

The San Francisco AIDS Foundation
(A California Nonprofit Public Benefit Corporation)

Financial Statements

June 30, 2015

(With Summarized Comparative Information
For the Year Ended June 30, 2014)



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The San Francisco AIDS Foundation (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Francisco AIDS Foundation as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The San Francisco AIDS Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP
Armanino^{LLP}
San Ramon, California

October 30, 2015

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2015
(With Summarized Comparative Information for 2014)
(in thousands)

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash	\$ 1,649	\$ 2,879
Accounts receivable	2,211	2,568
Contributions receivable, net	1,096	1,015
Investments	10,756	12,019
Prepaid expenses	519	385
Security deposits and other assets	131	140
Property and equipment, net	8,388	2,887
Total assets	<u>\$ 24,750</u>	<u>\$ 21,893</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities		
Accounts payable and accrued expenses	\$ 1,612	\$ 1,675
Accrued payroll and related liabilities	1,092	993
Deferred rent	1,499	1,520
Refundable advances	173	190
Capital lease obligations	75	134
Total liabilities	<u>4,451</u>	<u>4,512</u>
Commitments and contingencies (Note 8)		
Net assets		
Unrestricted	14,988	13,580
Temporarily restricted	4,891	3,381
Permanently restricted	420	420
Total net assets	<u>20,299</u>	<u>17,381</u>
Total liabilities and net assets	<u>\$ 24,750</u>	<u>\$ 21,893</u>

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

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended June 30, 2015
(With Summarized Comparative Information for 2014)
(in thousands)

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public and government support					
Government grants	\$ 10,940	\$ 81	\$ -	\$ 11,021	\$ 10,923
Contributions and grants					
Individuals	2,349	724	-	3,073	2,983
Corporations and foundations	225	3,201	-	3,426	3,604
Donated goods and services	478	11	-	489	797
Total	<u>13,992</u>	<u>4,017</u>	<u>-</u>	<u>18,009</u>	<u>18,307</u>
Special events	10,528	91	-	10,619	11,781
Less: Special event expenses	<u>(1,592)</u>	<u>-</u>	<u>-</u>	<u>(1,592)</u>	<u>(1,558)</u>
Net income from special events	<u>8,936</u>	<u>91</u>	<u>-</u>	<u>9,027</u>	<u>10,223</u>
Net assets released from restrictions	<u>2,793</u>	<u>(2,793)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public and government support	25,721	1,315	-	27,036	28,530
Revenues and gains					
Net realized and unrealized gain/(loss) on investments	(86)	(6)	-	(92)	944
Investment income	355	25	-	380	336
340B drug discount program	336	-	-	336	-
Other	110	176	-	286	184
Total public and government support, revenues and gains	<u>26,436</u>	<u>1,510</u>	<u>-</u>	<u>27,946</u>	<u>29,994</u>
Expenses					
Program services	20,627	-	-	20,627	20,355
Management & general	734	-	-	734	717
Fund development	3,667	-	-	3,667	3,638
Total expenses	<u>25,028</u>	<u>-</u>	<u>-</u>	<u>25,028</u>	<u>24,710</u>
Change in net assets	<u>1,408</u>	<u>1,510</u>	<u>-</u>	<u>2,918</u>	<u>5,284</u>
Net assets, beginning of year	<u>13,580</u>	<u>3,381</u>	<u>420</u>	<u>17,381</u>	<u>12,097</u>
Net assets, end of year	<u>\$ 14,988</u>	<u>\$ 4,891</u>	<u>\$ 420</u>	<u>\$ 20,299</u>	<u>\$ 17,381</u>

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

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2015
(With Summarized Comparative Information for 2014)
(in thousands)

Expense	Program Services							Total 2015 Expenses	Total 2014 Expenses
	Advocacy & Education	Housing Services	Community Based Health, Prevention & Support Services	Substance Health Services	Total Program Services	Management & General	Fund Development		
Salaries and employee benefits	\$ 1,176	\$ 534	\$ 5,532	\$ 2,938	\$ 10,180	\$ 506	\$ 1,859	\$ 12,545	\$ 11,710
Professional and technical fees	222	31	451	183	887	41	483	1,411	1,253
Outreach and promotion	39	3	62	26	130	3	57	190	250
Event production	6	3	193	60	262	-	55	317	594
Postage and distribution	5	4	22	11	42	1	382	425	384
Staff/ volunteer support and travel	62	15	207	107	391	18	141	550	506
Printing and materials production	15	4	143	115	277	-	91	368	404
Program supplies	-	26	295	900	1,221	-	-	1,221	860
Housing subsidies	-	2,687	-	-	2,687	-	-	2,687	2,759
Community grants	-	-	-	-	-	-	-	-	273
Subcontractor services	37	-	142	969	1,148	-	-	1,148	1,278
Occupancy	113	62	1,147	507	1,829	47	225	2,101	2,079
Office expenses	63	33	473	333	902	67	191	1,160	1,146
Depreciation and amortization	31	17	171	114	333	19	64	416	417
Donated professional volunteer services	12	7	101	38	158	28	42	228	472
Donated goods	12	7	112	49	180	4	77	261	325
	<u>\$ 1,793</u>	<u>\$ 3,433</u>	<u>\$ 9,051</u>	<u>\$ 6,350</u>	<u>\$ 20,627</u>	<u>\$ 734</u>	<u>\$ 3,667</u>	<u>\$ 25,028</u>	<u>\$ 24,710</u>

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

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended June 30, 2015
(With Summarized Comparative Information for 2014)
(in thousands)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 2,918	\$ 5,284
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Loss/(gain) on disposal of assets	220	(1)
Donations of marketable securities, net	(161)	(171)
Depreciation and amortization	416	417
Net realized and unrealized loss/(gain) on investments	92	(927)
Changes in operating assets and liabilities		
Accounts receivable	357	(52)
Contributions receivable, net	(81)	(323)
Prepaid expenses	(134)	(14)
Security deposits and other assets	9	13
Accounts payable and accrued expenses	(63)	525
Accrued payroll and related liabilities	99	(29)
Deferred rent	(21)	156
Refundable advances	(17)	(3)
Net cash provided by operating activities	3,634	4,875
Cash flows from investing activities		
Capital expenditures	(6,143)	(1,755)
Purchase of investments	(3,027)	(6,251)
Proceeds from sales of investments	4,365	4,731
Net cash used in investing activities	(4,805)	(3,275)
Cash flows from financing activities		
Payments on capital leases	(59)	(48)
Net cash used in financing activities	(59)	(48)
Net (decrease)/increase in cash	(1,230)	1,552
Cash, beginning of year	2,879	1,327
Cash, end of year	\$ 1,649	\$ 2,879
<u>Supplemental disclosures of cash flow information</u>		
Interest paid	\$ 35	\$ 31

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, 2015

1. Organization and Related Party Transactions

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

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

- Build healthier communities by fostering personal resilience and social support, increasing community engagement, and reducing harms associated with alcohol and other drugs
- Reduce new HIV diagnoses to fewer than 100 per year in San Francisco by 2019 (a 75% reduction from the 2013 number of 359)
- Improve the health and lifespan of HIV positive San Franciscans by increasing viral suppression to at least 80% (an increase from 62% in 2012)

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

The following is a top-line summary of the principal programs and activities offered by the Foundation for HIV prevention, testing, care, education, and advocacy for the fiscal year ending June 30, 2015.

Advocacy & Education

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

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

1. Organization and Related Party Transactions (continued)

Housing Services

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

Community Based Health, Prevention and Support Services

Magnet, the Foundation's health center for gay and bisexual men, offers free HIV testing and STI screenings at its location in the Castro and via a mobile HIV testing unit. Magnet is more than a clinic; it's a gathering space in the heart of the neighborhood committed to building healthier communities from the inside, out. Additionally, the Foundation offers a variety of community support services, including groups for African Americans, Latinos, newly-diagnosed men, men over fifty, transgender people, and individuals interested in community service projects. Access to proper HIV care is essential to building healthier communities. The Foundation provides medical case management and peer advocacy services, housing assistance, and financial benefits counseling for people living with HIV/AIDS to create a seamless system of care and support.

Substance Health Services

Drugs and alcohol are known drivers of HIV infection. Through the Stonewall Project, the Foundation provides an array of educational materials, counseling programs, resources, and other activities for gay, bisexual, and trans men to address the linkage between HIV, substance use, and mental health issues. The Foundation's Syringe Access Services program provides more than 2.4 million sterile syringes and other safer injection equipment each year at 11 sites to injection drug users to prevent the spread of HIV and hepatitis C. Other services include HIV and hepatitis C testing, and referrals and linkage to drug treatment and other social services.

Health & Well-Being Services for Gay & Bi Men

The Foundation has initiated the work of co-locating all existing Castro-based services for gay and bisexual men into a single location, where it will expand capacity for HIV testing, STI screening, mental health and substance use counseling, and the initiation of Truvada for PrEP. The new center, named Strut, will integrate new services focused on meeting the health needs of gay black youth and men over fifty, and services that promote individual and community health.

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

1. Organization and Related Party Transactions (continued)

2014/2015 Key Achievements

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

- Attended the first-ever White House Office of National AIDS Policy summit in Washington, D.C. to address HIV among gay and bisexual men;
- Raised a record-setting \$16.6 million on AIDS/LifeCycle, which the Foundation's portion was approximately \$10.1 million and is included in special events revenue in the accompanying statement of activities, to support our programs and the HIV/AIDS-related services of the Los Angeles LGBT Center;
- Served on the executive committee for San Francisco Getting to Zero initiative, a consortium of public health and medical care providers, community-based organizations, and government agencies committed to achieving zero new HIV infections, zero AIDS-related deaths, and zero HIV stigma;
- Launched a pilot PrEP Health Program and hired San Francisco's first PrEP benefits navigator to lower barriers of entry to men seeking access to this scientifically-proven biomedical prevention tool;
- Commenced participation in the government sponsored 340B drug discount program to obtain discounted drugs for our PrEP clients;
- Detected more existing and acute HIV infections at Magnet than any other community-based service provider in San Francisco, helping more people know their status and access care; and
- Created TransLife, a support group for HIV-positive and HIV-negative transgender women.

2. Summary of Significant Accounting Policies

Basis of presentation

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

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Summarized information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a full presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Net assets

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

Unrestricted

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.

The Board of Directors may designate resources for a specific purpose. Such assets, designated for the Foundation's new health and wellness center, are included in unrestricted net assets and total \$2 million at June 30, 2015.

Temporarily restricted

Temporarily restricted net assets relate primarily to contributions whose use by the Foundation is limited by donor-imposed stipulations with respect to time and/or purpose that can be fulfilled by actions of the Foundation pursuant to those stipulations.

Permanently restricted

Permanently restricted net assets are subject to donors' restrictions requiring that the principal be invested in perpetuity for the purpose of producing investment income and appreciation that may be spent according to donor-imposed stipulations for prevention and treatment education.

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

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

Accounts receivable

Receivables are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on past experiences and other circumstances. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. There is no allowance for doubtful accounts at June 30, 2015 as management has determined all outstanding balances to be collectible.

Contributions receivable

Contributions receivable that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable.

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Investments

All debt securities and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices. Investments also include cash equivalents consisting of all highly liquid investments purchased with maturities of ninety days or less at the time of acquisition and held for long-term investment purposes. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities represent the difference between the original cost of the investment and the proceeds received from the sale of securities. Dividend and interest income are accrued when earned.

Property and equipment

Property and equipment are presented in the financial statements at acquisition cost or, in the case of donated property, at estimated fair value at the date of gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which have been determined to be three to five years from the date of acquisition or donation for all equipment. Leasehold improvements are amortized over the lesser of the estimated useful lives or the remaining term of the property lease. Equipment and furniture costing \$1,000 or more is capitalized.

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

Refundable advances

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

Capital leases

Capital leases are recorded as an asset and an obligation at the fair value of the leased property at the inception of the lease. Capital lease amortization was \$59,000 for the year ended June 30, 2015.

THE SAN FRANCISCO AIDS FOUNDATION
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Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Government support

Grant support from contracts with government agencies is recognized as the related services are provided and reflected as government grants support in the accompanying statement of activities. Payments under such contracts are received on a cost-reimbursement basis. Any billed contract receivables are included in accounts receivable as of June 30, 2015.

Special events

Special events support consists primarily of proceeds from the AIDS LifeCycle, Tribute Celebration, Dining Out for Life and various smaller events. Special event expenses represent the costs incurred by the Foundation which directly benefit the participants in the Foundation's special events.

Contributions of services and goods

Contributions of services are recognized in the financial statements when received if such services (a) create or enhance nonfinancial assets, (b) require specialized skills and are provided by individuals possessing those skills, and (c) would typically need to be purchased if not donated. Contributed services recognized in the financial statements for the year ended June 30, 2015 amounted to \$228,000. A substantial number of volunteers have donated significant amounts of time in the Foundation's program services and fund-raising activities that are not recognized in the financial statements. The value of such donated volunteer services received is approximately \$1,292,000 for the year ended June 30, 2015, based on volunteer time records and estimated hourly compensation rates. The value of such donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not meet the above criteria. The Foundation also receives donated goods, which are recognized at the estimated fair value on the date of donation. Donated goods received during the year ended June 30, 2015 amounted to \$261,000.

Functional expense allocations

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

THE SAN FRANCISCO AIDS FOUNDATION
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Allocation of costs of joint activities

Costs of joint activities that are identifiable with a particular function are charged to that function and joint costs are allocated between fund development and the appropriate program or management and general function. Joint costs of \$2,148,000 were incurred by the Foundation for program and fundraising expense for the year ended June 30, 2015. Of these amounts, \$816,000 was allocated to fund development and \$1,332,000 was allocated to program services for the year ended June 30, 2015.

Use of estimates

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

Concentrations of credit risk

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The Foundation maintains cash and cash equivalents, and investments with major financial institutions. At times, such amounts may exceed FDIC limits. The Foundation manages credit risk by establishing minimum credit standards for financial institutions and limiting the amount of credit exposure with any one institution. The Foundation's investments have been placed with banking institutions and investment managers. The Foundation's management closely monitors these investments.

New accounting pronouncement

In October 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2012-05 which amends the statement of cash flows topic related to the classification of sale proceeds from donated financial assets. The update became effective in fiscal years beginning after June 15, 2013. The Foundation adopted this update during 2015 and elected to apply the amendment on a retrospective basis for all years presented in the accompanying financial statements. Accordingly, \$171,000 has been reclassified out of the 2014 proceeds from sales of investments within investing activities as previously reported on the accompanying 2014 statement of cash flows and reported as donations of marketable securities, net, within operating cash flows.

THE SAN FRANCISCO AIDS FOUNDATION
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Notes to Financial Statements
June 30, 2015

3. Contributions Receivable

Contributions receivable consisted of the following at June 30, 2015 (in thousands):

Amounts due in less than one year	\$ 931
Amounts due in one to five years	233
Less: allowance for doubtful contributions	(63)
Less: discounts to net present value	<u>(5)</u>
Total contributions receivable, net	<u>\$1,096</u>

4. Investments

The Foundation's investments consisted of the following as of June 30, 2015 (in thousands):

Cash equivalents	\$ 2,253
U.S. Treasury bills	502
Equity securities	5,733
Corporate debt securities	954
Mortgage-backed securities	700
Other asset-backed securities	152
Other fixed income securities	237
Certificate of deposit	<u>225</u>
Total investments	<u>\$10,756</u>

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of nonperformance risk.

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

THE SAN FRANCISCO AIDS FOUNDATION
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Notes to Financial Statements
June 30, 2015

4. Investments (continued)

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

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

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

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

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

The following tables present the financial instruments carried at fair value as of June 30, 2015, by caption on the statement of financial position by the valuation hierarchy defined above (in thousands):

	Quoted Prices in Active Markets <u>(Level 1)</u>	Significant Other Observable <u>(Level 2)</u>	Significant Unobservable <u>(Level 3)</u>	Total Fair Value <u>2015</u>
Cash equivalents	\$ 2,253	\$ -	\$ -	\$ 2,253
U.S. Treasury bills	502	-	-	502
Equity securities	5,733	-	-	5,733
Corporate debt securities	-	954	-	954
Mortgage-backed securities	-	700	-	700
Other asset-backed securities	-	152	-	152
Other fixed income securities	228	9	-	237
Certificate of deposit	<u>225</u>	<u>-</u>	<u>-</u>	<u>225</u>
Total investments	<u>\$ 8,941</u>	<u>\$ 1,815</u>	<u>\$ -</u>	<u>\$10,756</u>

Net change in unrealized losses for those investments held at June 30, 2015 amounted to \$(341,000).

THE SAN FRANCISCO AIDS FOUNDATION
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Notes to Financial Statements
June 30, 2015

5. Property and Equipment

Property and equipment at June 30, 2015 is summarized as follows (in thousands):

Equipment	\$1,471
Furniture and fixtures	1,146
Leasehold improvements	7,988
Software	259
Vehicles	<u>252</u>
Sub-total	11,116
Accumulated depreciation and amortization	<u>(2,728)</u>
Total property and equipment, net	<u>\$8,388</u>

Depreciation and amortization expense for the year ended June 30, 2015 was \$416,000.

Leased capital assets included in property and equipment at June 30, 2015 totaled \$248,000 less accumulated depreciation of \$217,000.

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

Temporarily restricted net assets were available for the following purposes as of June 30, 2015 (in thousands):

Support for prevention, outreach, education and other related services	\$ 432
Health and Wellness Center	4,416
Public policy initiative support for people living with HIV	<u>43</u>
Total temporarily restricted net assets	<u>\$ 4,891</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, 2015 (in thousands):

Support for prevention, outreach, education and other related services	\$1,662
Health and Wellness Center	1,000
Public policy initiative support for people living with HIV	<u>131</u>
Total net assets released from restrictions	<u>\$2,793</u>

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

As of June 30, 2015, permanently restricted net assets are restricted to investment in perpetuity, the income of which is expendable to support (in thousands):

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

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

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

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

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

Changes in endowment net assets for the fiscal year ended June 30, 2015 are as follows (in thousands):

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets at beginning of the year	\$ -	\$ 143	\$ 420	\$ 563
Investment return				
Investment income	-	25	-	25
Net depreciation (realized and unrealized)	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(6)</u>
Total investment return	-	19	-	19
Expenses released from restriction	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>(100)</u>
Endowment net assets at end of the year	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 420</u>	<u>\$ 482</u>

Endowment net assets composition by type of fund as of June 30, 2015 is as follows (in thousands):

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 62	\$ 420	\$ 482
Board designated endowment funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 420</u>	<u>\$ 482</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.

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8. Commitments and Contingencies

Operating leases

The Foundation leases its primary office space under an operating lease agreement which expires in December 2020 and a primary program services location under a lease which expires in June 2023. The Foundation leases additional space used in operations under various operating leases. Each of the leases is subject to various terms of agreement. Rent expense for the year ended June 30, 2015 was \$1,945,000.

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

<u>Years Ended June 30,</u>	
2016	\$ 1,746
2017	1,740
2018	1,804
2019	1,869
2020	1,916
Thereafter	<u>2,327</u>
Total future minimum lease payments	<u>\$11,402</u>

Capital leases

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

<u>Years Ended June 30,</u>	
2016	\$ 55
2017	22
2018	<u>9</u>
Total minimum lease payments	86
Less: Amount representing interest	<u>(11)</u>
Total future minimum lease payments, net of interest	<u>\$ 75</u>

Other

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

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9. Line of Credit

In November 2010, the Foundation entered into a revolving line of credit agreement with a major financial institution for \$2.5 million which was increased to \$5.65 million in September 2013. Funds from the line of credit are to be used for working capital purposes and are collateralized by various assets of the Foundation. As of June 30, 2015 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, 2015.

In March 2014, the Foundation entered into a loan/line of credit agreement with a major financial institution for \$4.5 million. Funds from the loan are to be used for building construction and are collateralized by various assets of the Foundation. The loan/line of credit was never used and was closed in March 2015.

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 \$267,000 to the Plan during the year ended June 30, 2015. Employer contributions, if any, are at the discretion of the management of the Foundation.

11. Subsequent Events

The Foundation has performed an evaluation of subsequent events through October 30, 2015, which is the date the financial statements were available to be issued. Except as noted below, no subsequent events have occurred that would have a material impact on the presentation of the Foundation's financial statements.

Under normal business practices, the Foundation has changed the financial institution utilized for investment advisory services. Based on that change, effective August 2015 the existing line of credit has been closed. A line of credit with the new financial institution is expected to be finalized in October 2015.