

**The San Francisco AIDS Foundation**

(A California Nonprofit Public Benefit Corporation)

Financial Statements

June 30, 2016

(With Summarized Comparative Information  
For the Year Ended June 30, 2015)



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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The San Francisco AIDS Foundation (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Francisco AIDS Foundation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited The San Francisco AIDS Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Armanino LLP*  
Armanino<sup>LLP</sup>  
San Ramon, California

November 4, 2016

THE SAN FRANCISCO AIDS FOUNDATION  
(A California Nonprofit Public Benefit Corporation)  
Statement of Financial Position  
June 30, 2016  
(With Summarized Comparative Information for 2015)  
*(in thousands)*

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 1,599	\$ 1,649
Accounts receivable	3,883	2,211
Contributions receivable, net	1,079	1,096
Investments	9,640	10,756
Prepaid expenses	583	519
Security deposits and other assets	129	131
Property and equipment, net	<u>8,865</u>	<u>8,388</u>
Total assets	<u>\$ 25,778</u>	<u>\$ 24,750</u>
 <u>LIABILITIES AND NET ASSETS</u>  		
Liabilities		
Accounts payable and accrued expenses	\$ 2,032	\$ 1,612
Accrued payroll and related liabilities	1,167	1,092
Deferred rent	1,432	1,499
Refundable advances	170	173
Capital lease obligations	<u>103</u>	<u>75</u>
Total liabilities	<u>4,904</u>	<u>4,451</u>
Commitments and contingencies (Note 8)		
Net assets		
Unrestricted	18,922	14,988
Temporarily restricted	1,532	4,891
Permanently restricted	<u>420</u>	<u>420</u>
Total net assets	<u>20,874</u>	<u>20,299</u>
Total liabilities and net assets	<u>\$ 25,778</u>	<u>\$ 24,750</u>

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

THE SAN FRANCISCO AIDS FOUNDATION  
(A California Nonprofit Public Benefit Corporation)  
Statement of Activities  
For the Year Ended June 30, 2016  
(With Summarized Comparative Information for 2015)  
(in thousands)

	2016			2015 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Public and government support					
Government grants	\$ 13,227	\$ 64	\$ -	\$ 13,291	\$ 11,021
Contributions and grants					
Individuals	1,906	455	-	2,361	3,073
Corporations and foundations	208	2,540	-	2,748	3,426
Donated goods and services	638	-	-	638	489
Total contributions and grants	<u>2,752</u>	<u>2,995</u>	<u>-</u>	<u>5,747</u>	<u>6,988</u>
Special events	9,322	59	-	9,381	10,619
Less: Special event expenses	<u>(1,523)</u>	<u>-</u>	<u>-</u>	<u>(1,523)</u>	<u>(1,592)</u>
Net income from special events	7,799	59	-	7,858	9,027
Net assets released from restrictions	<u>6,651</u>	<u>(6,651)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public and government support	30,429	(3,533)	-	26,896	27,036
Revenues and gains					
Net realized and unrealized loss on investments	(44)	(14)	-	(58)	(92)
Investment income	198	10	-	208	380
340B drug pricing program	2,073	-	-	2,073	336
Other	135	178	-	313	286
Total contributions, grants, public and government support, revenues and gains	<u>32,791</u>	<u>(3,359)</u>	<u>-</u>	<u>29,432</u>	<u>27,946</u>
Expenses					
Program services	23,738	-	-	23,738	20,627
Management and general	805	-	-	805	734
Fund development	3,852	-	-	3,852	3,667
Total expenses, excluding amortization - Health & Wellness Center	<u>28,395</u>	<u>-</u>	<u>-</u>	<u>28,395</u>	<u>25,028</u>
Change in net assets before amortization - Health & Wellness Center	<u>4,396</u>	<u>(3,359)</u>	<u>-</u>	<u>1,037</u>	<u>2,918</u>
Amortization - Health & Wellness Center (Note 5)	<u>462</u>	<u>-</u>	<u>-</u>	<u>462</u>	<u>-</u>
Change in net assets	<u>3,934</u>	<u>(3,359)</u>	<u>-</u>	<u>575</u>	<u>2,918</u>
Net assets, beginning of year	<u>14,988</u>	<u>4,891</u>	<u>420</u>	<u>20,299</u>	<u>17,381</u>
Net assets, end of year	<u>\$ 18,922</u>	<u>\$ 1,532</u>	<u>\$ 420</u>	<u>\$ 20,874</u>	<u>\$ 20,299</u>

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

THE SAN FRANCISCO AIDS FOUNDATION  
(A California Nonprofit Public Benefit Corporation)  
Statement of Functional Expenses  
For the Year Ended June 30, 2016  
(With Summarized Comparative Information for 2015)  
*(in thousands)*

	Program Services					Management & General	Fund Development	Total 2016 Expenses	Total 2015 Expenses
	Advocacy & Education	Housing Services	Community Based Health, Prevention & Support Services	Substance Health Services	Total Program Services				
Expenses									
Salaries and employee benefits	\$ 1,168	\$ 545	\$ 6,868	\$ 3,147	\$ 11,728	\$ 491	\$ 1,991	\$ 14,210	\$ 12,545
Professional services	172	28	489	207	896	129	472	1,497	1,411
Outreach and promotion	24	3	55	24	106	1	47	154	190
Event production	10	5	224	69	308	-	83	391	317
Postage and distribution	5	3	22	10	40	1	286	327	425
Staff/volunteer support and travel	69	12	259	87	427	20	132	579	550
Printing and materials production	17	2	245	74	338	1	64	403	368
Program supplies	-	17	85	1,037	1,139	-	-	1,139	1,033
340B drug pricing program	-	-	975	-	975	-	-	975	188
Housing subsidies	-	2,722	-	-	2,722	-	-	2,722	2,687
Subcontractor services	-	1	492	980	1,473	-	-	1,473	1,148
Occupancy	99	55	1,078	517	1,749	40	316	2,105	2,101
Office expenses	59	30	595	335	1,019	57	230	1,306	1,160
Depreciation and amortization, excluding amortization - Health & Wellness Center	22	12	301	59	394	12	69	475	416
Donated professional volunteer services	22	12	184	78	296	53	84	433	228
Donated goods	<u>11</u>	<u>6</u>	<u>76</u>	<u>35</u>	<u>128</u>	<u>-</u>	<u>78</u>	<u>206</u>	<u>261</u>
Total expenses before amortization - Health & Wellness Center	<u>1,678</u>	<u>3,453</u>	<u>11,948</u>	<u>6,659</u>	<u>23,738</u>	<u>805</u>	<u>3,852</u>	<u>28,395</u>	<u>25,028</u>
Amortization - Health & Wellness Center (note 5)	<u>-</u>	<u>-</u>	<u>378</u>	<u>84</u>	<u>462</u>	<u>-</u>	<u>-</u>	<u>462</u>	<u>-</u>
Total Expenses	<u>\$ 1,678</u>	<u>\$ 3,453</u>	<u>\$ 12,326</u>	<u>\$ 6,743</u>	<u>\$ 24,200</u>	<u>\$ 805</u>	<u>\$ 3,852</u>	<u>\$ 28,857</u>	<u>\$ 25,028</u>

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

THE SAN FRANCISCO AIDS FOUNDATION  
(A California Nonprofit Public Benefit Corporation)  
Statement of Cash Flows  
For the Year Ended June 30, 2016  
(With Summarized Comparative Information for 2015)  
*(in thousands)*

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 575	\$ 2,918
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Loss on disposal of assets	6	220
Donations of marketable securities, net	(119)	(161)
Depreciation and amortization	937	416
Net realized and unrealized loss on investments	58	92
Changes in operating assets and liabilities		
Accounts receivable	(1,672)	357
Contributions receivable, net	17	(81)
Prepaid expenses	(64)	(134)
Security deposits and other assets	2	9
Accounts payable and accrued expenses	420	(63)
Accrued payroll and related liabilities	75	99
Grants payable	-	-
Deferred rent	(67)	(21)
Refundable advances	(3)	(17)
Net cash provided by operating activities	165	3,634
Cash flows from investing activities		
Capital expenditures	(1,345)	(6,143)
Purchase of investments	(8,975)	(3,027)
Proceeds from sales of investments	10,159	4,365
Net cash used in investing activities	(161)	(4,805)
Cash flows from financing activities		
Payments on capital leases	(54)	(59)
Net cash used in financing activities	(54)	(59)
Net decrease in cash	(50)	(1,230)
Cash, beginning of year	1,649	2,879
Cash, end of year	\$ 1,599	\$ 1,649
<u>Supplemental disclosures of cash flow information</u>		
Interest paid	\$ 17	\$ 35
Acquisition of capital assets financed under capital lease obligation	\$ 82	\$ -

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

THE SAN FRANCISCO AIDS FOUNDATION  
(A California Nonprofit Public Benefit Corporation)  
Notes to Financial Statements  
June 30, 2016

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1. Organization and Related Party Transactions

San Francisco AIDS Foundation ("the Foundation"), a non-profit public benefit corporation, works to end the HIV epidemic by combining innovative, evidence-based programs for HIV prevention and care with policy initiatives focused on issues ranging from harm reduction to total health and wellness. Established in 1982, San Francisco AIDS Foundation is fighting to end the transmission of HIV and to ensure all people living with HIV/AIDS have access to proper care.

San Francisco AIDS Foundation operates in accordance with a five-year strategic plan that orients its efforts around three key goals to achieve by 2019:

- Build healthier communities by fostering personal resilience and social support, increasing community engagement, and reducing harms associated with alcohol and other drugs
- Reduce new HIV diagnoses to fewer than 100 per year in San Francisco by 2019
- Improve the health and lifespan of HIV positive San Franciscans by increasing viral suppression to at least 80%

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

The following is a top-line summary of the principal programs and activities offered by the Foundation for HIV prevention, testing, care, support, substance health services, education, and advocacy for the fiscal year ending June 30, 2016.

Advocacy and Education

Advocacy, policy, and legislative work conducted by the Foundation on behalf of all people living with or at risk for HIV/AIDS at the national, state, and local levels informs lawmakers and opinion leaders of the critical need to adequately fund and expand public programs that improve health and save lives. To keep the public informed, the Foundation hosts a series of free community forums to discuss and debate an array of current topics related to HIV/AIDS, as well as mental and physical health issues. BETA blog, the newsletter HIV Resource, the e-mailed newsletter *Status*, and the website [www.sfaf.org](http://www.sfaf.org) keep community members and supporters informed of the latest developments in health, research, science, medicine, prevention, advocacy, and policy related to HIV/AIDS.

THE SAN FRANCISCO AIDS FOUNDATION  
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1. Organization and Related Party Transactions (continued)

Housing Services

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

Community Based Health, Prevention & Support Services

Magnet, the Foundation's sexual health service center for gay and bisexual men, offers free HIV testing and STI screenings, and access to pre-exposure prophylaxis (PrEP). Magnet services are now housed within the Health & Wellness Center, Strut, in the Castro neighborhood of San Francisco. Additionally, the Foundation offers a variety of community support services, including groups for African Americans, Latinos, newly-diagnosed men, men over fifty, transgender men, women, non-binary community members, and individuals interested in community service projects.

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

Substance Health Services

Drugs and alcohol are known drivers of HIV infection. Through the Stonewall Project, the Foundation provides an array of educational materials, counseling programs, resources, and other activities for gay, bisexual, and trans men to address the linkage between HIV, substance use, and mental health issues. The Foundation's Syringe Access Services program provides more than 2.6 million sterile syringes and other safer injection equipment each year to prevent the spread of HIV and hepatitis C. Other services include HIV and hepatitis C testing, and referrals and linkage to drug treatment and other social services.

Health and Wellness Services

The Foundation has co-located many services for gay, bisexual and transgender men into a single location. At Strut, the Foundation has expanded capacity for HIV testing, STI screening, mental health and substance use counseling, and the initiation of Truvada for PrEP. Strut also meets the needs, through community groups, of young gay black men, men over fifty, and transgender men, women, and non-binary community members.

THE SAN FRANCISCO AIDS FOUNDATION  
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1. Organization and Related Party Transactions (continued)

2015/16 Key Achievements

In order to end the HIV epidemic, the Foundation must remain steadfast in our commitments to push the envelope, pioneer new initiatives, advocate more fiercely, engage even more people in community, and think big. In addition to the portfolio of free services for HIV prevention and care delivered year round, the Foundation:

- Opened the doors of Strut, the holistic service center for gay, bisexual and transgender men in the Castro neighborhood of San Francisco. Raised a cumulative \$13.7 million of the \$15 million goal under the Campaign for Health & Wellness to fund Strut;
- Expanded our PrEP Health Program with services in two locations;
- Reached 1,000 people with the PrEP Health Program;
- Raised more than \$16.1 million on AIDS/LifeCycle, which the Foundation's portion was \$9.0 million, to support our programs and the HIV/AIDS-related services of the Los Angeles LGBT Center;
- Reached more than 3.5 million people online with HIV and sexual health information;
- Treated more than 3,000 sexually transmitted infections;
- Advocated with the California HIV Alliance for \$2 million for PrEP navigation and education services statewide;
- Advocated to increase the eligibility limit for the AIDS Drug Assistance Program to allow more people with HIV to pay for their medications;
- Advocated with the Getting to Zero coalition, at the city level for the Mayor to backfill all federal funding cuts made to HIV service programs; and,
- Doubled the membership of Bridgemen, a health and community engagement program for gay, bisexual and transgender men.

2. Summary of Significant Accounting Policies

Basis of presentation

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

THE SAN FRANCISCO AIDS FOUNDATION  
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Notes to Financial Statements  
June 30, 2016

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2. Summary of Significant Accounting Policies (continued)

Summarized information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a full presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Net assets

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

- *Unrestricted net assets* - 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, unrestricted net assets include income from investments without donor restrictions.

The Board of Directors may designate resources for a specific purpose. Such assets, designated for the Foundation's new Health & Wellness Center, are included in unrestricted net assets and total \$500,000 at June 30, 2016.

- *Temporarily restricted* - Temporarily restricted net assets relate primarily to contributions whose use by the Foundation is limited by donor-imposed stipulations with respect to time and/or purpose that can be fulfilled by actions of the Foundation pursuant to those stipulations.
- *Permanently restricted* - Permanently restricted net assets are subject to donors' restrictions requiring that the principal be invested in perpetuity for the purpose of producing investment income and appreciation that may be spent according to donor-imposed stipulations for prevention and treatment education.

THE SAN FRANCISCO AIDS FOUNDATION  
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Notes to Financial Statements  
June 30, 2016

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2. Summary of Significant Accounting Policies (continued)

Revenue recognition

Contributions are recognized in the financial statements as revenue when received or unconditionally promised. The Foundation reports gifts of cash and other assets as temporarily restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction. Temporarily restricted contributions are reported as temporarily restricted support and net assets released from restriction when the restriction is met in the same year as the contribution is received. Grants and contract revenue is recognized in accordance with the terms of the contract, which is generally when the related expenditures are incurred. Revenue from the 340B drug pricing program is recognized when the prescription is filled by the third-party contracted pharmacy.

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 June 30, 2016 as management has determined all outstanding balances to be collectible.

Contributions receivable

Contributions receivable that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. 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 approximately \$55,000 at June 30, 2016.

THE SAN FRANCISCO AIDS FOUNDATION  
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Notes to Financial Statements  
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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.

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 \$1,000 or more is capitalized.

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

Refundable advances

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

Capital leases

Capital leases are recorded as an asset and an obligation at the fair value of the leased property at the inception of the lease. Capital lease amortization was \$54,000 for the year ended June 30, 2016.

THE SAN FRANCISCO AIDS FOUNDATION  
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2. Summary of Significant Accounting Policies (continued)

Government support

Grant support from contracts with government agencies is recognized as the related services are provided and reflected as government grants support in the accompanying statement of activities. Payments under such contracts are received on a cost-reimbursement basis. Any billed contract receivables are included in accounts receivable as of June 30, 2016.

Special events

Special events support consists primarily of proceeds from the AIDS LifeCycle, Tribute Celebration, Dining Out for Life and various 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, 2016 amounted to \$432,000. 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 \$1,701,000 for the year ended June 30, 2016, 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 received during the year ended June 30, 2016 amounted to \$206,000.

Functional expense allocations

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

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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 \$2,485,000 were incurred by the Foundation for program and fundraising expense for the year ended June 30, 2016. Of these amounts, \$969,000 was allocated to fund development and \$1,516,000 was allocated to program services for the year ended June 30, 2016.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The Foundation maintains cash and cash equivalents, and 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 and limiting the amount of credit exposure with any one institution. The Foundation's investments are in custody with a banking institution and investment manager. The Foundation's management closely monitors these investments.

3. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2016 (in thousands):

Amounts due in less than one year	\$ 914
Amounts due in one to five years	225
Less: allowance for doubtful contributions	(55)
Less: discounts to net present value	<u>(5)</u>
Total contributions receivable, net	<u>\$1,079</u>

THE SAN FRANCISCO AIDS FOUNDATION  
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June 30, 2016

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4. Investments

The Foundation's investments consisted of the following as of June 30, 2016 (in thousands):

Cash equivalents	\$1,544
Equity securities	5,828
Corporate debt securities	240
Other fixed income securities	1,877
Certificate of deposit	<u>151</u>
Total investments	<u>\$9,640</u>

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.

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.

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4. Investments (continued)

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

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

The following tables present the financial instruments carried at fair value as of June 30, 2016, by caption on the statement of financial position by the valuation hierarchy defined above (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value 2016
Cash equivalents	\$1,544	\$ -	\$ -	\$1,544
Equity securities	5,828	-	-	5,828
Corporate debt securities	-	240	-	240
Other fixed income securities	1,877	-	-	1,877
Certificate of deposit	<u>151</u>	<u>-</u>	<u>-</u>	<u>151</u>
Total investments	<u>\$9,400</u>	<u>\$240</u>	<u>\$ -</u>	<u>\$9,640</u>

Net change in unrealized losses for those investments held at June 30, 2016 amounted to \$(914,000).

5. Property and Equipment

Property and equipment at June 30, 2016 is summarized as follows (in thousands):

Equipment	\$1,495
Furniture and fixtures	1,181
Leasehold improvements	9,058
Software	293
Vehicles	<u>251</u>
Sub-total	12,278
Accumulated depreciation and amortization	<u>(3,413)</u>
Total property and equipment, net	<u>\$8,865</u>

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5. Property and Equipment (continued)

Depreciation and amortization expense for the year ended June 30, 2016 was \$937,000. Amortization for the new Health & Wellness Center for the year ended June 30, 2016 was \$462,000 and is reported separately on the Statements of Activities and the Statement of Functional Expenses to highlight that 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, 2016 totaled \$117,000 less accumulated depreciation of \$34,000.

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

Temporarily restricted net assets were available for the following purposes as of June 30, 2016 (in thousands):

Support for prevention, outreach, education and other related services	\$ 899
Health & Wellness Center	540
Public policy initiative support for people living with HIV	<u>93</u>
Total temporarily restricted net assets	<u>\$1,532</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the year ended June 30, 2016 (in thousands):

Health & Wellness Center	\$5,350
Support for prevention, outreach, education and other related services	1,237
Public policy initiative support for people living with HIV	<u>64</u>
Total net assets released from restrictions	<u>\$6,651</u>

As of June 30, 2016, permanently restricted net assets are restricted to investment in perpetuity, the income of which is expendable to support (in thousands):

Prevention and treatment education	<u>\$420</u>
Total permanently restricted net assets	<u>\$420</u>

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6. Temporarily and Permanently Restricted Net Assets and Net Assets Released from Restrictions (continued)

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

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

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

Changes in endowment net assets for the fiscal year ended June 30, 2016 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of the year	\$ -	\$62	\$420	\$482
Investment return				
Investment income	-	10	-	10
Net depreciation (realized and unrealized)	<u>-</u>	<u>(14)</u>	<u>-</u>	<u>(14)</u>
Total investment return	-	(4)	-	(4)
Expenses released from restriction	<u>-</u>	<u>(22)</u>	<u>-</u>	<u>(22)</u>
Endowment net assets at end of the year	<u>\$ -</u>	<u>\$36</u>	<u>\$420</u>	<u>\$456</u>

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6. Temporarily and Permanently Restricted Net Assets and Net Assets Released from Restrictions (continued)

Endowment net assets composition by type of fund as of June 30, 2016 is as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$36	\$420	\$456
Board designated endowment funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total endowment net assets	<u>\$ -</u>	<u>\$36</u>	<u>\$420</u>	<u>\$456</u>

7. Income Tax Status

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

8. Commitments and Contingencies

Operating leases

The Foundation leases its primary office space under an operating lease agreement which expires in December 2020 and its Health & Wellness Center under a lease 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, 2016 was \$1,912,000.

Future minimum lease payments under these leases are as follows (in thousands):

<u>Years Ended June 30,</u>	
2017	\$1,788
2018	1,830
2019	1,869
2020	1,916
2021	1,257
Thereafter	<u>1,070</u>
Total future minimum lease payments	<u>\$9,730</u>

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8. Commitments and Contingencies (continued)

Capital leases

The Foundation also leases office equipment under various capital lease agreements which expire within one to four years. Future minimum lease payments under these leases are as follows (in thousands):

<u>Years Ended June 30,</u>	
2017	\$ 37
2018	31
2019	25
2020	<u>14</u>
Total minimum lease payments	107
Less: Amount representing interest	<u>(4)</u>
Total future minimum lease payments, net of interest	<u>\$103</u>

Other

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

9. Line of Credit

In September 2015, the Foundation entered into a revolving line of credit agreement with a major financial institution for \$3.7 million at an interest rate of LIBOR Floating Rate plus 1.5%. Funds from the line of credit are to be used for working capital purposes and are collateralized by various assets of the Foundation. As of June 30, 2016, there is no balance due on the line. The Foundation is required to comply with various affirmative and negative covenants in the line of credit and is in compliance with those covenants at June 30, 2016.

10. Defined Contribution Retirement Plan

The Foundation has a defined contribution retirement plan ("Plan") under Section 403(b) of the Internal Revenue Code. The Plan covers all full-time employees of the Foundation and provides for voluntary salary deferrals up to certain amounts. The Foundation contributed \$394,000 to the Plan during the year ended June 30, 2016. Employer contributions, if any, are at the discretion of the management of the Foundation.

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11. Subsequent Events

The Foundation has performed an evaluation of subsequent events through November 4, 2016, which is the date the financial statements were available to be issued.

The Organization is involved in various legal matters in the normal course of business. Subsequent to year end, during the fiscal year ending June 30, 2017 and in conjunction with the resolution of one such matter, the Organization recorded a gain in the amount of \$835,000.