

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Report on Financial Statements

June 30, 2011

**(with summarized comparative information for the
year ended June 30, 2010)**

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Index

June 30, 2011

(with summarized comparative information for the year ended June 30, 2010)

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Report of Independent Auditors

The Board of Directors of
The San Francisco AIDS Foundation

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, expenses by function, and cash flows present fairly, in all material respects, the financial position of The San Francisco AIDS Foundation ("the Foundation") at June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements, and in our report dated October 6, 2010, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

October 11, 2011

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
As of June 30, 2011
(with summarized comparative information as of June 30, 2010)

(In Thousands)

	<u>2011</u>	<u>2010</u>
Assets		
Cash	\$ 2,051	\$ 1,371
Accounts receivable	825	1,104
Contributions receivable, net	657	713
Investments	9,591	9,373
Prepaid expenses	636	623
Security deposits and other assets	138	228
Property and equipment, net	<u>1,650</u>	<u>656</u>
Total assets	<u>\$ 15,548</u>	<u>\$ 14,068</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,835	\$ 1,209
Accrued payroll and related liabilities	1,108	789
Grants payable	241	229
Refundable advances	222	212
Capital lease obligations	<u>171</u>	<u>133</u>
Total liabilities	<u>3,577</u>	<u>2,572</u>
Commitments and contingencies (Note 8)		
Net Assets		
Unrestricted	11,226	10,921
Temporarily restricted	325	155
Permanently restricted	<u>420</u>	<u>420</u>
Total net assets	<u>11,971</u>	<u>11,496</u>
Total liabilities and net assets	<u>\$ 15,548</u>	<u>\$ 14,068</u>

The accompanying notes are an integral part of these financial statements.

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2011
(with summarized comparative information for the year ended June 30, 2010)

(In Thousands)

	June 30, 2011			Total	June 30,
	Unrestricted	Temporarily Restricted	Permanently Restricted		2010
					Total
Public and government support					
Government grants	\$ 6,565	\$ 627	\$ -	\$ 7,192	\$ 6,246
Contributions and grants					
Individuals	1,598	113	-	1,711	2,043
Corporations and foundations	317	370	-	687	810
Donated goods and services	333	-	-	333	308
Total	8,813	1,110	-	9,923	9,407
Special events	11,564	-	-	11,564	10,413
Less: Special event expenses	(1,445)	-	-	(1,445)	(1,418)
Net income from special events	10,119	-	-	10,119	8,995
Net assets released from restrictions	1,025	(1,025)	-	-	-
Total public and government support	19,957	85	-	20,042	18,402
Revenues and gains					
Net realized and unrealized gain					
on investments	1,030	75	-	1,105	574
Investment income	200	10	-	210	181
Service revenues	270	-	-	270	410
Other	145	-	-	145	155
Total public and government support, revenues and gains	21,602	170	-	21,772	19,722
Expenses					
Program services	16,059	-	-	16,059	12,419
Support services	792	-	-	792	1,732
Fund development	4,446	-	-	4,446	4,794
Total expenses	21,297	-	-	21,297	18,945
Total change in net assets	305	170	-	475	777
Net assets, beginning of year	10,921	155	420	11,496	10,719
Net assets, end of year	\$ 11,226	\$ 325	\$ 420	\$ 11,971	\$ 11,496

The accompanying notes are an integral part of these financial statements.

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
Year Ended June 30, 2011
(with summarized comparative information for the year ended June 30, 2010)

(In Thousands)

	Program Services										Total 2011 Expenses	Total 2010 Expenses
	Advocacy & Education	Housing Services	Community Based Health & Prevention Services	Substance Abuse & Mental Health Services	Care Coordination	Capacity Building Grants	Total Program Services	Management & General	Fund Development			
Expense												
Salaries and employee benefits	\$ 1,657	\$ 735	\$ 1,849	\$ 2,016	\$ 455	\$ 270	\$ 6,982	\$ 447	\$ 1,469	\$ 8,898	\$ 7,856	
Professional and technical fees	245	41	260	190	29	-	765	75	943	1,783	1,450	
Outreach and promotion	91	21	55	64	15	-	246	2	157	405	447	
Event production	108	58	225	175	42	-	608	-	300	908	812	
Postage and distribution	68	7	11	10	4	-	100	1	703	804	649	
Staff/Volunteer support and travel	115	28	76	67	17	-	303	19	147	469	425	
Printing and materials production	55	13	97	68	9	-	242	1	98	341	334	
Program supplies	-	-	62	436	-	-	498	-	-	498	400	
Housing subsidies	-	2,725	-	-	-	-	2,725	-	-	2,725	2,745	
Community grants	-	-	-	-	-	1,169	1,169	-	-	1,169	998	
Subcontractor services	-	-	-	156	-	-	156	-	-	156	-	
Occupancy	199	115	311	352	73	13	1,063	54	274	1,391	1,111	
Office expenses	126	70	203	210	47	6	662	120	185	967	951	
Depreciation and amortization	72	42	71	111	26	-	322	30	97	449	459	
Donated professional volunteer services	26	14	113	37	10	-	200	43	36	279	204	
Donated goods	4	2	5	6	1	-	18	-	37	55	104	
	<u>\$ 2,766</u>	<u>\$ 3,871</u>	<u>\$ 3,338</u>	<u>\$ 3,898</u>	<u>\$ 728</u>	<u>\$ 1,458</u>	<u>\$ 16,059</u>	<u>\$ 792</u>	<u>\$ 4,446</u>	<u>\$ 21,297</u>	<u>\$ 18,945</u>	

The accompanying notes are an integral part of these financial statements.

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Statement of Cash Flows

Year Ended June 30, 2011

(with summarized comparative information for the year ended June 30, 2010)

(In Thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Total change in net assets	\$ 475	\$ 777
(Gain)/loss on disposal of assets	(38)	5
Depreciation and amortization	449	459
Contributed securities	(54)	(53)
Net realized and unrealized gain on investments	(1,105)	(574)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable	279	(292)
Contributions receivable, net	56	(323)
Prepaid expenses	(13)	(192)
Security deposits and other assets	90	31
Accounts payable and accrued expenses	626	21
Accrued payroll and related liabilities	319	(15)
Grants payable	12	(27)
Refundable advances	10	(15)
Net cash provided by (used in) operating activities	<u>1,106</u>	<u>(198)</u>
Cash flows from investing activities		
Capital expenditures	(1,327)	(159)
Purchase of investments	(4,785)	(3,433)
Proceeds from sales of investments	5,726	2,811
Net cash used in investing activities	<u>(386)</u>	<u>(781)</u>
Cash flows from financing activities		
Payments on capital leases	(40)	(42)
Net cash used in financing activities	<u>(40)</u>	<u>(42)</u>
Net increase (decrease) in cash	680	(1,021)
Cash, beginning of year	<u>1,371</u>	<u>2,392</u>
Cash, end of year	<u>\$ 2,051</u>	<u>\$ 1,371</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 45	\$ 36
Donated professional services	278	204
Donated goods	55	104
Contributed securities	54	53
Capital asset acquired through capital lease obligation	162	-

The accompanying notes are an integral part of these financial statements.

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2011

(In Thousands)

1. Organization and Related Party Transactions

San Francisco AIDS Foundation (“the Foundation”), a non-profit entity, works to end the HIV epidemic by combining innovative, evidence-based programs for HIV prevention and care with policy initiatives focused on issues ranging from harm reduction to total health and wellness. Established in 1982, San Francisco AIDS Foundation refuses to accept that HIV transmission is inevitable.

The Foundation operates according to a strategic plan, orienting efforts around three key goals:

- Reduce new infections in San Francisco by 50 percent
- Ensure all San Franciscans know their current HIV status
- Ensure access to proper care for all HIV-positive San Franciscans

Progress toward these goals is made through an array of client programs and services, public policy advocacy, public information and education initiatives. This work is conducted in association with partners in local, state and federal government, clinical and research scientists, community organizations and people living with HIV/AIDS.

The following is a top line summary of the principal programs and activities offered by the Foundation for HIV prevention, testing, care, education, and advocacy for the fiscal year ending June 30, 2011.

Advocacy & Education

Advocacy, policy, and legislative work conducted by the Foundation on behalf of all people living with or vulnerable to HIV/AIDS at the national, state, and local levels informs lawmakers and opinion leaders of the critical need to adequately fund and expand public programs that improve and save lives. To keep the public informed, the Foundation hosts a series of educational forums to bring together foremost experts in the field of HIV/AIDS to discuss and debate an array of current topics in a community setting. *BETA*, the Bulletin of Experimental Treatment for AIDS, the e-newsletter *Status*, and the website www.sfaf.org keep community members and supporters informed of the latest developments in research, science, medicine, advocacy, and policy related to HIV/AIDS.

Housing Services

Studies show that when people living with HIV are stably housed, they are far more likely to take their medications, to see a doctor, and to take care of their health and the well-being of their sexual partners. To this end, the Foundation provides housing assistance to hundreds of people living with HIV to help clients improve their overall quality of life and the health of the entire community.

Community Based Health & Prevention Services

Magnet, the Foundation's health center for gay and bisexual men, offers free HIV testing and STI screenings at its location in the Castro. Magnet is more than a clinic, it's a gathering space in the heart of the neighborhood committed to building healthier communities from the inside, out. Additionally, the Foundation offers a variety of community support services, including groups for African-Americans, Latinos, newly-diagnosed men, and people interested in service projects to improve our community.

Substance Abuse & Mental Health Services

Drugs and alcohol are known drivers of HIV infection. Through The Stonewall Project, the Foundation provides an array of education, counseling, resources, and other activities for gay, bisexual, and trans men to address the linkage between HIV, substance use, and mental health issues. The Foundation's Syringe Access Services provides more than 2,400 sterile syringes and

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(In Thousands)

other safer injection equipment each year at 10 sites to injection drug users to prevent the spread of HIV and hepatitis C. Other services include HIV and hepatitis C testing, and referrals and linkage to drug treatment and other social services.

Care Coordination

Access to proper HIV care is essential to building healthier communities. The Foundation provides medical case management and peer advocacy services, housing assistance, and financial benefits counseling for people living with HIV/AIDS to create a seamless system of care and support.

Capacity Building Grants

San Francisco AIDS Foundation champions building healthy communities and supporting a robust network of service agencies to help people living with HIV/AIDS and populations at greatest risk for the disease. The Foundation provides grants via AIDS Walk San Francisco as well as discretionary grants, including those designed to establish models for prevention and care services beyond our borders.

Pangaea Global AIDS Foundation (“Pangaea”) is a non-profit formerly affiliated with the Foundation whose mission is to broaden access to HIV/AIDS antiretroviral treatment and care around the world, with special emphasis on resource-limited settings.

During the year ended June 30, 2011, the Foundation granted to Pangaea grants totaling \$700 to support Pangaea’s treatment access projects. The Foundation provided technical assistance and received fees of \$270 from Pangaea.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations. Accordingly, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a full presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2010, from which the summarized information was derived.

The net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted

The Foundation receives contributions from corporations, charitable organizations and individuals. Such contributions are recorded when received or unconditionally promised and considered to be available for general support of the Foundation’s operations unless specifically restricted by the donor. In addition, unrestricted net assets include income from investments without donor restrictions.

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(In Thousands)

Temporarily Restricted

Temporarily restricted net assets relate primarily to contributions whose use by the Foundation is limited by donor-imposed stipulations with respect to time and/or purpose that can be fulfilled by actions of the Foundation pursuant to those stipulations.

Permanently Restricted

Permanently restricted net assets are subject to donors' restrictions requiring that the principal be invested in perpetuity for the purpose of producing investment income and appreciation that may be spent according to donor-imposed stipulations for prevention and treatment education.

Revenue Recognition

Contributions are recognized in the financial statements as revenue when received or unconditionally promised. The Foundation reports gifts of cash and other assets as temporarily restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction. Temporarily restricted contributions are reported as temporarily restricted support and net assets released from restriction when the restriction is met in the same year as the contribution is received. Grants and contract revenue is recognized in accordance with the terms of the contract, which is generally when the related expenditures are incurred.

Investments

All debt securities and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices. Investments also include cash equivalents consisting of all highly liquid investments purchased with maturities of ninety days or less at the time of acquisition and held for long-term investment purposes. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities represent the difference between the original cost of the investment and the proceeds received from the sale of securities. Dividend and interest income are accrued when earned.

Property and Equipment

Property and equipment are presented in the financial statements at acquisition cost or, in the case of donated property, at estimated fair value at the date of gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which have been determined to be three to five years from the date of acquisition or donation for all equipment. Leasehold improvements are depreciated over the remaining term of the property lease.

When assets are sold or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of activities.

Refundable Advances

Refundable advances represent funds which have been received from grants or contracts that are considered to be exchange transactions. These funds are for security deposits that relate to the Foundation's housing services program.

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June 30, 2011

(In Thousands)

Capital Leases

Capital leases are recorded as an asset and an obligation at the fair market value of the leased property at the inception of the lease. Capital lease amortization was \$40 for the year ended June 30, 2011.

Government Support

Grant support from contracts with government agencies is recognized as the related services are provided and reflected as government grants support in the accompanying statement of activities. Payments under such contracts are received on a cost-reimbursement basis. Any billed contract receivables are included in accounts receivable as of June 30, 2011.

Special Events

Special events support consists primarily of proceeds from the AIDS Lifecycle, AIDS Walk San Francisco, Greater than 1 events, and the Leadership Recognition Dinner. Special event expenses represent the costs incurred by the Foundation which directly benefit the participants in the Foundation's special events.

Contributions of Services

Contributions of services are recognized in the financial statements when received if such services (a) create or enhance non-financial assets, (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not donated. A substantial number of volunteers have donated significant amounts of time in the Foundation's program services and fund-raising activities that are not recognized in the financial statements. The value of such donated volunteer services received is approximately \$876 for the year ended June 30, 2011, based on volunteer time records and estimated hourly compensation rates. The value of such donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not meet the above criteria.

Functional Expense Allocations

Expenses such as salary, benefits, professional services, occupancy costs, travel, depreciation and amortization, are allocated among program services, support and fund development classifications based on employee ratios and on estimates made by the Foundation's management.

Allocation of Costs of Joint Activities

Costs of joint activities that are identifiable with a particular function are charged to that function and joint costs are allocated between fund development and the appropriate program or management and general function. Joint costs of \$3,362 were incurred by the Foundation for program and community grant expense for the year ended June 30, 2011. Of this amount \$1,852 was allocated to fund development and \$1,510 was allocated to program services.

Use 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The Foundation maintains cash and cash equivalents, and

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June 30, 2011

(In Thousands)

investments with various major financial institutions. At times, such amounts may exceed FDIC limits. The Foundation manages credit risk by establishing minimum credit standards for financial institutions and limiting the amount of credit exposure with any one institution. The Foundation's investments have been placed with banking institutions and investment managers. The Foundation closely monitors these investments.

3. Investments

The Foundation's investments consisted of the following as of June 30, 2011:

Cash equivalents	\$	1,193
U.S. Treasury bills		795
Equity securities		4,934
Corporate debt securities		759
Mortgage-backed securities		901
Other asset-backed securities		96
Other fixed income securities		408
Certificate of Deposit		505
	\$	<u>9,591</u>

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk.

In addition to defining fair value, the FASB establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Foundation for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Investments in Level 1 include cash equivalents, U.S. Treasury bills and listed equity and fixed income securities.

Level 2 – Inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same

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(In Thousands)

term of the assets or liabilities. Investments in this category generally include corporate debt securities, mortgage-backed securities and other asset-backed securities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Foundation has no investments that are categorized as Level 3.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2011, by caption on the statement of financial position by the valuation hierarchy defined above:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
Cash equivalents	\$ 1,193	\$ -	\$ -	\$ 1,193
U.S. Treasury bills	795	-	-	795
Equity securities	4,934	-	-	4,934
Corporate debt securities	-	759	-	759
Mortgage-backed securities	-	901	-	901
Other asset-backed securities	-	96	-	96
Other fixed income securities	335	73	-	408
Certificate of Deposit	505	-	-	505
Total investments	<u>\$ 7,762</u>	<u>\$ 1,829</u>	<u>\$ -</u>	<u>\$ 9,591</u>

Net change in unrealized gains for those investments held at June 30, 2011 amounted to \$810.

4. Contributions Receivable

Contributions receivable of \$657 are due as of June 30, 2011. Such contribution receivables have no implied time or purpose restriction and are expected to be collected in the subsequent fiscal year. This amount is stated net of an allowance for doubtful accounts of \$46.

The San Francisco AIDS Foundation
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June 30, 2011

(In Thousands)

5. Property and Equipment

Property and equipment at June 30, 2011 is summarized as follows:

Equipment	\$ 1,565
Furniture and fixtures	960
Leasehold improvements	688
Vehicles	<u>52</u>
	3,265
Accumulated depreciation and amortization	<u>(1,615)</u>
	<u>\$ 1,650</u>

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 was \$449 and \$459, respectively.

Leased capital assets included in property and equipment at June 30, 2011 totaled \$199 less accumulated depreciation of \$28.

6. Temporarily and Permanently Restricted Net Assets and Net Assets Released from Restrictions

Temporarily restricted net assets were available for the following purposes as of June 30, 2011:

Support for prevention, outreach, education and other related services	\$ 269
Public policy initiative support for people living with HIV	<u>56</u>
Total temporarily restricted net assets	<u>\$ 325</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the year ended June 30, 2011:

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(In Thousands)

Support for prevention, outreach, education and other related services	\$ 796
Public policy initiative support for people living with HIV	<u>229</u>
Total net assets released from restrictions	<u>\$ 1,025</u>

As of June 30, 2011, permanently restricted net assets are restricted to investment in perpetuity, the income of which is expendable to support:

Prevention and treatment education	<u>\$ 420</u>
Total	<u>\$ 420</u>

The Foundation's permanently restricted fund is a donor-restricted endowment. The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard or prudence prescribed by UPMIFA.

The overall objective of the Foundation's investment portfolio is to optimize balance between risk and return while accommodating the Foundation's goals for income and growth. The goal for return on the portfolio is to meet or exceed the performance of comparable market segment indices over an entire market cycle. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation maintains a policy of appropriating an annual distribution of up to 5% of its endowment fund's average fair value over the prior 12 quarters.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets.

Changes in endowment net assets for the fiscal year ended June 30, 2011 are as follows:

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(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2011

(In Thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$ 20	\$ 420	\$ 440
Investment return				
Investment income	-	10	-	10
Net appreciation (realized and unrealized)	-	75	-	75
Total investment gain	-	85	-	85
Expenses released from restriction	-	(20)	-	(20)
Endowment net assets, end of the year	<u>\$ -</u>	<u>\$ 85</u>	<u>\$ 420</u>	<u>\$ 505</u>

Endowment net assets composition by type of fund as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 85	\$ 420	\$ 505
Board designated endowment funds	-	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 85</u>	<u>\$ 420</u>	<u>\$ 505</u>

7. Income Tax Status

The Foundation has received determination letters from the Internal Revenue Service and the State of California indicating that the Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California, respectively. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

8. Commitments and Contingencies

Operating Leases

The Foundation leases office space under an operating lease agreement which expires in December 2020. The Foundation leases additional space used in operations under various operating leases. Each of the leases is subject to various terms of agreement. Rent expense for the year ended June 30, 2011 was \$1,271.

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(In Thousands)

Future minimum lease payments under these leases are as follows:

Year Ended June 30,	
2012	\$ 1,372
2013	1,145
2014	1,092
2015	1,183
2016	1,001
Thereafter	<u>4,912</u>
 Total	 <u>\$ 10,705</u>

Capital Leases

The Foundation also leases office equipment under various capital lease agreements which expire within two to five years. Future minimum lease payments under these leases are as follows:

Year Ended June 30,	
2012	\$ 70
2013	64
2014	57
2015	57
Thereafter	<u>33</u>
Total minimum lease payments	281
Less: Amount representing interest	<u>(110)</u>
	<u>\$ 171</u>

Other

Amounts received and expended by the Foundation under federal and state funded programs are subject to audit by oversight governmental agencies. The Foundation's management believes that potential adjustments, if any, resulting from such audits will not have a significant effect on the Foundation's financial position.

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2011

(In Thousands)

9. Line of Credit

In November 2010, the Foundation entered into a revolving line of credit agreement with a major financial institution for \$2,500, which was increased to \$3,500 in February 2011. Funds from the line of credit are to be used for working capital purposes and are collateralized by various assets of the Foundation. The interest rate is equal to the LIBOR rate plus 150 basis points (1.7% at June 30, 2011). As of June 30, 2011 there is no balance due on the line. The Foundation is required to comply with various affirmative and negative covenants in the line of credit and is in compliance with those covenants at June 30, 2011.

10. Defined Contribution Retirement Plan

The Foundation has a defined contribution retirement plan ("Plan") under Section 403(b) of the Internal Revenue Code. The Plan covers all full-time employees of the Foundation and provides for voluntary salary deferrals up to certain amounts. The Foundation contributed \$150 to the Plan during the year ended June 30, 2011. Employer contributions, if any, are at the discretion of the management of the Foundation.

11. Subsequent Events

The Foundation has performed an evaluation of subsequent events through October 11, 2011, which is the date the financial statements were available to be issued. The Foundation is in discussions with an HIV/AIDS service organization in San Francisco to combine certain programs and operations in an asset transfer transaction under which the Foundation will receive specified assets from, and assume specified obligations of, the other organization. It is anticipated that the transaction, if completed, will be finalized by November, 2011.