

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

Report on Financial Statements

**June 30, 2009 (with Summarized Comparative
Information as of and for the year ended June 30,
2008)**

The San Francisco AIDS Foundation

(A California Nonprofit Public Benefit Corporation)

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(with Summarized Comparative Information as of and for the year ended
June 30, 2008)

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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, 2009, 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 2008 financial statements, and in our report dated October 17, 2008, 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

November 5, 2009

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2009
(with Summarized Comparative Information as of June 30, 2008)

	<u>2009</u>	<u>2008</u>
Assets		
Cash	\$ 2,391,600	\$ 2,521,505
Accounts receivable	812,525	2,033,995
Contributions receivable, net	389,817	404,893
Investments	8,122,118	7,728,827
Prepaid expenses	431,129	499,286
Security deposits and other assets	259,480	244,023
Property and equipment, net	962,698	1,329,100
Total assets	<u>\$ 13,369,367</u>	<u>\$ 14,761,629</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,188,380	\$ 1,347,379
Accrued payroll and related liabilities	804,440	883,057
Grants payable	256,058	561,500
Refundable advances	226,675	215,675
Capital lease obligations	174,863	175,108
Total liabilities	<u>2,650,416</u>	<u>3,182,719</u>
Commitments and contingencies (Note 8)		
Net Assets		
Unrestricted	9,997,487	11,040,966
Temporarily restricted	301,835	118,315
Permanently restricted	419,629	419,629
Total net assets	<u>10,718,951</u>	<u>11,578,910</u>
Total liabilities and net assets	<u>\$ 13,369,367</u>	<u>\$ 14,761,629</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 and Changes in Net Assets
Year Ended June 30, 2009

(with Summarized Comparative Information for the year ended June 30, 2008)

	June 30, 2009			Total	June 30,
	Unrestricted	Temporarily Restricted	Permanently Restricted		2008
					Total
Public and government support					
Government grants	\$ 7,034,745	\$ 440,402	\$ -	\$ 7,475,147	\$ 7,340,392
Contributions and grants					
Individuals	2,233,347	99,408	-	2,332,755	2,971,928
Corporations and foundations	161,188	222,330	-	383,518	543,608
Donated goods and services	357,373	-	-	357,373	281,077
Total	9,786,653	762,140	-	10,548,793	11,137,005
Special events	11,922,057	1,790	-	11,923,847	13,590,359
Less: Special event expenses	(1,488,273)	-	-	(1,488,273)	(1,562,852)
Net income from special events	10,433,784	1,790	-	10,435,574	12,027,507
Net assets released from restrictions and transfer between funds	559,027	(559,027)	-	-	-
Total public and government support	20,779,464	204,903	-	20,984,367	23,164,512
Revenues and gains					
Net realized and unrealized loss on investments	(1,145,741)	(36,255)	-	(1,181,996)	(626,869)
Investment income	286,731	14,872	-	301,603	597,667
Service revenues	273,000	-	-	273,000	261,372
Other	205,781	-	-	205,781	327,024
Total public and government support, revenues and gains	20,399,235	183,520	-	20,582,755	23,723,706
Expenses					
Program services	14,138,602	-	-	14,138,602	15,548,297
Support services	1,834,744	-	-	1,834,744	1,965,715
Fund development	5,469,368	-	-	5,469,368	6,034,799
Total expenses	21,442,714	-	-	21,442,714	23,548,811
Total change in net assets	(1,043,479)	183,520	-	(859,959)	174,895
Net assets, beginning of year	11,040,966	118,315	419,629	11,578,910	11,404,015
Net assets, end of year	\$ 9,997,487	\$ 301,835	\$ 419,629	\$ 10,718,951	\$ 11,578,910

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

The San Francisco AIDS Foundation

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Statement of Functional Expenses

Year Ended June 30, 2009

(with Summarized Comparative Information for the year ended June 30, 2008)

	Program Services							Total 2009 Expenses	Total 2008 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	\$ 1,134,838	\$ 303,987	\$ 978,440	\$ 3,118,358	\$ 273,000	\$ 5,808,623	\$ 1,175,242	\$ 1,899,323	\$ 8,883,188	\$ 9,217,331
Professional and technical fees and dues	221,619	36,178	149,719	196,898	-	604,414	149,682	663,549	1,417,645	2,042,527
Outreach and promotion	43,618	9,782	28,973	149,901	-	232,274	16,594	268,728	517,596	639,398
Event production	146,352	4,269	13,340	199,273	-	363,234	-	741,862	1,105,096	1,362,426
Postage and distribution	72,504	1,148	2,663	10,552	530	87,397	4,026	616,657	708,080	889,701
Staff and volunteer development and travel	28,987	12,167	129,309	53,959	-	224,422	66,302	93,220	383,944	535,031
Printing and materials production	20,452	7,234	28,411	467,432	-	523,529	6,886	184,484	714,899	912,740
Housing subsidies		2,742,777	-	-	-	2,742,777	-	-	2,742,777	2,612,644
Community grants	274,262	8,000	25,000	165,935	910,000	1,383,197	-	-	1,383,197	1,736,014
Subcontractor services	595,867	-	-	-	-	595,867	-	-	595,867	605,085
Occupancy	142,863	28,544	67,396	468,406	46,881	754,090	117,219	297,928	1,169,237	1,207,942
Operations	59,444	23,547	38,553	198,296	19,830	339,670	189,897	457,722	987,289	1,096,079
Depreciation and amortization	87,257	18,364	43,109	118,318	-	267,048	75,172	134,306	476,526	410,816
Donated professional volunteer services	26,202	4,288	10,268	105,952	-	146,710	33,724	30,514	210,948	153,844
Donated goods	14,870	16,558	7,588	26,334	-	65,350	-	81,075	146,425	127,233
	<u>\$ 2,869,135</u>	<u>\$ 3,216,843</u>	<u>\$ 1,522,769</u>	<u>\$ 5,279,614</u>	<u>\$ 1,250,241</u>	<u>\$ 14,138,602</u>	<u>\$ 1,834,744</u>	<u>\$ 5,469,368</u>	<u>\$ 21,442,714</u>	<u>\$ 23,548,811</u>

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

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Statement of Cash Flows

Year Ended June 30, 2009

(with Summarized Comparative Information for the year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Total change in net assets	\$ (859,959)	\$ 174,895
Gain on settlement of capital lease obligation	-	(76,172)
Loss on disposal of assets	1,137	4,276
Depreciation and amortization	476,526	410,816
Contributed securities	(27,249)	(93,866)
Net realized and unrealized loss on investments	1,181,996	626,869
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable	1,221,470	(251,285)
Contributions receivable, net	15,076	267,416
Prepaid expenses	68,157	(157,852)
Security deposits and other assets	(15,457)	(3,638)
Accounts payable and accrued expenses	(158,999)	(210,438)
Accrued payroll and related liabilities	(78,617)	157,731
Grants payable	(305,442)	(2,513,724)
Refundable advances	11,000	26,672
Net cash provided by (used in) operating activities	<u>1,529,639</u>	<u>(1,638,301)</u>
Cash flows from investing activities		
Capital expenditures	(78,172)	(946,297)
Purchase of investments	(4,896,127)	(2,818,901)
Proceeds from sales of investments	<u>3,348,089</u>	<u>6,708,156</u>
Net cash (used in) provided by investing activities	<u>(1,626,210)</u>	<u>2,942,958</u>
Cash flows from financing activities		
Payments on capital leases	<u>(33,334)</u>	<u>(21,566)</u>
Net cash used in financing activities	<u>(33,334)</u>	<u>(21,566)</u>
Net (decrease) increase in cash	(129,905)	1,283,091
Cash, beginning of year	<u>2,521,505</u>	<u>1,238,414</u>
Cash, end of year	<u>\$ 2,391,600</u>	<u>\$ 2,521,505</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 44,498	\$ 48,130
Donated professional services	210,948	153,844
Donated goods	146,425	127,233
Contributed securities	27,249	93,866
Capital asset acquired through capital lease obligation	33,089	160,614

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, 2009

1. Organization and Related Party Transactions

The San Francisco AIDS Foundation (“the Foundation”), a non-profit entity, provides leadership to prevent new HIV infections. Linking community experience with science, the Foundation develops prevention programs and policy initiatives to promote health and create sustainable progress against HIV. Established in 1982, the Foundation refuses to accept that HIV transmission is inevitable.

The Foundation operates according to a strategic plan, orienting efforts around three objectives:

- New HIV infections in San Francisco will be reduced by 50 percent by 2015;
- Everyone in San Francisco aged 13 to 64 will know his or her current HIV status by 2015; and
- All HIV-positive people in San Francisco will receive appropriate primary medical care.

Progress toward these goals is conducted in association with partners in local government, clinical and research scientists, community organizations and people living with HIV and AIDS, and through the Foundation’s comprehensive array of client programs, public policy advocacy, public information and education programs.

Client Services and Treatment Education

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 connect to 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.

BETA, the *Bulletin of Experimental Treatments for AIDS*, educates people living with HIV/AIDS, providers and advocates about new prevention and treatment research. *BETA* is published twice a year in English and Spanish.

Housing Services

The Foundation’s **Housing Services** program provides rental subsidies to nearly 400 individuals. Through the work of our client advocates and the clients themselves, nearly all of these individuals remain stably housed.

Public Policy

At the federal, state and local levels, the Foundation’s **Public Policy and Advocacy** ensures 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 Public Policy Department plays a leading role in securing federal, state and local government funding for crucial HIV/AIDS related programs.

Prevention and Community Level Intervention

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

The Foundation operates the **California HIV/AIDS and STD Hotline**, providing comprehensive information throughout the state to more than 70,000 callers annually with questions about HIV transmission, treatment and care.

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The San Francisco AIDS Foundation continues to be a leader in Education and Information, teaching at-risk communities about HIV/AIDS prevention and connecting people to the critical information they need to make informed decisions about HIV-related risk and health. This includes a speaker's bureau, public forums on current topics in HIV/AIDS research, treatment and epidemiology, and outreach to the community at community health fairs around the Bay Area.

El Grupo is a bilingual support group for Latinos living with HIV, the oldest of its kind in the nation. Open to HIV-positive Latino/as and their families, El Grupo offers a weekly forum to share information related to managing HIV and reducing barriers such as language, isolation, stigma and other factors that inhibit healthy living.

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

The Foundation's website, **sfaf.org**, provides up-to-date information about all aspects of HIV prevention, treatment and policy and a popular bi-weekly podcast on current topics of interest to HIV/AIDS advocates.

The Stonewall Project is a harm reduction counseling and treatment program for gay men and other men who have sex with men who have questions or concerns related to crystal methamphetamine and seek help reducing their use. The Speed Project is a program within Stonewall, working directly with peer educators recruited and trained to help deliver information about the connections between substance use, sexual health and well-being with a series of educational, peer support, and alternative social activities.

The Foundation's **Syringe Exchange** program distributes more than 2.3 million syringes annually, helping thousands of exchangers, their partners and/or networks avoid HIV infection and Hepatitis C. Staff and volunteers, nurses, and drug treatment counselors offer free, anonymous exchange and other vital services at 11 sites throughout San Francisco.

Global Treatment Access

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. From 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 of nor an economic interest in Pangaea.

During the year ended June 30, 2009, the Foundation granted to Pangaea grants totaling \$910,000 to support Pangaea's treatment access projects. The Foundation provided technical assistance and received fees of \$273,000 from Pangaea. As of June 30, 2009, the Foundation had grants payable to Pangaea of \$6,058.

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.

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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, 2009, 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 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. Grants and 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

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five years from the date of acquisition or donation for all equipment. Leasehold improvements are depreciated over the remaining term of 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.

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. Capital lease amortization was \$33,334 for the year ended June 30, 2009.

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, 2009.

Special Events

Special events support consists primarily of proceeds from the AIDS Lifecycle, AIDS Walk San Francisco, Greater than 1 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 \$920,000 for the year ended June 30, 2009, 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 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.

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 \$3,505,054 were incurred by the Foundation for program and community grant expense for the year ended June 30, 2009. Of this amount \$2,564,535 was allocated to fund development and \$940,519 was allocated to program services.

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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 investments have been placed with banking institutions and investment managers. The Foundation closely monitors these investments.

3. Investments

The Foundation's investments consisted of the following as of June 30, 2009:

Cash equivalents	\$ 2,362,750
U.S. Treasury bills	646,633
Equity securities	3,519,709
Corporate debt securities	434,804
Mortgage-backed securities	904,016
Other asset-backed securities	86,287
Other fixed income securities	167,919
	<u>\$ 8,122,118</u>

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

SFAS 157 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 under SFAS 157 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.

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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.

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.

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 table presents the financial instruments carried at fair value as of June 30, 2009, by caption on the statement of financial position by the SFAS 157 valuation hierarchy defined above:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
Cash equivalents	\$ 2,362,750	\$ -	\$ -	\$ 2,362,750
U.S. Treasury bills	646,633	-	-	646,633
Equity securities	3,519,709	-	-	3,519,709
Corporate debt securities	-	434,804	-	434,804
Mortgage-backed securities	-	904,016	-	904,016
Other asset-backed securities	-	86,287	-	86,287
Other fixed income securities	136,128	31,791	-	167,919
Total investments	<u>\$ 6,665,220</u>	<u>\$ 1,456,898</u>	<u>\$ -</u>	<u>\$ 8,122,118</u>

4. Contributions Receivable

Contributions receivable are due as of June 30, 2009. 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 \$48,003.

5. Property and Equipment

Property and equipment at June 30, 2009 is summarized as follows:

Equipment	\$ 1,769,936
Furniture and fixtures	713,050
Leasehold improvements	458,323
Vehicles	51,958
	<u>2,993,267</u>
Accumulated depreciation and amortization	<u>(2,030,569)</u>
	<u>\$ 962,698</u>

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Depreciation and amortization expense for the years ended June 30, 2009 and 2008, was \$476,526 and \$410,816 respectively.

Leased capital assets included in property and equipment at June 30, 2009 totaled \$230,429 less accumulated depreciation of \$102,261.

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, 2009:

Support for prevention, outreach, education and other related services	\$ 237,585
Public policy initiative support for people living with HIV	<u>64,250</u>
Total temporarily restricted net assets	<u>\$ 301,835</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, 2009:

Support for prevention, outreach, education and other related services	\$ 426,413
Public policy initiative support for people living with HIV	<u>153,997</u>
Total net assets released from restrictions	<u>\$ 580,410</u>

As of June 30, 2009, permanently restricted net assets are restricted to investment in perpetuity, the income of which is expendable to support:

Prevention and treatment education	\$ 419,629
Total	<u>\$ 419,629</u>

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 maximize portfolio income consistent with the primary objective of protecting capital and has a low acceptable risk tolerance. 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

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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. Deficits of this nature reported in unrestricted net assets were \$(21,383) as of June 30, 2009. These deficits resulted from unfavorable market fluctuations during the year ended June 30, 2009.

Changes in endowment net assets for the fiscal year ended June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$ -	\$ 419,629	\$ 419,629
Investment return				
Investment income	-	14,872	-	14,872
Net depreciation (realized and unrealized)	-	(36,255)	-	(36,255)
Total investment loss	-	(21,383)	-	(21,383)
Transfer net investment loss to unrestricted	(21,383)	21,383	-	-
Endowment net assets, end of the year	<u>\$ (21,383)</u>	<u>\$ -</u>	<u>\$ 419,629</u>	<u>\$ 398,246</u>

Endowment net assets composition by type of fund as of June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (21,383)	\$ -	\$ 419,629	\$ 398,246
Board designated endowment funds	-	-	-	-
Total funds	<u>\$ (21,383)</u>	<u>\$ -</u>	<u>\$ 419,629</u>	<u>\$ 398,246</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

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various operating leases. Each of the leases are subject to various terms of agreement. Rent expense for the year ended June 30, 2009 was \$1,052,322.

Future minimum lease payments under these leases are as follows:

Year Ended June 30,	
2010	\$ 970,129
2011	628,468
2012	<u>129,938</u>
	<u>\$ 1,728,535</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,	
2010	\$ 77,832
2011	77,832
2012	77,832
2013	<u>14,634</u>
Total minimum lease payments	248,130
Less: Amount representing interest	<u>(73,267)</u>
	<u>\$ 174,863</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 November 2008, the Foundation entered into a revolving line of credit agreement with a major financial institution for \$2.0 million. The agreement is effective through January 31, 2010. Funds from the line of credit are to be used for working capital purposes and are secured by various assets of the Foundation. The interest rate is equal to the bank's prime rate (3.25% at June 30, 2009). The Foundation did not utilize the line during the fiscal year and as of June 30, 2009 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, 2009.

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 \$192,984 to the Plan during the year ended June 30, 2009. 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 5, 2009, which is the date the financial statements were available to be issued.