

# **The San Francisco AIDS Foundation**

(A California Nonprofit Public Benefit Corporation)

**Report on Financial Statements**

**June 30, 2010**

**(with summarized comparative information for the  
year ended June 30, 2009)**

**The San Francisco AIDS Foundation**  
(A California Nonprofit Public Benefit Corporation)  
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**June 30, 2010**  
**(with summarized comparative information for the year ended**  
**June 30, 2009)**

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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, 2010, 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 2009 financial statements, and in our report dated November 5, 2009, 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.



October 6, 2010

**The San Francisco AIDS Foundation**  
(A California Nonprofit Public Benefit Corporation)  
**Statement of Financial Position**  
**June 30, 2010**  
**(with summarized comparative information as of June 30, 2009)**

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(In Thousands)

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash	\$ 1,371	\$ 2,392
Accounts receivable	1,104	812
Contributions receivable, net	713	390
Investments	9,373	8,122
Prepaid expenses	623	431
Security deposits and other assets	228	259
Property and equipment, net	656	963
Total assets	<u>\$ 14,068</u>	<u>\$ 13,369</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,209	\$ 1,188
Accrued payroll and related liabilities	789	804
Grants payable	229	256
Refundable advances	212	227
Capital lease obligations	133	175
Total liabilities	<u>2,572</u>	<u>2,650</u>
Commitments and contingencies (Note 8)		
Net Assets		
Unrestricted	10,921	9,997
Temporarily restricted	155	302
Permanently restricted	420	420
Total net assets	<u>11,496</u>	<u>10,719</u>
Total liabilities and net assets	<u>\$ 14,068</u>	<u>\$ 13,369</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, 2010**  
**(with summarized comparative information for the year ended June 30, 2009)**

(In Thousands)

	June 30, 2010			Total	June 30,
	Unrestricted	Temporarily Restricted	Permanently Restricted		2009
					Total
<b>Public and government support</b>					
Government grants	\$ 5,865	\$ 381	\$ -	\$ 6,246	\$ 7,475
Contributions and grants					
Individuals	1,962	81	-	2,043	2,333
Corporations and foundations	310	500	-	810	383
Donated goods and services	308	-	-	308	357
Total	8,445	962	-	9,407	10,548
Special events	10,413	-	-	10,413	11,924
Less: Special event expenses	(1,418)	-	-	(1,418)	(1,488)
Net income from special events	8,995	-	-	8,995	10,436
Net assets released from restrictions and transfer between funds	1,170	(1,170)	-	-	-
Total public and government support	18,610	(208)	-	18,402	20,984
<b>Revenues and gains</b>					
Net realized and unrealized gain (loss)					
on investments	522	52	-	574	(1,182)
Investment income	172	9	-	181	302
Service revenues	410	-	-	410	273
Other	155	-	-	155	206
Total public and government support, revenues and gains	19,869	(147)	-	19,722	20,583
<b>Expenses</b>					
Program services	12,419	-	-	12,419	14,139
Support services	1,732	-	-	1,732	1,835
Fund development	4,794	-	-	4,794	5,469
Total expenses	18,945	-	-	18,945	21,443
Total change in net assets	924	(147)	-	777	(860)
Net assets, beginning of year	9,997	302	420	10,719	11,579
Net assets, end of year	\$ 10,921	\$ 155	\$ 420	\$ 11,496	\$ 10,719

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

**The San Francisco AIDS Foundation**  
(A California Nonprofit Public Benefit Corporation)  
**Statement of Functional Expenses**  
**Year Ended June 30, 2010**  
**(with summarized comparative information for the year ended June 30, 2009)**

(In Thousands)

	Program Services							Support Services	Fund Development	Total 2010 Expenses	Total 2009 Expenses
	Client Services and Treatment Education	Housing Services	Science & Public Policy	Prevention and Community Level Intervention	Global Treatment Access	Total Program Services					
<b>Expense</b>											
Salaries and employee benefits	\$ 800	\$ 346	\$ 839	\$ 2,840	\$ 410	\$ 5,235	\$ 1,051	\$ 1,570	\$ 7,856	\$ 8,883	
Professional and technical fees and dues	105	40	169	355	-	669	179	602	1,450	1,418	
Outreach and promotion	42	9	25	101	-	177	14	256	447	518	
Event production	108	8	26	129	-	271	-	541	812	1,105	
Postage and distribution	19	1	3	8	-	31	4	614	649	708	
Staff and volunteer development and travel	30	12	105	80	-	227	63	135	425	384	
Printing and materials production	26	10	32	499	-	567	6	161	734	715	
Housing subsidies	-	2,745	-	-	-	2,745	-	-	2,745	2,743	
Community grants	264	19	64	151	500	998	-	-	998	1,383	
Subcontractor services	-	-	-	-	-	-	-	-	-	596	
Occupancy	111	31	75	465	36	718	117	276	1,111	1,169	
Operations	48	21	36	212	16	333	192	426	951	987	
Depreciation and amortization	57	17	41	161	-	276	66	117	459	477	
Donated professional volunteer services	10	4	10	120	-	144	40	20	204	211	
Donated goods	15	1	4	8	-	28	-	76	104	146	
	<u>\$ 1,635</u>	<u>\$ 3,264</u>	<u>\$ 1,429</u>	<u>\$ 5,129</u>	<u>\$ 962</u>	<u>\$ 12,419</u>	<u>\$ 1,732</u>	<u>\$ 4,794</u>	<u>\$ 18,945</u>	<u>\$ 21,443</u>	

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

**The San Francisco AIDS Foundation**  
(A California Nonprofit Public Benefit Corporation)  
**Statement of Cash Flows**  
**Year Ended June 30, 2010**  
**(with summarized comparative information for the year ended June 30, 2009)**

(In Thousands)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Total change in net assets	\$ 777	\$ (860)
Loss on disposal of assets	5	1
Depreciation and amortization	459	477
Contributed securities	(53)	(27)
Net realized and unrealized loss on investments	(574)	1,182
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable	(292)	1,221
Contributions receivable, net	(323)	15
Prepaid expenses	(192)	68
Security deposits and other assets	31	(15)
Accounts payable and accrued expenses	21	(159)
Accrued payroll and related liabilities	(15)	(79)
Grants payable	(27)	(305)
Refundable advances	(15)	11
Net cash (used in) provided by operating activities	<u>(198)</u>	<u>1,530</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(159)	(78)
Purchase of investments	(3,433)	(4,896)
Proceeds from sales of investments	2,811	3,348
Net cash used in investing activities	<u>(781)</u>	<u>(1,626)</u>
<b>Cash flows from financing activities</b>		
Payments on capital leases	(42)	(33)
Net cash used in financing activities	<u>(42)</u>	<u>(33)</u>
Net decrease in cash	(1,021)	(129)
Cash, beginning of year	2,392	2,521
Cash, end of year	<u>\$ 1,371</u>	<u>\$ 2,392</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 36	\$ 44
Donated professional services	204	211
Donated goods	104	146
Contributed securities	53	27
Capital asset acquired through capital lease obligation	-	33

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

**The San Francisco AIDS Foundation**  
(A California Nonprofit Public Benefit Corporation)  
**Notes to Financial Statements**  
**June 30, 2010**

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*(In Thousands)*

**1. Organization and Related Party Transactions**

San Francisco AIDS Foundation (“the Foundation”), a non-profit entity, 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 refuses to accept that HIV transmission is inevitable.

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

- Reduce new infections in San Francisco by 50 percent
- Ensure all San Franciscans know their current HIV status
- Ensure access to proper care for all HIV-positive San Franciscans

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

PREVENTION, TESTING & CARE ACTIVITIES

The following is a topline summary of all programs and activities offered by the Foundation for HIV prevention, testing and care for fiscal year ending June 30, 2010.

- **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.
- **Black Brothers Esteem** brings together African-American gay, bisexual, and same-gender-loving men, empowering them to advocate for their own health and the health of their community.
- **The California HIV/AIDS and STD Hotline** provides comprehensive HIV/AIDS information, responding to calls from throughout the state about HIV transmission, treatment and care.
- **El Grupo** supports Latinos living with HIV and their families. Reaching out to men and women, gay and straight, and young and old, El Grupo is the oldest program of its kind in the United States.
- **HIV Prevention Project** exchanges more than two million syringes each year at twelve sites, contributing to an HIV transmission rate via intravenous drug use of less than one percent in San Francisco.
- **HIV Testing** is provided weekly at two locations on Sixth Street, one of San Francisco's hot spots for HIV infection.
- **Housing and Financial Benefits** helps people living with HIV/AIDS understand the private and public benefits system and offers transitional housing assistance and rental subsidies to nearly four hundred individuals and families.
- **Magnet** offers sexual health services, including HIV and STD testing, for gay and bisexual men at a health and community center in San Francisco's Castro district.
- **Science and Public Policy** advocates on behalf of people living with HIV/AIDS at the national, state, and local level and provides information about recent HIV prevention research to inform evidence-based public policy.
- **The Speed Project** reaches out to gay and bisexual men in San Francisco who use crystal meth. Peer educators share information and resources to encourage good health and safety.



**The San Francisco AIDS Foundation**  
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**June 30, 2010**

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(In Thousands)

- **The Stonewall Project** offers nonjudgmental counseling to gay and bisexual men struggling with crystal meth. On its website, tweaker.org, nearly two thousand, three hundred visitors a day receive meth education and information.

INTERNATIONAL ACCESS TO HIV CARE

Pangaea Global AIDS Foundation ("Pangaea") is a non-profit affiliate of the Foundation whose 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, 2010, the Foundation granted to Pangaea grants totaling \$500 to support Pangaea's treatment access projects. The Foundation provided technical assistance and received fees of \$410 from Pangaea. As of June 30, 2010, the Foundation had grants receivable from Pangaea of \$4.

**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, 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.

**The San Francisco AIDS Foundation**  
**(A California Nonprofit Public Benefit Corporation)**  
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**June 30, 2010**

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*(In Thousands)*

***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 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 \$42 for the year ended June 30, 2010.

**The San Francisco AIDS Foundation**  
**(A California Nonprofit Public Benefit Corporation)**  
**Notes to Financial Statements**  
**June 30, 2010**

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*(In Thousands)*

**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, 2010.

**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 \$978 for the year ended June 30, 2010, 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 \$2,700 were incurred by the Foundation for program and community grant expense for the year ended June 30, 2010. Of this amount \$1,963 was allocated to fund development and \$737 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 investments have been placed with banking institutions and investment managers. The Foundation closely monitors these investments.

**The San Francisco AIDS Foundation**  
**(A California Nonprofit Public Benefit Corporation)**  
**Notes to Financial Statements**  
**June 30, 2010**

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*(In Thousands)*

**3. Investments**

The Foundation's investments consisted of the following as of June 30, 2010:

Cash equivalents	\$	2,040
U.S. Treasury bills		531
Equity securities		3,872
Corporate debt securities		566
Mortgage-backed securities		1,071
Other asset-backed securities		103
Other fixed income securities		1,190
	<u>\$</u>	<u>9,373</u>

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") 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 non-performance risk.

In addition to defining fair value, the FASB establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities. Investments in Level 1 include cash equivalents, U.S. Treasury bills and listed equity and fixed income securities.

Level 2 – Inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Investments in this category generally include corporate debt securities, mortgage-backed securities and other asset-backed securities.

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.

**The San Francisco AIDS Foundation**  
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**Notes to Financial Statements**  
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*(In Thousands)*

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, 2010, by caption on the statement of financial position by the valuation hierarchy defined above:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable (Level 2)</b>	<b>Significant Unobservable (Level 3)</b>	<b>Total Fair Value</b>
Cash equivalents	\$ 2,040	\$ -	\$ -	\$ 2,040
U.S. Treasury bills	531	-	-	531
Equity securities	3,872	-	-	3,872
Corporate debt securities	-	566	-	566
Mortgage-backed securities	-	1,071	-	1,071
Other asset-backed securities	-	103	-	103
Other fixed income securities	1,190	-	-	1,190
Total investments	<u>\$ 7,633</u>	<u>\$ 1,740</u>	<u>\$ -</u>	<u>\$ 9,373</u>

**4. Contributions Receivable**

Contributions receivable of \$713 are due as of June 30, 2010. 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 \$51.

**5. Property and Equipment**

Property and equipment at June 30, 2010 is summarized as follows:

Equipment	\$ 1,844
Furniture and fixtures	752
Leasehold improvements	487
Vehicles	52
	<u>3,135</u>
Accumulated depreciation and amortization	<u>(2,479)</u>
	<u>\$ 656</u>

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$459 and \$477, respectively.

Leased capital assets included in property and equipment at June 30, 2010 totaled \$230 less accumulated depreciation of \$157.

**The San Francisco AIDS Foundation**  
**(A California Nonprofit Public Benefit Corporation)**  
**Notes to Financial Statements**  
**June 30, 2010**

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*(In Thousands)*

**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, 2010:

Support for prevention, outreach, education and other related services	\$ 104
Public policy initiative support for people living with HIV	<u>51</u>
Total temporarily restricted net assets	<u>\$ 155</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, 2010:

Support for prevention, outreach, education and other related services	\$ 795
Public policy initiative support for people living with HIV	<u>353</u>
Total net assets released from restrictions	<u>\$ 1,148</u>

As of June 30, 2010, permanently restricted net assets are restricted to investment in perpetuity, the income of which is expendable to support:

Prevention and treatment education	<u>\$ 420</u>
Total	<u>\$ 420</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 optimize balance between risk and return while accommodating the Foundation's goals for income and growth. The goal for return on the portfolio is to meet or exceed the performance of comparable market segment indices over an entire market cycle. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation maintains a policy of appropriating an annual distribution of up to 5% of its endowment fund's average fair value over the prior 12 quarters.

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(In Thousands)

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

Changes in endowment net assets for the fiscal year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ (22)	\$ -	\$ 420	\$ 398
Investment return				
Investment income	-	9	-	9
Net appreciation (realized and unrealized)	-	52	-	52
Total investment gain	-	61	-	61
Transfer net investment loss from unrestricted	22	(22)	-	-
Expenses released from restriction	-	(19)	-	(19)
Endowment net assets, end of the year	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 420</u>	<u>\$ 440</u>

Endowment net assets composition by type of fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 20	\$ 420	\$ 440
Board designated endowment funds	-	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 420</u>	<u>\$ 440</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. 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, 2010 was \$1,000.

**The San Francisco AIDS Foundation**  
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**June 30, 2010**

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(In Thousands)

Future minimum lease payments under these leases are as follows:

<b>Year Ended June 30,</b>	
2011	\$ 623
2012	128
2013	-
Total	<u>\$ 751</u>

**Capital Leases**

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

<b>Year Ended June 30,</b>	
2011	\$ 78
2012	78
2013	<u>15</u>
Total minimum lease payments	171
Less: Amount representing interest	<u>(37)</u>
	<u>\$ 134</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 February 1, 2011. 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 plus 1.75% points (5.0% at June 30, 2010). The Foundation did not utilize the line during the fiscal year and as of June 30, 2010 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, 2010.

**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 \$134 to the Plan during the year ended June 30, 2010. Employer contributions, if any, are at the discretion of the management of the Foundation.



**The San Francisco AIDS Foundation**  
**(A California Nonprofit Public Benefit Corporation)**  
**Notes to Financial Statements**  
**June 30, 2010**

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*(In Thousands)*

**11. Subsequent Events**

In July 2010, the Foundation signed a new ten year lease for office space. A one month rent prepayment of \$71 was completed and the Foundation plans to move into the new space in January 2011. Total minimum lease payments for the ten year term are \$10,906.

The Foundation has performed an evaluation of subsequent events through October 6, 2010, which is the date the financial statements were available to be issued.