

San Francisco AIDS Foundation

Financial Statements

June 30, 2019
(With Comparative Totals for 2018)



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of San Francisco AIDS Foundation (a California nonprofit public benefit corporation) (the "Foundation"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Francisco AIDS Foundation as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Foundation has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited San Francisco AIDS Foundation's 2018 financial statements, and our report dated October 17, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Ramon, California

October 21, 2019

San Francisco AIDS Foundation
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)
(In thousands)

	2019	2018
ASSETS		
Cash	\$ 2,150	\$ 1,910
Investments	16,417	13,272
Accounts receivable	6,928	5,538
Contributions receivable, net	750	635
Prepaid expenses	724	611
Security deposits and other assets	126	123
Property and equipment, net	5,102	6,379
Total assets	\$ 32,197	\$ 28,468
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expense	\$ 2,119	\$ 2,348
Accrued payroll and related liabilities	1,702	1,427
Deferred rent	721	1,036
Refundable advances	158	161
Capital lease obligations	19	44
Total liabilities	4,719	5,016
Net assets		
Without donor restrictions	25,378	22,336
With donor restrictions	2,100	1,116
Total net assets	27,478	23,452
Total liabilities and net assets	\$ 32,197	\$ 28,468

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

San Francisco AIDS Foundation
Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)
(In thousands)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Public and government support				
Government grants	\$ 16,482	\$ 165	\$ 16,647	\$ 15,503
Contributions and grants				
Individuals	880	91	971	1,384
Corporations and foundations	184	1,864	2,048	1,331
Donated goods and services	1,048	-	1,048	1,393
Total contributions and grants	<u>2,112</u>	<u>1,955</u>	<u>4,067</u>	<u>4,108</u>
Special events	9,772	-	9,772	10,118
Less: special event expenses	<u>(1,558)</u>	<u>-</u>	<u>(1,558)</u>	<u>(1,572)</u>
Net income from special events	8,214	-	8,214	8,546
Net assets released from restriction	1,199	(1,199)	-	-
Total public and government support	<u>28,007</u>	<u>921</u>	<u>28,928</u>	<u>28,157</u>
Revenues and gains				
Net realized and unrealized gains on investments	171	11	182	387
Investment income, net of investment expenses of \$44 in 2019 and \$47 in 2018	264	13	277	177
340B drug pricing program	18,614	-	18,614	10,699
Other	510	39	549	434
Total revenues and gains	<u>19,559</u>	<u>63</u>	<u>19,622</u>	<u>11,697</u>
Total public and government support, revenues and gains	<u>47,566</u>	<u>984</u>	<u>48,550</u>	<u>39,854</u>
Functional expenses				
Program services	38,193	-	38,193	32,138
Management and general	977	-	977	571
Fund development	4,299	-	4,299	4,110
Total functional expenses	<u>43,469</u>	<u>-</u>	<u>43,469</u>	<u>36,819</u>
Change in net assets from operations before amortization - Health & Wellness Center	4,097	984	5,081	3,035
Amortization - Health & Wellness Center (Note 5)	<u>1,055</u>	<u>-</u>	<u>1,055</u>	<u>1,055</u>
Change in net assets	3,042	984	4,026	1,980
Net assets, beginning of year	<u>22,336</u>	<u>1,116</u>	<u>23,452</u>	<u>21,472</u>
Net assets, end of year	<u>\$ 25,378</u>	<u>\$ 2,100</u>	<u>\$ 27,478</u>	<u>\$ 23,452</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, 2019
(With Comparative Totals for 2018)
(In thousands)

	Program Services							2019 Total	2018 Total
	Sexual Health Services	Substance and Behavioral Health Services	Linkage and Retention Services and Social Support Services	Policy and Public Education	Total Program Services	Management and General	Fund Development		
Expenses									
Salaries and employee benefits	\$ 5,288	\$ 6,306	\$ 4,036	\$ 1,097	\$ 16,727	\$ 495	\$ 2,440	\$ 19,662	\$ 17,430
Professional services	282	311	209	299	1,101	60	489	1,650	1,296
Outreach and promotion	104	136	89	15	344	2	100	446	132
Event production	73	92	137	29	331	4	174	509	396
Postage and distribution	7	6	8	2	23	1	131	155	256
Staff and volunteer support and travel	173	176	136	80	565	27	197	789	579
Program materials and supplies	486	1,150	331	8	1,975	-	-	1,975	1,594
Housing subsidies	-	-	3,181	-	3,181	-	-	3,181	3,130
340B drug pricing program	8,183	-	-	-	8,183	-	-	8,183	4,599
Subcontractor services	669	1,178	69	-	1,916	-	-	1,916	2,238
Occupancy	620	713	370	63	1,766	250	273	2,289	2,262
Office expenses	297	327	195	47	866	52	250	1,168	1,057
Depreciation and amortization, excluding amortization - Health & Wellness Center	241	70	47	12	370	70	58	498	457
Donated professional volunteer services	81	88	50	14	233	16	94	343	439
Donated goods	33	543	28	8	612	-	93	705	954
Expenses from special events	-	-	-	-	-	-	1,558	1,558	1,572
Total expenses before amortization - Health & Wellness Center	16,537	11,096	8,886	1,674	38,193	977	5,857	45,027	38,391
Amortization - Health & Wellness Center (Note 5)	710	205	140	-	1,055	-	-	1,055	1,055
Total expenses	17,247	11,301	9,026	1,674	39,248	977	5,857	46,082	39,446
Less expenses included in public and government support, revenues and gains	-	-	-	-	-	-	(1,558)	(1,558)	(1,572)
Total expenses on the statement of activities	\$ 17,247	\$ 11,301	\$ 9,026	\$ 1,674	\$ 39,248	\$ 977	\$ 4,299	\$ 44,524	\$ 37,874

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, 2019
(With Comparative Totals for 2018)
(In thousands)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 4,026	\$ 1,980
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Donations of marketable securities, net	(39)	(57)
Depreciation and amortization	1,553	1,512
Net realized and unrealized gains on investments	(182)	(387)
Changes in operating assets and liabilities		
Accounts receivable	(1,390)	(3,259)
Contributions receivable, net	(115)	(11)
Prepaid expenses	(113)	(39)
Security deposits and other assets	(3)	2
Accounts payable and accrued expenses	(230)	205
Accrued payroll and related liabilities	275	191
Deferred rent	(315)	(234)
Refundable advances	(2)	(4)
Net cash provided by (used in) operating activities	3,465	(101)
Cash flows from investing activities		
Purchase of property and equipment	(276)	(404)
Purchase of investments	(5,171)	(2,327)
Proceeds from sales of investments	2,247	2,151
Net cash used in investing activities	(3,200)	(580)
Cash flows from financing activities		
Capital leases obligations	(25)	(31)
Net cash used in financing activities	(25)	(31)
Net increase (decrease) in cash	240	(712)
Cash, beginning of year	1,910	2,622
Cash, end of year	\$ 2,150	\$ 1,910

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	\$ 3	\$ 2
Acquisition of capital assets financed under capital lease obligations	\$ -	\$ 5

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

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

1. NATURE OF OPERATIONS

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.

The 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%

The Foundation has developed a new five-year strategic plan that went into effect July 1, 2019.

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, education, and advocacy for the fiscal year ending June 30, 2019.

Sexual Health Services

Gay and bisexual men, transgender people and other communities affected by HIV can receive judgment-free HIV testing, STI screening and treatment. The Foundation also provides pre-exposure prophylaxis (PrEP), and have helped thousands gain access to this effective prevention tool and enroll in public programs to help pay for medications.

Substance and Behavioral Health Services

Education, counseling and harm reduction services connect the dots between HIV, substance use and mental health. Clients benefit from opiate overdose prevention training, HIV testing, and hepatitis C testing and education. Through the Stonewall Project, clients access outpatient substance use treatment services and walk-in group and individual counseling. Syringe Access Services offers sterile injection equipment, proper disposal services and HIV/HCV prevention education at our 6th Street Harm Reduction Center and at several satellite sites around San Francisco.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

1. NATURE OF OPERATIONS (continued)

Linkage and Retention Services and Social Support Services

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

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

Policy and Public Education

Working in coalitions with other HIV and AIDS organizations, the Foundation's policy team advocates for the HIV community in San Francisco, Sacramento, and Washington, DC. The Foundation's public education resources – including Beta blog, the e-mailed newsletter *Status*, and the websites sfaf.org, prepfacts.org and tweaker.org – provide readers with the latest information about HIV testing, treatment and care.

The Foundation's services are offered in locations around San Francisco, including Strut, our Health & Wellness Center in the Castro; the 6th Street Harm Reduction Center in the SoMa/Tenderloin neighborhood; the Foundation's headquarters at 1035 Market Street; the mobile testing unit; and several satellite and pop-up sites around the city.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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

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

Summarized comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a full presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018, 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, 2019
(In thousands)

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, 2019.

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, 2019 amounted to \$343. 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 \$1,284 for the year ended June 30, 2019, 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, 2019 amounted to \$705.

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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019 as management has determined all outstanding balances to be collectible.

Contributions receivable

An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. The allowance for doubtful contributions receivable was \$23 at June 30, 2019.

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. There is no discount rate applied as of June 30, 2019 as management has determined the amount was nominal.

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.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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

- *Level 1* - Quoted prices in active markets for identical assets or liabilities. Investments in Level 1 include cash equivalents, U.S. Treasury bills and listed equity and fixed income securities.
- *Level 2* - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Investments in this category generally include corporate debt securities, mortgage-backed securities and other asset-backed securities.
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Foundation has no investments that are categorized as Level 3.

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

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 \$2.5 or more is capitalized.

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

Refundable advances

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

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$25 for the year ended June 30, 2019.

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.

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 \$2,806 were incurred by the Foundation for program and fundraising expense for the year ended June 30, 2019. Of these amounts, \$1,291 was allocated to fund development and \$1,515 was allocated to program services for the year ended June 30, 2019.

Advertising costs

The Foundation's policy is to expense advertising costs as the costs are incurred. Advertising costs for the year ended June 30, 2019 totaled \$124.

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, 2019, the Foundation does not have any significant uncertain tax positions for which a reserve would be necessary.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments have been applied on a retrospective basis in 2019. The amendments have been applied to 2018, with the option to omit the disclosure about liquidity and availability of resources for the prior year comparative period.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Subsequent events

The Foundation has evaluated subsequent events through October 21, 2019, 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	\$ 568
Amounts due in one to five years	<u>205</u>
	773
Less: allowance for doubtful contributions	<u>(23)</u>
	<u>\$ 750</u>

San Francisco AIDS Foundation
Notes to Financial Statements
June 30, 2019
(In thousands)

4. INVESTMENTS

Investments consisted of the following:

Cash equivalents	\$ 6,620
Equity securities	7,487
Other fixed income securities	2,210
Certificate of deposit	<u>100</u>
	<u>\$ 16,417</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's investment assets at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	\$ 6,263	\$ -	\$ -	\$ 6,263
Certificate of deposit	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
	<u>\$ 6,363</u>	<u>\$ -</u>	<u>\$ -</u>	6,363

Investments measured at net asset value*

10,054
\$ 16,417

*In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principals of an investment company or have the attributes of an investment company.

San Francisco AIDS Foundation
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5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Leasehold improvements	\$ 9,098
Equipment	1,291
Furniture and fixtures	1,233
Software	544
Vehicles	<u>256</u>
	12,422
Accumulated depreciation and amortization	<u>(7,320)</u>
	<u><u>\$ 5,102</u></u>

Depreciation and amortization expense for the year ended June 30, 2019 was \$1,553. Included in the depreciation and amortization expense for the year is amortization for the Health & Wellness Center, which for the year ended June 30, 2019 was \$1,055, and is reported separately on the statement of activities and the statement of functional expenses to highlight that the majority of the Health & Wellness Center was funded by the Foundation's Campaign for Health & Wellness and not ongoing operations.

Leased capital assets included in property and equipment at June 30, 2019 totaled \$88 less accumulated depreciation of \$72.

6. LINE OF CREDIT

The Foundation has a revolving line of credit agreement with a major financial institution for \$3,700. The line of credit bears interest equal to the LIBOR floating rate plus 1.5%. Funds from the line of credit are to be used for working capital purposes and are collateralized by various assets of the Foundation. There were no amounts outstanding under the line of credit as of June 30, 2019. The Foundation is required to comply with various affirmative and negative covenants in the line of credit. At June 30, 2019, 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 \$368 to the Plan during the year ended June 30, 2019. Employer contributions, if any, are at the discretion of the management of the Foundation.

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8. COMMITMENTS AND CONTINGENCIES

Operating leases

The Foundation leases its primary office space under an operating lease agreement which expires in December 2020 and its Health & Wellness Center under an operating lease agreement which expires in June 2023. The Foundation leases additional space used in operations under various operating leases. Each of the leases is subject to various terms of agreement. Rent expense for the year ended June 30, 2019 totaled \$1,893.

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

<u>Year ending June 30,</u>	
2020	\$ 1,964
2021	1,225
2022	456
2023	<u>456</u>
	<u>\$ 4,101</u>

Capital leases

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

Future maturities of capital lease obligations are as follows:

<u>Year ending June 30,</u>	
2020	\$ 17
2021	3
2022	3
2023	<u>2</u>
	25
Less: amount representing interest	<u>(6)</u>
	<u>\$ 19</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.

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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Subject for expenditure for specified purposes:	
Support for prevention, outreach, education and other related services	\$ 1,676
Public policy initiative support for people living with HIV	4
	1,680
Investment in perpetuity; income is expendable to support:	
Prevention and treatment education	420
	\$ 2,100

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	\$ 996
Public policy initiative support for people living with HIV	171
	1,167
Endowment earnings appropriated for expenditure	32
	\$ 1,199

10. ENDOWMENT

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

Interpretation of relevant law

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

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10. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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.

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, 2019.

Spending policy

The Foundation maintains a policy of appropriating an annual distribution of up to 5% of its endowment fund's average fair value over the prior 12 quarters.

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10. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 459	\$ 459
	<u>\$ -</u>	<u>\$ 459</u>	<u>\$ 459</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2018	\$ -	\$ 467	\$ 467
Investment return			
Investment income	-	13	13
Net appreciation (realized and unrealized)	<u>-</u>	<u>11</u>	<u>11</u>
Total investment return	-	24	24
Expenses released from restriction	<u>-</u>	<u>(32)</u>	<u>(32)</u>
	<u>-</u>	<u>(8)</u>	<u>(8)</u>
Balance, June 30, 2019	<u>\$ -</u>	<u>\$ 459</u>	<u>\$ 459</u>

11. LIQUIDITY AND FUNDS AVAILABLE

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

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

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11. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	\$ 2,150
Investments	16,417
Accounts receivable	6,928
Contributions receivable due in less than one year	<u>545</u>
	<u>26,040</u>
Less: amounts unavailable for general expenditure within one year	
Purpose restricted projects	(1,680)
Held in perpetuity	<u>(420)</u>
	<u>(2,100)</u>
	<u>\$ 23,940</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.