that the loan is not in default. Default would be caused if a change in purpose, transfer of title or delinquent in reporting. Principal and interest, at a rate of 3% per annum, is only due upon default.

1,000,100

Larkin Street assumed a portfolio of loan agreements with the Mayor's Office of Housing (MOH) totaling \$1,070,913. These funds were used to purchase an existing building for use as low income housing for youth. During the term of the loan, the building must be used for this purpose. The term of the loan is 75 years (through 2078). The loans are secured with deeds of trust and are subject to a regulatory agreement with MOH. Per amended loan agreement dated June 1, 2011, interest rate was changed from 3% to 0%. All interest previously accrued, in the amount of \$58,390, was forgiven.

1,070,913

Total \$ 3,820,949

Larkin Street Youth Services

Notes to Financial Statement

Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets of \$2,696,442 are restricted for Larkin Street's programs. Net assets of \$2,633,457 were released from donor restrictions, and \$1,264,457 was related to contributions for leasehold improvements.

Note 8 - Commitments and Contingencies:

a. Operating Leases

Larkin Street has several operating lease agreements for its various locations including its administrative office which expire through 2029. Estimated future minimum annual lease payments are as follows:

Year Ended	
June 30,	
2019	\$ 800,000
2020	850,000
2021	860,000
2022	861,000
2023	799,000
Thereafter	4,855,000
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Total	\$ 9,025,000

Rent expenses under all operating leases amounted to \$1,157,820 for the year ended June 30, 2018.

Larkin Street's operating lease for its administrative office include a tenant improvement allowance of \$275,000 which the landlord reimbursed Larkin Street for improvements. The tenant improvement allowance is amortized over the term of the lease. The amount for 2018 was \$18,333.

b. Contingencies

Larkin Street's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Larkin Street has no provision for the possible disallowance of program costs on their financial statements.

Larkin Street Youth Services

Notes to Financial Statement

Lease on Rental Property

Larkin Street was assigned a lease agreement as the landlord of a commercial entity, when it purchased the building at 850 Van Ness. Future annual rents receivable are as follows:

Year Ended		
June 30,		
2019	\$	133,000
2020		138,000
2021		117,000
<hr/>		
Total	\$	388,000

Rental income under the lease amounted to \$129,602 for the year ended June 30, 2018.

Note 9 - Concentration of Risk:

Larkin Street has defined its financial instruments which are potentially subject to credit risk. The financial instruments consist principally of cash and receivables.

Periodically, throughout the year, Larkin Street has maintained balances in various operation and money market accounts in excess of federally insured limits.

All receivables consist primarily of unsecured amounts due from individuals, corporations, foundations, and government agencies. The credit risk associated with receivables is substantially mitigated by the large number of entities comprising the receivable balance, and 53% of the receivables are due from governmental agencies.

Larkin Street receives approximately 53% of its revenue from government funding and accordingly is especially vulnerable to the inherent risks of budget cutbacks.

Note 10 - Related Parties:

Larkin Street has and may continue to have Board and committee members who are employed by corporations that provide services to Larkin Street. Larkin Street has a conflict of interest policy which covers custodial and vendor relationships with Board, committee members, and staff. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that Board Members, committee members, and staff may continue to serve Larkin Street through their professional knowledge and expertise.

Larkin Street received approximately \$366,000 in contributions from the Board of Directors or its committees and staff for the year ended June 30, 2018.