

San Francisco AIDS Foundation

Financial Statements

June 30, 2023
(With Comparative Totals for 2022)



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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, 2023, 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, 2023, 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 for 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Foundation has adopted FASB Topic 842, *Leases*. Our opinion is not modified with respect to that matter.

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 Francisco, California

November 29, 2023

San Francisco AIDS Foundation
Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)
(In thousands)

	2023	2022
ASSETS		
Cash	\$ 429	\$ 2,404
Investments	20,359	19,011
Accounts receivable	10,093	10,651
Contributions receivable, net	242	884
Prepaid and other assets	1,646	1,596
Security deposits and other deposits	105	107
Right-of-use assets	6,253	-
Property and equipment, net	329	1,393
Total assets	\$ 39,456	\$ 36,046
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,306	\$ 2,384
Accrued payroll and related liabilities	2,297	2,183
Deferred rent	-	154
Refundable advances and deferred revenue	478	661
Lease liabilities	6,476	48
Total liabilities	12,557	5,430
Net assets		
Without donor restrictions	22,993	27,879
With donor restrictions	3,906	2,737
Total net assets	26,899	30,616
Total liabilities and net assets	\$ 39,456	\$ 36,046

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

San Francisco AIDS Foundation
Statement of Activities
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)
(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2023 Total</u>	<u>2022 Total</u>
Public and government support				
Government grants	\$ 18,700	\$ 87	\$ 18,787	\$ 20,672
Contributions and grants				
Individuals	829	32	861	1,243
Corporations and foundations	214	4,081	4,295	2,990
Donated goods and services	873	-	873	808
Total contributions and grants	<u>1,916</u>	<u>4,113</u>	<u>6,029</u>	<u>5,041</u>
Special events	7,511	-	7,511	10,631
Less: special event expenses	<u>(2,117)</u>	<u>-</u>	<u>(2,117)</u>	<u>(1,869)</u>
Net income from special events	5,394	-	5,394	8,762
Net assets released from restriction	<u>3,078</u>	<u>(3,078)</u>	<u>-</u>	<u>-</u>
Total public and government support	<u>29,088</u>	<u>1,122</u>	<u>30,210</u>	<u>34,475</u>
Revenues and gains (losses)				
340B drug pricing program	9,041	-	9,041	12,182
Net realized and unrealized gains (losses) on investments	770	30	800	(1,982)
Investment income, net of investment expenses of \$54 in 2022 and \$49 in 2021	735	17	752	357
Losses on disposal of assets	(72)	-	(72)	-
Other	<u>168</u>	<u>-</u>	<u>168</u>	<u>226</u>
Total revenues and gains (losses)	<u>10,642</u>	<u>47</u>	<u>10,689</u>	<u>10,783</u>
Total public and government support, revenues and gains	<u>39,730</u>	<u>1,169</u>	<u>40,899</u>	<u>45,258</u>
Functional expenses				
Program services	36,304	-	36,304	36,297
Management and general	2,569	-	2,569	1,734
Fund development	<u>4,688</u>	<u>-</u>	<u>4,688</u>	<u>4,855</u>
Total functional expenses	<u>43,561</u>	<u>-</u>	<u>43,561</u>	<u>42,886</u>
Change in net assets from operations before amortization - Health & Wellness Center	(3,831)	1,169	(2,662)	2,372
Amortization - Health & Wellness Center (Note 5)	<u>1,055</u>	<u>-</u>	<u>1,055</u>	<u>1,055</u>
Change in net assets	(4,886)	1,169	(3,717)	1,317
Net assets, beginning of year	<u>27,879</u>	<u>2,737</u>	<u>30,616</u>	<u>29,299</u>
Net assets, end of year	<u>\$ 22,993</u>	<u>\$ 3,906</u>	<u>\$ 26,899</u>	<u>\$ 30,616</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, 2023
(With Comparative Totals for 2022)
(In thousands)

	Program Services					Management and General	Fund Development	2023 Total	2022 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	\$ 3,384	\$ 6,879	\$ 5,393	\$ 1,366	\$ 17,022	\$ 1,042	\$ 2,514	\$ 20,578	\$ 19,582
Professional services	655	754	710	286	2,405	308	679	3,392	3,121
Outreach and promotion	17	24	34	36	111	12	106	229	172
Event production	23	63	112	15	213	-	162	375	387
Postage and distribution	3	7	9	2	21	1	147	169	194
Staff and volunteer support and travel	87	144	144	47	422	28	151	601	564
Program materials and supplies	343	1,081	484	11	1,919	1	1	1,921	1,993
Housing subsidies	-	-	2,948	-	2,948	-	-	2,948	2,989
340B drug pricing program	4,794	-	-	-	4,794	-	-	4,794	5,527
Subcontractor services	195	986	201	30	1,412	-	-	1,412	1,499
Occupancy	485	1,454	1,006	202	3,147	935	578	4,660	4,291
Office expenses	189	391	314	61	955	143	229	1,327	1,500
Depreciation and amortization	86	28	85	7	206	54	22	282	259
Donated professional volunteer services	29	77	68	15	189	45	45	279	177
Donated goods	9	506	20	5	540	-	54	594	631
Expenses from special events	-	-	-	-	-	-	2,117	2,117	1,869
Total expenses before amortization - Health & Wellness Center	10,299	12,394	11,528	2,083	36,304	2,569	6,805	45,678	44,755
Amortization - Health & Wellness Center (Note 5)	454	148	453	-	1,055	-	-	1,055	1,055
Total expenses	10,753	12,542	11,981	2,083	37,359	2,569	6,805	46,733	45,810
Less expenses included in public and government support, revenues and gains	-	-	-	-	-	-	(2,117)	(2,117)	(1,869)
Total expenses on the statement of activities	<u>\$ 10,753</u>	<u>\$ 12,542</u>	<u>\$ 11,981</u>	<u>\$ 2,083</u>	<u>\$ 37,359</u>	<u>\$ 2,569</u>	<u>\$ 4,688</u>	<u>\$ 44,616</u>	<u>\$ 43,941</u>

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, 2023
(With Comparative Totals for 2022)
(In thousands)

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (3,717)	\$ 1,317
Adjustments to reconcile change in net assets to net cash used in operating activities		
Donations of marketable securities, net	(27)	(37)
Depreciation and amortization	1,337	1,314
Loss on disposal of assets	72	-
Net realized and unrealized loss (gain) on investments	(800)	1,982
Amortization of operating lease right-of-use assets	3,845	-
Changes in operating assets and liabilities		
Accounts receivable	558	(5,669)
Contributions receivable, net	642	(335)
Prepaid expenses	(147)	(395)
Security deposits and other assets	2	5
Accounts payable and accrued expenses	922	606
Accrued payroll and related liabilities	114	(62)
Deferred rent	(154)	(8)
Refundable advances and deferred revenue	(182)	204
Lease liabilities	(3,622)	-
Net cash used in operating activities	(1,157)	(1,078)
Cash flows from investing activities		
Purchase of property and equipment	(277)	(16)
Purchase of investments	(6,555)	(8,973)
Proceeds from sales of investments	6,033	10,435
Net cash provided by (used in) investing activities	(799)	1,446
Cash flows from financing activities		
Principal payments on finance lease liabilities	(19)	(18)
Net cash used in financing activities	(19)	(18)
Net increase (decrease) in cash	(1,975)	350
Cash, beginning of year	2,404	2,054
Cash, end of year	\$ 429	\$ 2,404

Supplemental disclosures of cash flow information

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

Supplemental schedule of noncash investing and financing activities

Operating lease right-of-use assets obtained in exchange for lease liabilities	\$ 10,098	\$ -
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The accompanying notes are an integral part of these financial statements.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(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 five 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;
- Strengthen organizational excellence with a focus on living our values, including a commitment to racial justice; and,
- Respond to public health crises with a race equity strategy.

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, 2023.

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, doxy PEP for STI prevention, and gender affirming care. The Foundation 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. In 2023, the Foundation provided monkeypox (MPX) testing, treatment, and vaccination.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(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 and clients taking PrEP 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 long-term HIV survivors and those newly diagnosed, as well as trans and gender nonbinary people, Black and African American men who have sex with men, the Latinx community, and Black and African American women living with HIV. 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 and advocacy 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 prevention, 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 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, 2023
(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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Foundation adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Foundation elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

As a result of the adoption of the new lease accounting guidance, the Foundation recognized on July 1, 2022, an initial lease liability of \$6,042, which represents the present value of the remaining operating lease payments of \$6,195 discounted using risk free rates ranging from 2.82% to 3.75%, and a right-of-use asset of \$5,888, which represents the operating lease liability of \$6,042 adjusted for deferred rent of \$154. In addition, the Foundation had existing finance leases with a balance of \$48 at July 1, 2022. Upon adoption of the new lease accounting guidance, assets under finance lease were reclassified to right-of-use assets.

The standard had a material impact to Foundation's statement of financial position as of June 30, 2023, but did not have a material impact on the Foundation's statement of activities, nor statement of cash flows for the year then ended. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases on the statement of financial position as of June 30, 2023.

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, 2022, 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, 2023
(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 refundable advances in the statement of financial position. The Foundation received cost-reimbursable grants of \$1,017 that have not been recognized at June 30, 2023 because qualifying expenditures have not yet been incurred, with an advance payment of \$297 recognized in the statement of financial position as refundable advances. Any billed contract receivables are included in accounts receivable as of June 30, 2023.

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, 2023 amounted to \$280. 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 \$670 for the year ended June 30, 2023, 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, 2023 amounted to \$593.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions of services and goods (continued)

Donated goods and services consisted of the following:

AIDS Life Cycle	\$	123
Legal services		247
Medical supplies		484
Tribute gifts		<u>19</u>
	<u>\$</u>	<u>873</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.

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, 2023 as management has determined all outstanding balances to be collectible.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$43 at June 30, 2023.

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 \$10 as of June 30, 2023.

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.

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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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.

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 include amounts 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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2023
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Foundation leases office and storage spaces under operating leases and equipment under finance leases. The Foundation determines if an arrangement is a lease at inception. Operating and finance leases are included in right-of-use (ROU) assets and lease liabilities on the statement of financial position.

ROU assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Foundation's lease does not provide an implicit rate, the Foundation uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Foundation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Foundation has elected not to recognize right-of-use assets and lease liabilities for short-term leases and instead records them in a manner similar to operating leases under legacy leasing guidelines. A short-term lease is one with a maximum lease term of 12 months or fewer and does not include a purchase option that the lessee is reasonably certain to exercise. The Foundation does not have any short-term leases.

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
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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 \$3,078 were incurred by the Foundation for program and fundraising expense for the year ended June 30, 2023. Of these amounts, \$1,514 was allocated to fund development and \$1,564 was allocated to program services for the year ended June 30, 2023.

Advertising costs

The Foundation's policy is to expense advertising costs as the costs are incurred. Advertising costs for the year ended June 30, 2023 totaled \$176.

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, 2023, 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
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Foundation has evaluated subsequent events through November 29, 2023, 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	\$ 250
Amounts due in one to five years	45
	295
Less: discount and allowance for doubtful contributions	(53)
	\$ 242

4. INVESTMENTS

Investments consisted of the following:

Cash equivalents	\$ 8,102
Equity securities	9,467
Other fixed income securities	2,690
Certificate of deposit	100
	\$ 20,359

The following table sets forth by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	\$ 8,102	\$ -	\$ -	\$ 8,102
Equity securities	9,467	-	-	9,467
Other fixed income securities	2,690	-	-	2,690
Certificate of deposit	100	-	-	100
	\$ 20,359	\$ -	\$ -	\$ 20,359

San Francisco AIDS Foundation
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5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Leasehold improvements	\$ 9,290
Equipment	1,066
Furniture and fixtures	1,246
Software	541
Vehicles	<u>445</u>
	12,588
Accumulated depreciation and amortization	<u>(12,259)</u>
	<u><u>\$ 329</u></u>

Depreciation and amortization expense for the year ended June 30, 2023 was \$1,337. Included in the depreciation and amortization expense for the year is amortization for the Health & Wellness Center, which for the year ended June 30, 2023 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.

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 Bloomberg Short Term Bank Yield (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, 2023. The Foundation is required to comply with various affirmative and negative covenants in the line of credit. At June 30, 2023, 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 \$386 to the Plan during the year ended June 30, 2023. Employer contributions, if any, are at the discretion of the management of the Foundation.

San Francisco AIDS Foundation
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8. COMMITMENTS AND CONTINGENCIES

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

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. LEASES

The Foundation leases its primary office space, its Health & Wellness Center, and various other spaces used in operations under operating lease agreements. The primary office space lease expires in December 2023 and the Health & Wellness Center lease expires in June 2030. In addition, the Foundation leases equipment under finance lease agreements. Each of the leases are subject to various terms of agreement.

Additional information related to leases is as follows:

Operating lease cost	\$ 4,050
Finance lease cost	
Amortization of right-of-use assets	\$ 16
Interest on lease liabilities	<u>1</u>
Total finance lease cost	<u>\$ 17</u>
Operating cash flows from operating leases	\$ 3,982
Operating cash flows from finance leases	\$ 1
Financing cash flows from finance leases	\$ 16
Operating lease ROU assets obtained in exchange for lease obligations	\$ 10,098
Weighted average remaining lease terms	
Operating leases	5.03 years
Finance leases	1.67 years
Weighted average discount rates	
Operating leases	3.46 %
Finance leases	2.85 %

San Francisco AIDS Foundation
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9. LEASES (continued)

Future minimum lease payments under non-cancellable leases as of June 30, 2023 were as follows:

<u>Year ending June 30,</u>	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2024	\$ 2,477	\$ 17	\$ 2,494
2025	754	13	767
2026	777	-	777
2027	764	-	764
2028	788	-	788
Thereafter	<u>1,527</u>	<u>-</u>	<u>1,527</u>
	7,087	30	7,117
Less imputed interest	<u>(640)</u>	<u>(1)</u>	<u>(641)</u>
	<u>\$ 6,447</u>	<u>\$ 29</u>	<u>\$ 6,476</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject to expenditure for specified purposes:

Includes \$2,702 related to Advancing Health Justice Initiative-capacity building and strategic planning, increase HIV and mental health outcomes for Black and Latinx individuals; also includes People & Culture capacity building infrastructure	<u>\$ 3,486</u>
	3,486

Investment in perpetuity; income is expendable to support:

Prevention and treatment education	<u>420</u>
	<u>\$ 3,906</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	<u>\$ 3,078</u>
	3,078
	<u>\$ 3,078</u>

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11. 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:

- (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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11. 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, 2023.

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, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 494	\$ 494
	<u>\$ -</u>	<u>\$ 494</u>	<u>\$ 494</u>

Changes in endowment net assets for the fiscal year ended June 30, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2022	\$ -	\$ 499	\$ 499
Investment return			
Investment income	-	17	17
Net appreciation (realized and unrealized)	-	30	30
Total investment return	-	47	47
Expenses released from restriction	-	(52)	(52)
	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Balance, June 30, 2023	<u>\$ -</u>	<u>\$ 494</u>	<u>\$ 494</u>

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12. 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.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2023 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 429
Investments	20,359
Accounts receivable	10,093
Contributions receivable due in less than one year	<u>250</u>
	<u>31,131</u>
Less: amounts unavailable for general expenditure within one year	
Purpose restricted projects	(3,486)
Held in perpetuity	<u>(420)</u>
	<u>(3,906)</u>
	<u>\$ 27,225</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.