



The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Report on Financial Statements

**June 30, 2008 (with Summarized Comparative
Information as of June 30, 2007)**

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

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June 30, 2008

(with Summarized Comparative Information as of and for the year ended

June 30, 2007)

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Report of Independent Auditors

The Board of Directors of
The San Francisco AIDS Foundation

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, expenses by function, and cash flows present fairly, in all material respects, the financial position of The San Francisco AIDS Foundation ("the Foundation") at June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2007 financial statements, and in our report dated October 22, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 17, 2008

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Statement of Financial Position

June 30, 2008

(with Summarized Comparative Information as of June 30, 2007)

	<u>2008</u>	<u>2007</u>
Assets		
Cash	\$ 2,521,505	\$ 1,238,414
Accounts receivable	2,033,995	1,782,710
Contributions receivable, net	404,893	672,309
Investments	7,728,827	12,151,084
Prepaid expenses	499,286	341,434
Security deposits and other assets	244,023	240,385
Property and equipment, net	1,329,100	637,281
Total assets	<u>\$ 14,761,629</u>	<u>\$ 17,063,617</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,347,379	\$ 1,557,817
Accrued payroll and related liabilities	883,057	725,326
Grants payable	561,500	3,075,224
Refundable advances	215,675	189,003
Capital lease obligations	175,108	112,232
Total liabilities	<u>3,182,719</u>	<u>5,659,602</u>
Commitments and contingencies (Note 8)		
Net Assets		
Unrestricted	11,040,966	10,983,930
Temporarily restricted	118,315	19,667
Permanently restricted	419,629	400,418
Total net assets	<u>11,578,910</u>	<u>11,404,015</u>
Total liabilities and net assets	<u>\$ 14,761,629</u>	<u>\$ 17,063,617</u>

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

The San Francisco AIDS Foundation

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Statement of Activities

Year Ended June 30, 2008

(with Summarized Comparative Information for the year ended June 30, 2007)

	June 30, 2008			June 30,
	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Public and government support				
Government grants	\$ 7,081,447	\$ 258,945		\$ 7,340,392
Contributions and grants				\$ 5,663,386
Individuals	2,808,872	143,845	19,211	2,971,928
Corporations and foundations	162,623	380,985		543,608
Donated goods and services	281,077			281,077
Total	10,334,019	783,775	19,211	11,137,005
Special events	13,590,359			13,590,359
Less: Special event expenses	(1,562,852)			(1,562,852)
Net income from special events	12,027,507	-	-	12,027,507
Net assets released from restrictions	713,186	(713,186)		-
Total public and government support	23,074,712	70,589	19,211	23,164,512
Revenues and gains				
Net realized and unrealized gain (loss) on investments	(635,619)	8,750		(626,869)
Investment income	578,358	19,309		597,667
Service revenues	261,372			261,372
Other	327,024			327,024
Total public and government support, revenues and gains	23,605,847	98,648	19,211	23,723,706
Expenses				
Program services	15,548,297			15,548,297
Support services	1,965,715			1,965,715
Fund development	6,034,799			6,034,799
Total expenses	23,548,811	-	-	23,548,811
Total change in net assets	57,036	98,648	19,211	174,895
Net assets, beginning of year	10,983,930	19,667	400,418	11,404,015
Net assets, end of year	\$ 11,040,966	\$ 118,315	\$ 419,629	\$ 11,578,910

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

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Statement of Functional Expenses

Year Ended June 30, 2008

(with Summarized Comparative Information for the year ended June 30, 2007)

	Program Services							Total 2008 Expenses	Total 2007 Expenses	
	Client Services and Treatment Education	Housing Services	Public Policy	Prevention and Community Level Intervention	Global Treatment Access	Total Program Services	Support Services			Fund Development
Expense										
Salaries and employee benefits	\$ 2,378,948	\$ 358,822	\$ 765,966	\$ 2,448,778	\$ 207,438	\$ 6,159,952	\$ 1,185,961	\$ 1,871,418	\$ 9,217,331	\$ 6,671,664
Professional and technical fees and dues	373,422	76,486	163,528	347,162	53,934	1,014,532	286,101	741,894	2,042,527	1,999,182
Outreach and promotion	73,657	10,391	36,479	158,376	-	278,903	17,895	342,600	639,398	636,039
Event production	186,264	2,950	2,950	335,032	-	527,196	-	835,230	1,362,426	1,501,442
Postage and distribution	79,716	2,734	3,059	30,895	680	117,084	4,621	767,996	889,701	883,489
Staff and volunteer development and travel	58,263	20,402	142,321	109,358	-	330,344	98,065	106,622	535,031	479,816
Printing and materials production	79,555	7,319	20,611	505,273	-	612,758	8,490	291,492	912,740	1,043,178
Housing subsidies	-	2,612,644	-	-	-	2,612,644	-	-	2,612,644	2,413,434
Community grants	420,061	9,000	55,671	251,282	1,000,000	1,736,014	-	-	1,736,014	2,081,132
Subcontractor services	605,085	-	-	-	-	605,085	-	-	605,085	585,615
Occupancy	250,057	29,498	54,581	392,154	55,788	782,078	111,528	314,336	1,207,942	924,193
Operations	125,238	26,136	32,174	177,535	25,325	386,408	166,496	543,175	1,096,079	944,787
Depreciation and amortization	90,316	15,945	29,375	96,537	-	232,173	60,915	117,728	410,816	191,848
Donated professional volunteer services	25,977	3,292	5,831	66,630	-	101,730	25,515	26,599	153,844	77,409
Donated goods	17,143	11,419	4,698	18,136	-	51,396	128	75,709	127,233	101,256
	<u>\$ 4,763,702</u>	<u>\$ 3,187,038</u>	<u>\$ 1,317,244</u>	<u>\$ 4,937,148</u>	<u>\$ 1,343,165</u>	<u>\$ 15,548,297</u>	<u>\$ 1,965,715</u>	<u>\$ 6,034,799</u>	<u>\$ 23,548,811</u>	<u>\$ 20,534,484</u>

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

The San Francisco AIDS Foundation

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Statement of Cash Flows

Year Ended June 30, 2008

(with Summarized Comparative Information for the year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Total change in net assets	\$ 174,895	\$ 1,584,601
Gain on settlement of capital lease obligation	(76,172)	(5,170)
Loss on disposal of assets	4,276	-
Depreciation and amortization	410,816	191,848
Contributed securities	(93,866)	(63,772)
Net realized and unrealized gain (loss) on investments	626,869	(400,304)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable	(251,285)	(469,975)
Contributions receivable, net	267,416	(92,688)
Prepaid expenses	(157,852)	115,929
Security deposits and other assets	(3,638)	18,305
Accounts payable and accrued expenses	(210,438)	30,727
Accrued payroll and related liabilities	157,731	90,218
Grants payable	(2,513,724)	636,022
Refundable advances	26,672	19,913
Net cash provided by (used in) operating activities	<u>(1,638,301)</u>	<u>1,655,654</u>
Cash flows from investing activities		
Capital expenditures	(946,297)	(534,595)
Purchase of investments	(2,818,901)	(9,144,897)
Proceeds from sales of investments	6,708,156	7,753,754
Net cash provided by (used in) investing activities	<u>2,942,958</u>	<u>(1,925,738)</u>
Cash flows from financing activities		
Payments on capital leases	(21,566)	(38,546)
Net cash used in financing activities	<u>(21,566)</u>	<u>(38,546)</u>
Net increase (decrease) in cash	1,283,091	(308,630)
Cash, beginning of year	1,238,414	1,547,044
Cash, end of year	<u>\$ 2,521,505</u>	<u>\$ 1,238,414</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 48,130	\$ 26,657
Donated professional services	153,844	77,409
Donated goods	127,233	101,256
Contributed securities	93,866	63,772
Capital asset acquired through capital lease obligation	160,614	36,726

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

The San Francisco AIDS Foundation

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Notes to Financial Statements

June 30, 2008

1. Organization and Related Party Transactions

The San Francisco AIDS Foundation (“the Foundation”) is a non-profit entity. Committed to ending the pandemic and human suffering caused by HIV, the Foundation develops innovative solutions, combining evidence-based strategies with community experience to fight HIV/AIDS and promote health. Established in 1982, the Foundation is one of the oldest and largest community-based AIDS service organizations in the United States. The Foundation provides direct services to thousands of people living with or at risk for HIV/AIDS, supplies information about HIV treatment and related issues, supports HIV prevention and awareness in the community, and advocates for sound HIV/AIDS policies at all levels of government.

Client Services

Linking community experience with science, the Foundation develops ground-breaking prevention programs and bold policy initiatives to promote health and create sustainable progress against HIV. The Foundation refuses to accept that HIV transmission is inevitable.

The **Client Services Department** provides a range of services to hundreds of people living with HIV/AIDS in San Francisco annually. Financial benefits counselors help individuals understand and link into the complex private and public benefits systems, including the AIDS Drug Assistance Program, General Assistance, Food Stamps, Medi-Cal, Medicare, Social Security, and private disability plans.

The Stonewall Project is a San Francisco, Castro district-based, harm reduction counseling and treatment program for men who have sex with men (queer, gay, bisexual, transgender, questioning, or no label) who have questions about crystal methamphetamine or want help dealing with it.

Education and Information

The San Francisco AIDS Foundation continues to be a leader in educating at-risk communities about HIV/AIDS prevention and in connecting people to the critical information they need to make informed decisions about HIV-related risk and health. The Foundation runs the California HIV/AIDS hotline and publishes BETA (Bulletin of Experimental Treatments for AIDS).

Housing Services

The Foundation’s housing subsidy program provides rental assistance to nearly 400 individuals. Through the work of our client advocates and the clients themselves, the vast majority of these individuals remain stably housed.

Public Policy and Advocacy

The San Francisco AIDS Foundation advocates at the federal, state and local levels to ensure that those affected by HIV and AIDS have access to care, treatment, housing, and prevention services, and that they benefit from related research efforts. The Foundation’s Public Policy Department plays a leading role in securing federal, state and local government funding for crucial HIV/AIDS related programs.

Community Level Intervention

Black Brothers Esteem (BBE) promotes the sexual health and well-being of gay, bisexual and same-gender loving men of African descent through a weekly drop-in group, workshops, leadership-building retreats and other community-building activities. BBE addresses not only issues of HIV, but also the challenges of poverty, substance use, homophobia and racism.

The **HIV Prevention Project**, the Foundation’s needle exchange program, distributes more than 2.3 million syringes annually, helping thousands of exchangers and their partners avoid HIV infection and

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Hepatitis C. Staff and volunteers, nurses, and drug treatment counselors offer free, anonymous exchange and other vital services at 11 sites throughout San Francisco.

The **Speed Project** works with gay and bisexual men, predominately in the Tenderloin district of San Francisco who use crystal methamphetamine, to assist them in understanding the connections between their substance use and their sexual health and well-being through education, peer support, and alternative social activities.

El Grupo is a bilingual support group for Latinos living with HIV. Open to all HIV-positive Latino/as and their families, El Grupo provides a forum to share information on managing HIV and reducing isolation and stigma.

Magnet, developed by community leaders and activists, provides community space and social events as well as sexually transmitted infection services, including HIV testing and screening, to the Castro, the neighborhood which continues to have the greatest concentration of new HIV infections in San Francisco.

Global HIV/AIDS Programs

Pangaea Global AIDS Foundation ("Pangaea") is a non-profit corporation and affiliate of the Foundation. Pangaea's mission is to broaden access to HIV/AIDS antiretroviral treatment and care around the world, with special emphasis on resource-limited settings. Since its founding in 2001, Pangaea has played a significant role in developing and implementing HIV treatment access initiatives in several countries. Pangaea is governed by its own Board of Directors and is not considered to be part of the Foundation's reporting entity because the Foundation has neither control nor an economic interest in Pangaea.

During the year ended June 30, 2008, the Foundation granted to Pangaea grants totaling \$1,000,000 to support Pangaea's treatment access projects. The Foundation provided technical assistance and received fees of \$261,372 from Pangaea. As of June 30, 2008, the Foundation had a receivable from Pangaea of \$44,063 for payments made on their behalf.

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 nonprofit organizations. Accordingly, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

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, 2007, from which the summarized information was derived.

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

Unrestricted

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

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donor. In addition, unrestricted net assets include income from investments without donor restrictions.

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.

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.

Government and other contract revenue is recognized in accordance with the terms of the contract which is generally when the related expenditures are incurred.

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 depreciated over the remaining term of three years related to the property lease.

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

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Capital Leases

Capital leases are recorded as an asset and an obligation at the fair market value of the leased property at the inception of the lease.

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, 2008.

Special Events

Special events support consists primarily of proceeds from the AIDS Lifecycle, AIDS Walk San Francisco, AIDS Marathon events, and the Leadership Recognition Dinner. Special event expenses represent the costs incurred by the Foundation which directly benefit the participants in the Foundation's special events.

Contributions of Services

Contributions of services are recognized in the financial statements when received if such services (a) create or enhance non-financial assets, (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not donated. 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 \$1,000,000 for the year ended June 30, 2008, 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.

Functional Expense Allocations

Expenses such as personnel, professional services, occupancy costs, travel, depreciation and amortization, are allocated among program services, support and fund development classifications based on occupancy and 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 \$3,595,659 were incurred by the Foundation for program and community grant expense for the year ended June 30, 2008. Of this amount \$2,558,455 was allocated to fund development and \$1,037,204 was allocated to program services.

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 various 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

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investments have been placed with banking institutions and investment managers. The Foundation closely monitors these investments and to date, has not experienced significant losses.

Financial Statement Revisions

The 2007 financial statements have been revised to properly reflect contributed securities of \$63,772 received during the year in the statement of cash flows. This revision had no impact on the net decrease in cash as previously reported and an insignificant impact to operating and investing cash flows as previously reported.

3. Investments

The Foundation's investments consisted of the following as of June 30, 2008:

Equity securities	\$ 2,345,520
Corporate debt securities	1,261,270
Taxable municipals	100,000
U.S. Treasury bills	1,031,963
U.S. government and agency securities	1,787,018
Cash equivalents	<u>1,203,056</u>
	<u>\$ 7,728,827</u>

For the year ended June 30, 2008 the Foundation's investments had a planned decrease of \$4.4 million from the prior year. Those funds were used to pay the grant to Pangaea (\$2.4 million), invest in new office furniture and build out additional office space (\$1.0 million) and transferred to cash for cash flow purposes.

4. Contributions Receivable

Contributions receivable are due as of June 30, 2008. Such contribution receivables have no implied time or purpose restriction and are expected to be collected in the subsequent fiscal year. This amount is stated net of an allowance for doubtful accounts of \$25,635.

5. Property and Equipment

Property and equipment at June 30, 2008 is summarized as follows:

Equipment	\$ 1,727,869
Furniture and fixtures	713,362
Leasehold improvements	446,848
Vehicles	<u>51,958</u>
	2,940,037
Accumulated depreciation and amortization	<u>(1,610,937)</u>
	<u>\$ 1,329,100</u>

Depreciation and amortization expense for the year ended June 30, 2008 was \$410,816.

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Leased capital assets included in property and equipment at June 30, 2008 totaled \$197,340 less accumulated depreciation of \$48,137.

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, 2008:

Support for prevention, outreach, education and other related services	21,218
Public policy initiative support for people living with HIV	<u>97,097</u>
Total temporarily restricted net assets	<u>\$ 118,315</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, 2008:

Support for prevention, outreach, education and other related services	\$ 490,982
Public policy initiative support for people living with HIV	172,204
Strategic planning initiatives	<u>50,000</u>
Total net assets released from restrictions	<u>\$ 713,186</u>

As of June 30, 2008, permanently restricted net assets are restricted to investment in perpetuity, the income of which is expendable to support:

Prevention and treatment education	<u>\$ 419,629</u>
Total	<u>\$ 419,629</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 office space under an operating lease agreement which expires in December 2010. At the expiration of the lease term, the Foundation has options to extend the facility lease for an additional three-year period. The Foundation leases additional space used in operations under various operating leases. Each of the leases are subject to various terms of agreement. Rent expense for the year ended June 30, 2008 was \$1,082,503.

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Future minimum lease payments under these leases are as follows:

Year Ended June 30,	
2009	\$ 871,637
2010	804,109
2011	455,062
2012	<u>69,777</u>
	<u>\$ 2,200,585</u>

Capital Leases

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

Year Ended June 30,	
2009	\$ 69,696
2010	69,696
2011	69,696
2012	69,696
2013	<u>6,498</u>
Total minimum lease payments	<u>285,282</u>
Less: Amount representing interest	<u>(110,173)</u>
	<u>\$ 175,109</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. 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 \$247,869 to the Plan during the year ended June 30, 2008. Employer contributions, if any, are at the discretion of the management of the Foundation.

10. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* ("SFAS 157"). The standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. The standard is effective for fiscal years beginning after November 15, 2007 except for certain provisions, which were deferred for an additional year. Management is in the process of evaluating the application of SFAS 157 to The Foundation but does not believe its adoption will have a material impact on the financial statements.