

San Francisco AIDS Foundation

Financial Statements

June 30, 2022
(With Comparative Totals for 2021)



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of San Francisco AIDS Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

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

Report on Summarized Comparative Information

We have previously audited San Francisco AIDS Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Francisco AIDS Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Francisco AIDS Foundation's ability to continue as a going concern for a reasonable period of time.

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



Armanino^{LLP}
San Ramon, California

November 9, 2022

San Francisco AIDS Foundation
Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)
(In thousands)

	2022	2021
ASSETS		
Cash	\$ 2,404	\$ 2,054
Investments	19,011	22,418
Accounts receivable	10,651	4,982
Contributions receivable, net	884	549
Prepaid and other assets	1,596	1,173
Security deposits and other deposits	107	112
Property and equipment, net	1,393	2,719
Total assets	\$ 36,046	\$ 34,007
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,384	\$ 1,776
Accrued payroll and related liabilities	2,183	2,246
Deferred rent	154	163
Refundable advances and deferred revenue	661	457
Capital lease obligations	48	66
Total liabilities	5,430	4,708
Net assets		
Without donor restrictions	27,879	25,897
With donor restrictions	2,737	3,402
Total net assets	30,616	29,299
Total liabilities and net assets	\$ 36,046	\$ 34,007

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

San Francisco AIDS Foundation
Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)
(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
Public and government support				
Government grants	\$ 20,579	\$ 93	\$ 20,672	\$ 17,929
Contributions and grants				
Individuals	1,206	37	1,243	1,207
Corporations and foundations	206	2,784	2,990	4,084
Donated goods and services	808	-	808	731
Total contributions and grants	<u>2,220</u>	<u>2,821</u>	<u>5,041</u>	<u>6,022</u>
Special events	10,631	-	10,631	2,144
Less: special event expenses	<u>(1,869)</u>	<u>-</u>	<u>(1,869)</u>	<u>(80)</u>
Net income from special events	8,762	-	8,762	2,064
Net assets released from restriction	<u>3,513</u>	<u>(3,513)</u>	<u>-</u>	<u>-</u>
Total public and government support	<u>35,074</u>	<u>(599)</u>	<u>34,475</u>	<u>26,015</u>
Revenues and gains (losses)				
340B drug pricing program	12,182	-	12,182	17,637
Net realized and unrealized gains (losses) on investments	(1,898)	(84)	(1,982)	2,748
Investment income, net of investment expenses of \$54 in 2022 and \$49 in 2021	339	18	357	130
Losses on disposal of assets	-	-	-	(17)
Other	<u>226</u>	<u>-</u>	<u>226</u>	<u>397</u>
Total revenues and gains (losses)	<u>10,849</u>	<u>(66)</u>	<u>10,783</u>	<u>20,895</u>
Total public and government support, revenues and gains	<u>45,923</u>	<u>(665)</u>	<u>45,258</u>	<u>46,910</u>
Functional expenses				
Program services	36,297	-	36,297	41,074
Management and general	1,734	-	1,734	1,673
Fund development	<u>4,855</u>	<u>-</u>	<u>4,855</u>	<u>4,322</u>
Total functional expenses	<u>42,886</u>	<u>-</u>	<u>42,886</u>	<u>47,069</u>
Change in net assets from operations before amortization - Health & Wellness Center	3,037	(665)	2,372	(159)
Amortization - Health & Wellness Center (Note 5)	<u>1,055</u>	<u>-</u>	<u>1,055</u>	<u>1,055</u>
Change in net assets	1,982	(665)	1,317	(1,214)
Net assets, beginning of year	<u>25,897</u>	<u>3,402</u>	<u>29,299</u>	<u>30,513</u>
Net assets, end of year	<u>\$ 27,879</u>	<u>\$ 2,737</u>	<u>\$ 30,616</u>	<u>\$ 29,299</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, 2022
(With Comparative Totals for 2021)
(In thousands)

	Program Services					Management and General	Fund Development	2022 Total	2021 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	\$ 3,442	\$ 6,424	\$ 5,170	\$ 1,269	\$ 16,305	\$ 729	\$ 2,548	\$ 19,582	\$ 23,980
Professional services	908	566	505	309	2,288	146	687	3,121	2,391
Outreach and promotion	12	33	27	21	93	5	74	172	347
Event production	24	71	118	14	227	1	159	387	249
Postage and distribution	4	9	14	3	30	1	163	194	149
Staff and volunteer support and travel	1	209	138	34	382	35	147	564	497
Program materials and supplies	472	1,071	441	9	1,993	-	-	1,993	1,759
Housing subsidies	-	-	2,989	-	2,989	-	-	2,989	2,952
340B drug pricing program	5,527	-	-	-	5,527	-	-	5,527	7,449
Subcontractor services	92	1,280	127	-	1,499	-	-	1,499	1,716
Occupancy	357	1,449	967	179	2,952	686	653	4,291	3,298
Office expenses	224	488	363	61	1,136	84	280	1,500	1,191
Depreciation and amortization, excluding amortization - Health & Wellness Center	76	23	100	5	204	37	18	259	361
Donated professional volunteer services	18	51	35	9	113	10	54	177	143
Donated goods	16	503	32	8	559	-	72	631	587
Expenses from special events	-	-	-	-	-	-	1,869	1,869	80
Total expenses before amortization - Health & Wellness Center	11,173	12,177	11,026	1,921	36,297	1,734	6,724	44,755	47,149
Amortization - Health & Wellness Center (Note 5)	404	125	526	-	1,055	-	-	1,055	1,055
Total expenses	11,577	12,302	11,552	1,921	37,352	1,734	6,724	45,810	48,204
Less expenses included in public and government support, revenues and gains	-	-	-	-	-	-	(1,869)	(1,869)	(80)
Total expenses on the statement of activities	\$ 11,577	\$ 12,302	\$ 11,552	\$ 1,921	\$ 37,352	\$ 1,734	\$ 4,855	\$ 43,941	\$ 48,124

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, 2022
(With Comparative Totals for 2021)
(In thousands)

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 1,317	\$ (1,214)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Donations of marketable securities, net	(37)	(33)
Depreciation and amortization	1,314	1,416
Loss on disposal of assets	-	17
Net realized and unrealized loss (gain) on investments	1,982	(2,748)
Changes in operating assets and liabilities		
Accounts receivable	(5,669)	166
Contributions receivable, net	(335)	99
Prepaid expenses	(395)	(179)
Security deposits and other assets	5	12
Accounts payable and accrued expenses	606	(132)
Accrued payroll and related liabilities	(62)	56
Deferred rent	(8)	(197)
Refundable advances and deferred revenue	204	56
Net cash used in operating activities	(1,078)	(2,681)
Cash flows from investing activities		
Purchase of property and equipment	(16)	(156)
Purchase of investments	(8,973)	(2,273)
Proceeds from sales of investments	10,435	4,651
Net cash provided by investing activities	1,446	2,222
Cash flows from financing activities		
Capital leases obligations	(18)	(5)
Net cash used in financing activities	(18)	(5)
Net increase (decrease) in cash	350	(464)
Cash, beginning of year	2,054	2,518
Cash, end of year	\$ 2,404	\$ 2,054

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	\$ 1	\$ 2

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

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2022
(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, 2022.

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 genderaffirming care. The Foundation provides postexposure 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. In 2022, the Foundation provided monkeypox (MPX) testing, treatment, and vaccination.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2022
(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 and resources, 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, including housing and public benefits is a critical component of the Foundation's work. The Health Navigation program links 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 community engagement and social support programs engage longterm 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 websites 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 main office at 1035 Market Street and several satellite and pop-up 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, 2022
(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.

Change in accounting principle

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Foundation adopted ASU 2020-07 with a date of the initial application of July 1, 2021, using the full retrospective method.

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, 2021, from which the summarized information was derived.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2022
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain reclassifications have been made to prior year balances to conform with current year presentation. These reclassifications had no impact on total assets, total liabilities, net assets in the previously reported financial statements for the year ended June 30, 2021.

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.

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 refundable advances in the statement of financial position. The Foundation received cost-reimbursable grants of \$1,407 that have not been recognized at June 30, 2022 because qualifying expenditures have not yet been incurred, with an advance payment of \$454 recognized in the statement of financial position as refundable advances. Any billed contract receivables are included in accounts receivable as of June 30, 2022.

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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2022
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 amounted to \$177. 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 \$612 for the year ended June 30, 2022, 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, 2022 amounted to \$631.

Donated goods and services consisted of the following:

AIDS Life Cycle	\$	198
Media		74
Medical Supplies		457
Tribute Gifts		15
Software		30
Legal Services		<u>34</u>
	<u>\$</u>	<u>808</u>

Unless otherwise noted, no donor restrictions exist for contributed nonfinancial assets.

ALC donations of goods and services consist of event support from a variety of organizations, such as vehicles, shipping services, food and drink, and advertising. Donations are recognized at fair market value as provided by the donors.

Medical supplies donations consist of supplies and equipment for our various programs. Donations are recognized at fair market value as provided by supplier.

Media, Tribute gifts, software and legal services donations support fundraising efforts and administrative support. All are recognized at fair market value as provided by our supporters.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2022
(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, 2022 as management has determined all outstanding balances to be collectible.

Contributions receivable, net

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 \$39 at June 30, 2022.

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 \$17 as of June 30, 2022.

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, 2022
(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, 2022
(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.

Deferred revenue

Deferred revenue consists of amounts invoiced in advance of revenue recognition and are recognized as the revenue recognition criteria are met.

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 \$18 for the year ended June 30, 2022.

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, 2022
(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 \$2,999 were incurred by the Foundation for program and fundraising expense for the year ended June 30, 2022. Of these amounts, \$1,240 was allocated to fund development and \$1,759 was allocated to program services for the year ended June 30, 2022.

Advertising costs

The Foundation's policy is to expense advertising costs as the costs are incurred. Advertising costs for the year ended June 30, 2022 totaled \$147.

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, 2022, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Foundation has evaluated subsequent events through November 9, 2022, 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	\$ 537
Amounts due in one to five years	403
	940
Less: discount and allowance for doubtful contributions	(56)
	\$ 884

4. INVESTMENTS

Investments consisted of the following:

Cash equivalents	\$ 7,628
Equity securities	9,554
Other fixed income securities	1,729
Certificate of deposit	100
	\$ 19,011

The following table sets forth by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	\$ 7,628	\$ -	\$ -	\$ 7,628
Equity securities	9,554	-	-	9,554
Other fixed income securities	1,729	-	-	1,729
Certificate of deposit	100	-	-	100
	\$ 19,011	\$ -	\$ -	\$ 19,011

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5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Leasehold improvements	\$ 9,290
Equipment	1,221
Furniture and fixtures	1,246
Software	445
Vehicles	<u>336</u>
	12,538
Accumulated depreciation and amortization	<u>(11,145)</u>
	<u><u>\$ 1,393</u></u>

Depreciation and amortization expense for the year ended June 30, 2022 was \$1,314. Included in the depreciation and amortization expense for the year is amortization for the Health & Wellness Center, which for the year ended June 30, 2022 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, 2022 totaled \$73 less accumulated depreciation of \$25.

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 BSBY 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, 2022. The Foundation is required to comply with various affirmative and negative covenants in the line of credit. At June 30, 2022, 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 \$340 to the Plan during the year ended June 30, 2022. Employer contributions, if any, are at the discretion of the management of the Foundation.

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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, 2022 totaled \$3,868.

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

<u>Year ending June 30,</u>		
2023	\$	3,942
2024		<u>1,775</u>
	\$	<u><u>5,717</u></u>

Capital leases

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

Future maturities of capital lease obligations are as follows:

<u>Year ending June 30,</u>		
2023	\$	19
2024		17
2025		<u>13</u>
		49
Less: amount representing interest		<u>(1)</u>
	\$	<u><u>48</u></u>

Litigation

In the normal course of operations, the Foundation is involved in various legal discussions. The Foundation's management does not expect any of these discussions to lead to legal proceedings resulting in material adverse effect on the Foundation's financial statements

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8. COMMITMENTS AND CONTINGENCIES (continued)

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 to expenditure for specified purposes:

Includes \$1,317 related to Advancing Health Justice Initiative-capacity building and strategic planning, increase HIV and mental health outcomes for Black and Latinx individuals.	\$ <u>2,320</u>
	2,320

Investment in perpetuity; income is expendable to support:

Prevention and treatment education	<u>417</u>
	<u>\$ 2,737</u>

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	\$ 3,501
Public policy initiative support for people living with HIV	<u>9</u>
	3,510

Endowment earnings appropriated for expenditure	<u>3</u>
	<u>\$ 3,513</u>

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.

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10. ENDOWMENT (continued)

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:

- (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.

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10. ENDOWMENT (continued)

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, 2022.

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.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 499	\$ 499
	<u>\$ -</u>	<u>\$ 499</u>	<u>\$ 499</u>

Changes in endowment net assets for the fiscal year ended June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2021	\$ -	\$ 567	\$ 567
Investment return			
Investment income	-	18	18
Net depreciation (realized and unrealized)	-	(84)	(84)
Total investment return	-	(66)	(66)
Expenses released from restriction	-	(2)	(2)
	-	(68)	(68)
Balance, June 30, 2022	<u>\$ -</u>	<u>\$ 499</u>	<u>\$ 499</u>

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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.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2022 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 2,404
Investments	19,011
Accounts receivable	10,651
Contributions receivable due in less than one year	<u>537</u>
	<u>32,603</u>
Less: amounts unavailable for general expenditure within one year	
Purpose restricted projects	(2,320)
Held in perpetuity	<u>(417)</u>
	<u>(2,737)</u>
	<u>\$ 29,866</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. EMPLOYEE RETENTION CREDIT

During 2022, the Foundation became eligible and received support under the Employee Retention Credit ("ERC") program. Amounts recognized related to the program totaled \$2,612 and is included in accounts receivable and Government grants in the accompanying financial statements.