

San Francisco AIDS Foundation

Financial Statements

June 30, 2021

(With Comparative Totals for 2020)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
San Francisco AIDS Foundation
San Francisco, California

We have audited the accompanying financial statements of San Francisco AIDS Foundation (a California nonprofit public benefit corporation) (the "Foundation"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, 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.

Auditor's 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 the entity'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 the entity'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 San Francisco AIDS Foundation as of June 30, 2021, 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.

Report on Summarized Comparative Information

We have previously audited San Francisco AIDS Foundation's 2020 financial statements, and our report dated October 21, 2020 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

October 26, 2021

San Francisco AIDS Foundation
Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	2021	2020
ASSETS		
Cash	\$ 2,054	\$ 2,518
Investments	22,418	22,015
Accounts receivable	4,982	5,148
Contributions receivable, net	549	648
Prepaid expenses	1,173	994
Security deposits and other assets	112	124
Property and equipment, net	2,719	3,929
Total assets	\$ 34,007	\$ 35,376
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,776	\$ 1,908
Accrued payroll and related liabilities	2,246	2,189
Deferred revenue	370	303
Deferred rent	163	360
Refundable advances	87	99
Capital lease obligations	66	4
Total liabilities	4,708	4,863
Net assets		
Without donor restrictions	25,897	28,578
With donor restrictions	3,402	1,935
Total net assets	29,299	30,513
Total liabilities and net assets	\$ 34,007	\$ 35,376

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

San Francisco AIDS Foundation
Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Public and government support				
Government grants	\$ 17,904	\$ 25	\$ 17,929	\$ 18,220
Contributions and grants				
Individuals	1,093	114	1,207	1,644
Corporations and foundations	269	3,815	4,084	2,220
Donated goods and services	731	-	731	924
Total contributions and grants	<u>2,093</u>	<u>3,929</u>	<u>6,022</u>	<u>4,788</u>
Special events	2,144	-	2,144	5,535
Less: special event expenses	<u>(80)</u>	<u>-</u>	<u>(80)</u>	<u>(131)</u>
Net income from special events	2,064	-	2,064	5,404
Net assets released from restriction	<u>2,637</u>	<u>(2,637)</u>	<u>-</u>	<u>-</u>
Total public and government support	<u>24,698</u>	<u>1,317</u>	<u>26,015</u>	<u>28,412</u>
Revenues and gains				
Net realized and unrealized gains (losses) on investments	2,611	137	2,748	(70)
Investment income, net of investment expenses of \$49 in 2021 and \$45 in 2020	122	8	130	262
340B drug pricing program	17,637	-	17,637	23,078
Losses on disposal of assets	(17)	-	(17)	(12)
Other	<u>392</u>	<u>5</u>	<u>397</u>	<u>348</u>
Total revenues and gains	<u>20,745</u>	<u>150</u>	<u>20,895</u>	<u>23,606</u>
Total public and government support, revenues and gains	<u>45,443</u>	<u>1,467</u>	<u>46,910</u>	<u>52,018</u>
Functional expenses				
Program services	41,074	-	41,074	42,189
Management and general	1,673	-	1,673	1,394
Fund development	<u>4,322</u>	<u>-</u>	<u>4,322</u>	<u>4,345</u>
Total functional expenses	<u>47,069</u>	<u>-</u>	<u>47,069</u>	<u>47,928</u>
Change in net assets from operations before amortization - Health & Wellness Center	(1,626)	1,467	(159)	4,090
Amortization - Health & Wellness Center (Note 5)	<u>1,055</u>	<u>-</u>	<u>1,055</u>	<u>1,055</u>
Change in net assets	(2,681)	1,467	(1,214)	3,035
Net assets, beginning of year	<u>28,578</u>	<u>1,935</u>	<u>30,513</u>	<u>27,478</u>
Net assets, end of year	<u>\$ 25,897</u>	<u>\$ 3,402</u>	<u>\$ 29,299</u>	<u>\$ 30,513</u>

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

San Francisco AIDS Foundation
Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	Program Services					Management and General	Fund Development	2021 Total	2020 Total
	Sexual Health Services	Substance and Behavioral Health Services	Linkage and Retention Services and Social Support Services	Policy and Public Education	Total Program Services				
Expenses									
Salaries and employee benefits	\$ 3,958	\$ 7,918	\$ 6,758	\$ 1,713	\$ 20,347	\$ 837	\$ 2,796	\$ 23,980	\$ 22,512
Professional services	331	501	491	456	1,779	131	481	2,391	2,211
Outreach and promotion	54	89	73	45	261	6	80	347	105
Event production	15	26	62	65	168	-	81	249	456
Postage and distribution	3	3	11	1	18	1	130	149	200
Staff and volunteer support and travel	138	139	95	19	391	34	72	497	825
Program materials and supplies	342	1,150	262	5	1,759	-	-	1,759	1,951
Housing subsidies	-	-	2,952	-	2,952	-	-	2,952	3,055
340B drug pricing program	7,449	-	-	-	7,449	-	-	7,449	10,034
Subcontractor services	442	1,204	70	-	1,716	-	-	1,716	1,673
Occupancy	336	1,003	926	125	2,390	480	428	3,298	2,373
Office expenses	170	364	335	54	923	94	174	1,191	1,141
Depreciation and amortization, excluding amortization - Health & Wellness Center	52	41	175	10	278	45	38	361	469
Donated professional volunteer services	22	48	28	7	105	19	19	143	231
Donated goods	30	459	39	10	538	26	23	587	692
Expenses from special events	-	-	-	-	-	-	80	80	131
Total expenses before amortization - Health & Wellness Center	13,342	12,945	12,277	2,510	41,074	1,673	4,402	47,149	48,059
Amortization - Health & Wellness Center (Note 5)	207	160	688	-	1,055	-	-	1,055	1,055
Total expenses	13,549	13,105	12,965	2,510	42,129	1,673	4,402	48,204	49,114
Less expenses included in public and government support, revenues and gains	-	-	-	-	-	-	(80)	(80)	(131)
Total expenses on the statement of activities	\$ 13,549	\$ 13,105	\$ 12,965	\$ 2,510	\$ 42,129	\$ 1,673	\$ 4,322	\$ 48,124	\$ 48,983

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

San Francisco AIDS Foundation
Statement of Cash Flows
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)
(In thousands)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ (1,214)	\$ 3,035
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Donations of marketable securities, net	(33)	(20)
Depreciation and amortization	1,416	1,524
Loss on disposal of assets	17	12
Net realized and unrealized loss (gain) on investments	(2,748)	70
Changes in operating assets and liabilities		
Accounts receivable	166	1,780
Contributions receivable, net	99	102
Prepaid expenses	(179)	(270)
Security deposits and other assets	12	2
Accounts payable and accrued expenses	(132)	(210)
Accrued payroll and related liabilities	56	487
Deferred revenue	67	303
Deferred rent	(197)	(361)
Refundable advances	(11)	(60)
Net cash provided by (used in) operating activities	(2,681)	6,394
Cash flows from investing activities		
Purchase of property and equipment	(156)	(363)
Purchase of investments	(2,273)	(8,794)
Proceeds from sales of investments	4,651	3,146
Net cash provided by (used in) investing activities	2,222	(6,011)
Cash flows from financing activities		
Capital leases obligations	(5)	(15)
Net cash used in financing activities	(5)	(15)
Net increase (decrease) in cash	(464)	368
Cash, beginning of year	2,518	2,150
Cash, end of year	\$ 2,054	\$ 2,518

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	\$ 2	\$ 2

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

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

1. NATURE OF OPERATIONS

San Francisco AIDS Foundation (the "Foundation"), a non-profit public benefit corporation, promotes health, wellness, and social justice for communities most impacted by HIV, through sexual health and substance use services, advocacy, and community partnerships.

The Foundation operates in accordance with a five-year strategic plan that orients its efforts around four strategic priorities for 2019-2024:

- Maintain, expand and pilot HIV, hepatitis C, and STI prevention and treatment, and other sexual health services to ensure equitable access and utilization by people of color;
- Maintain, expand and pilot substance use services, syringe access, and overdose prevention efforts, including establishing safer consumption sites;
- In partnership, create a comprehensive network of health and wellness services for people over the age of 50 who are living with HIV; and,
- Strengthen organizational excellence with a focus on living our values, including a commitment to racial justice.

To accomplish the strategic priorities and have the greatest impact, the Foundation uses three mutually reinforcing core strategies.

- Provision of integrated sexual health and substance use services
- Advocacy, which includes policy and system-fix work, public education, capacity-building and research
- Building and strengthening community partnerships

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, 2021.

Sexual Health Services

People living with HIV, gay, bisexual and queer men, trans and gender nonbinary people, people who inject drugs, and other communities at risk for HIV can receive judgment free HIV testing, STI screening and treatment, hepatitis C services, vaccinations, anal health care, and gender-affirming care. The Foundation also provides post-exposure prophylaxis (PEP) and pre-exposure prophylaxis (PrEP), and has helped thousands gain access to these effective prevention tools and enroll in public programs to help pay for medications.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

1. NATURE OF OPERATIONS (continued)

Substance and Behavioral Health Services

The Foundation provides substance use treatment services, contingency management services, and walk-in group and individual counseling. We offer sterile injection equipment, proper disposal services, overdose prevention training, HIV testing, opiate replacement therapy, and hepatitis C testing and treatment at our Harm Reduction Center and at several satellite sites around San Francisco.

Linkage and Retention Services and Social Support Services

Ensuring people living with HIV have access to health care services, housing and public benefits is a critical component of the Foundation's work. The Foundation's Health Navigation program and two Centers of Excellence link people living with HIV to crucial medical and social services, and the Foundation's Housing and Benefits program provides housing assistance and financial benefits counseling to San Franciscans living with HIV.

The Foundation's distinct community engagement and social support programs engage long-term HIV survivors and those newly diagnosed, as well as trans and gender nonbinary people, African American men who have sex with men, and the Latinx community. Through these programs, participants attend workshops, social events and support groups where they learn about risk reduction and treatment adherence.

Policy and Public Education

Working in coalitions with other HIV and AIDS organizations, the Foundation's policy team advocates for the HIV community in San Francisco, Sacramento, and Washington, DC. The Foundation's public education resources – including blogs, emailed newsletters, and the websites sfaf.org and tweaker.org – provide readers with the latest information about harm reduction, HIV testing, treatment and care.

The Foundation's services are offered in locations around San Francisco, including Strut, our Health & Wellness Center in the Castro; the Harm Reduction Center in the SoMa/Tenderloin neighborhood; the Foundation's main office at 1035 Market Street and several satellite and popup sites around the city.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement 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 ("U.S. GAAP") applicable to non-profit organizations. Accordingly, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

Net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - net assets not subject to donor-restriction stipulations. 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. Revenue from the 340B drug pricing program is available for general support of the Foundation's operations. In addition, net assets without donor restrictions include income from investments that are not subject to donor-imposed stipulations.
- *Net assets with donor restrictions* - net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time and those net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The investment income and appreciation on net assets held in perpetuity may be spent in accordance with donor-imposed stipulations.

Summarized comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. 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, 2020, from which the summarized information was derived.

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restriction. Donor-restricted contributions are reported as net assets with donor restrictions and net assets released from restriction when the restriction is met in the same year as the contribution is received. Grant and contract revenue is recognized in accordance with the terms of the contract, which is generally when the related expenditures are incurred. Revenue from the 340B drug pricing program is recognized when the prescription is filled by the third-party contracted pharmacy.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government support

A portion of the Foundation's revenue is derived from cost-reimbursable contracts from governmental agencies, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. The revenue generated from these contracts meets the criteria to be classified as conditional contributions under GAAP revenue recognition as they contain barriers related to the incurrence of qualifying expenditures and a right of return or release. Amounts received are recognized as revenues when the Foundation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position. The Foundation received cost-reimbursable grants of \$1,017 that have not been recognized at June 30, 2021 because qualifying expenditures have not yet been incurred, with an advance payment of \$370 recognized in the statement of financial position as deferred revenue. Any billed contract receivables are included in accounts receivable as of June 30, 2021.

Special events

Special events support consists primarily of proceeds from the AIDS/LifeCycle®, Tribute Celebration, Dining Out for Life and other smaller events. Special event expenses represent the costs incurred by the Foundation which directly benefit the participants in the Foundation's special events.

Contributions of services and goods

Contributions of services are recognized in the financial statements when received if such services (a) create or enhance nonfinancial assets, (b) require specialized skills and are provided by individuals possessing those skills, and (c) would typically need to be purchased if not donated. Contributed services recognized in the financial statements for the year ended June 30, 2021 amounted to \$143. 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 \$104 for the year ended June 30, 2021, 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. The Foundation also receives donated goods, which are recognized at the estimated fair value on the date of donation. Donated goods recognized in the financial statements for the year ended June 30, 2021 amounted to \$587.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Accounts receivable

Receivables are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on past experiences and other circumstances. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. There is no allowance for doubtful accounts as of June 30, 2021 as management has determined all outstanding balances to be collectible.

Contributions receivable

An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. The allowance for doubtful contributions receivable was \$24 at June 30, 2021.

Unconditional promises to give, which are not expected to be collected until after the year promised, are reflected in the accompanying financial statements as contributions receivable and revenue in the appropriate net asset category. The Foundation applies a discount rate for contributions that are expected to be collected in more than one year. The discount applied was \$4 as of June 30, 2021.

Fair value measurements

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, 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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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 nonperformance 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 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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amortized over the lesser of the estimated useful lives or the remaining term of the property lease. Equipment and furniture costing \$5 or more is capitalized.

When assets are sold or otherwise disposed, the cost and related accumulated depreciation or amortization 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.

Capital leases

Capital leases are recorded as an asset and an obligation at the fair value of the leased property at the inception of the lease. Capital lease amortization was \$5 for the year ended June 30, 2021.

Functional expense allocations

The costs of providing program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Direct identification of specific expenses is the Foundation's preferable method of charging expenses to various functions. The Foundation has a number of expenses which relate to more than one program or supporting activity, or to a combination of programs and supporting activities. Expenses, such as salaries, benefits, professional services, occupancy costs, travel, depreciation and amortization, are allocated among program services, management and general and fund development classifications based on employee ratios and on estimates made by the Foundation's management.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$2,317 were incurred by the Foundation for program and fundraising expense for the year ended June 30, 2021. Of these amounts, \$996 was allocated to fund development and \$1,321 was allocated to program services for the year ended June 30, 2021.

Advertising costs

The Foundation's policy is to expense advertising costs as the costs are incurred. Advertising costs for the year ended June 30, 2021 totaled \$143.

Income tax status

The Foundation is a qualified organization exempt from Federal income and California franchise taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and 23701d of the California Revenue and Taxation Code, respectively.

The Foundation has evaluated its current tax positions and has concluded that as of June 30, 2021, the Foundation does not have any significant uncertain tax positions for which a reserve would be necessary.

Use of estimates

The presentation of the financial statements in conformity with U.S. GAAP 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.

Concentration 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 investments with major financial institutions. At times, such amounts may exceed FDIC limits. The Foundation manages credit risk by establishing minimum credit standards for financial institutions. The Foundation's investments are in custody with a banking institution and investment manager. The Foundation's management closely monitors these investments.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. Revenue from contributions and investment income are not impacted by this new standard.

The Foundation adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Subsequent events

The Foundation has evaluated subsequent events through October 26, 2021, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Foundation's financial statements.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consisted of the following:

Amounts due in less than one year	\$ 287
Amounts due in one to five years	<u>290</u>
	577
Less: discount and allowance for doubtful contributions	<u>(28)</u>
	<u><u>\$ 549</u></u>

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2021
(In thousands)

4. INVESTMENTS

Investments consisted of the following:

Cash equivalents	\$ 9,559
Equity securities	10,562
Other fixed income securities	2,197
Certificate of deposit	<u>100</u>
	<u><u>\$ 22,418</u></u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	\$ 9,559	\$ -	\$ -	\$ 9,559
Equity securities	10,562	-	-	10,562
Other fixed income securities	2,197	-	-	2,197
Certificate of deposit	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
	<u><u>\$ 22,418</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,418</u></u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Leasehold improvements	\$ 9,300
Equipment	1,244
Furniture and fixtures	1,245
Software	586
Vehicles	<u>336</u>
	12,711
Accumulated depreciation and amortization	<u>(9,992)</u>
	<u><u>\$ 2,719</u></u>

Depreciation and amortization expense for the year ended June 30, 2021 was \$1,416. Included in the depreciation and amortization expense for the year is amortization for the Health & Wellness Center, which for the year ended June 30, 2021 was \$1,055, and is reported separately on the statement of activities and the statement of functional expenses to highlight that the majority of the Health & Wellness Center was funded by the Foundation's Campaign for Health & Wellness and not ongoing operations.

Leased capital assets included in property and equipment at June 30, 2021 totaled \$73 less accumulated depreciation of \$8.

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6. LINE OF CREDIT

The Foundation has a revolving line of credit agreement with a major financial institution for \$3,700. The line of credit bears interest equal to the LIBOR floating rate plus 1.5%. Funds from the line of credit are to be used for working capital purposes and are collateralized by various assets of the Foundation. There were no amounts outstanding under the line of credit as of June 30, 2021. The Foundation is required to comply with various affirmative and negative covenants in the line of credit. At June 30, 2021, the Foundation was in compliance with those covenants.

7. 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 \$454 to the Plan during the year ended June 30, 2021. Employer contributions, if any, are at the discretion of the management of the Foundation.

8. COMMITMENTS AND CONTINGENCIES

Operating leases

The Foundation leases its primary office space under an operating lease agreement which expires in December 2023 and its Health & Wellness Center under an operating lease agreement which expires in June 2023. 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, 2021 totaled \$2,909.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2022	\$ 3,866
2023	3,914
2024	<u>1,745</u>
	<u>\$ 9,525</u>

Capital leases

The Foundation also leases office equipment under various capital lease agreements which expire within one to five years.

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8. COMMITMENTS AND CONTINGENCIES (continued)

Capital leases (continued)

Future maturities of capital lease obligations are as follows:

<u>Year ending June 30,</u>	
2022	\$ 20
2023	19
2024	17
2025	<u>12</u>
	68
Less: amount representing interest	<u>(2)</u>
	<u><u>\$ 66</u></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.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject for expenditure for specified purposes:	
Support for prevention, outreach, education and other related services	\$ 2,973
Public policy initiative support for people living with HIV	<u>9</u>
	2,982
Investment in perpetuity; income is expendable to support:	
Prevention and treatment education	<u>420</u>
	<u><u>\$ 3,402</u></u>

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9. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year were as follows:

Purpose restrictions accomplished:

Support for prevention, outreach, education and other related services	\$ 2,536
Public policy initiative support for people living with HIV	61
	2,597
Endowment earnings appropriated for expenditure	40
	\$ 2,637

10. ENDOWMENT

The Foundation's endowment consists of a donor-restricted endowment fund. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

On September 30, 2008, the State of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), effective January 1, 2009. The Foundation's board of directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions, (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. Amounts are classified as net assets with donor restrictions until the Foundation's management appropriates amounts for expenditures and any purpose restrictions have been met, in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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10. ENDOWMENT (continued)

Interpretation of relevant law (continued)

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Return objectives and risk parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the board of directors, the Foundation diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2021.

Spending policy

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.

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10. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 567	\$ 567
	<u>\$ -</u>	<u>\$ 567</u>	<u>\$ 567</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2020	\$ -	\$ 462	\$ 462
Investment return			
Investment income	-	8	8
Net depreciation (realized and unrealized)	-	137	137
Total investment return	-	145	145
Expenses released from restriction	-	(40)	(40)
	-	105	105
Balance, June 30, 2021	<u>\$ -</u>	<u>\$ 567</u>	<u>\$ 567</u>

11. LIQUIDITY AND FUNDS AVAILABLE

As part of the Foundation's liquidity management, it structures its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Foundation has cash and cash equivalents, investments, accounts receivable and contributions receivables available.

Management of the Foundation regularly reviews the financial and liquidity positions to ensure their adequacy. The Board has set a 90 day operating expense target for reserves.

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11. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 2,054
Investments	22,418
Accounts receivable	4,982
Contributions receivable due in less than one year	<u>259</u>
	<u>29,713</u>
Less: amounts unavailable for general expenditure within one year	
Purpose restricted projects	(2,982)
Held in perpetuity	<u>(420)</u>
	<u>(3,402)</u>
	<u>\$ 26,311</u>

In the event of an unanticipated liquidity need, the Foundation may draw upon its \$3,700 available operating line of credit. See Note 6 for further description of the line of credit.

12. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives.

The COVID-19 pandemic has also begun to disrupt the global supply chain, and may cause disruptions to operations if employees of the Foundation become sick, are quarantined, or are otherwise limited in their ability to work at the Foundation locations. While the Foundation's business needed to curtail some in person activities and pivot toward increased online delivery of services, operations were significantly impacted but not critically impacted. The majority of the Foundation's work was able to continue during the height of the crisis and business shut downs. A group of the Foundation's staff continue to work remotely, in constant communication with the Foundation's partners and funders. The Foundation is monitoring state and federal guidelines for the potential to return to more normal operations in the future.