

**SOUTHERN ARIZONA AIDS FOUNDATION
AND AFFILIATES**
(a not-for-profit organization)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
Years ended June 30, 2018 and 2017



A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southern Arizona AIDS Foundation
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southern Arizona AIDS Foundation and its subsidiaries (a not-for-profit organization) (collectively the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Arizona AIDS Foundation and its subsidiaries as of June 30, 2018 and 2017, and the activities and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Arizona AIDS Foundation's internal control over financial reporting and compliance.

R&A CPA's
A Professional Corporation

Tucson, Arizona
March 29, 2019

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,
(See Independent Auditors' Report)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 387,344	\$ 438,350
Grants and contracts receivable	2,247,199	1,572,069
Pledges receivable, net of discount	48,868	47,065
Other receivables	61,533	70,012
Marketable securities, at fair value	508,186	475,675
Prepaid expenses	265,528	263,194
Inventory	12,955	9,279
Total current assets	3,531,613	2,875,644
LONG-TERM ASSETS:		
Cash restricted for property and equipment	-	293,279
Pledges receivable, net of discount and current portion	110,520	281,763
Other assets	6,500	9,500
Property and equipment, net of accumulated depreciation of \$2,960,509 and \$2,762,440, respectively	4,452,218	3,754,663
Total long-term assets	4,569,238	4,339,205
TOTAL ASSETS	\$ 8,100,851	\$ 7,214,849
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 435,884	\$ 332,265
Subrecipient grants payable	8,896	5,813
Accrued payroll and vacation	148,104	144,574
Due to related parties	5,551	4,802
Other accrued liabilities	130,287	11,454
Current portion of notes payable	27,359	56,154
Security deposit liabilities	11,089	12,242
Total current liabilities	767,170	567,304
LONG-TERM LIABILITIES:		
Notes payable, less current portion	646,522	673,881
Total liabilities	1,413,692	1,241,185
NET ASSETS:		
Unrestricted:		
Available for operations	2,407,138	1,797,412
Expended on property and equipment	3,888,857	3,306,391
Total unrestricted	6,295,995	5,103,803
Temporarily restricted	391,164	869,861
Total net assets	6,687,159	5,973,664
TOTAL LIABILITIES AND NET ASSETS	\$ 8,100,851	\$ 7,214,849

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

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018
(See Independent Auditors' Report)

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Government contracts and grants	\$ 10,594,468	\$ -	\$ 10,594,468
Contributions and other grants	285,021	588,367	873,388
Buyers club	35,100	-	35,100
Investment income	39,638	5,362	45,000
Rent income	377,989	-	377,989
Special events, net of \$18,150 direct donor benefit costs	170,630	-	170,630
In-kind contributions	158,280	-	158,280
Debt forgiveness	26,114	-	26,114
Other	5,607	-	5,607
Net assets released from restrictions	1,072,426	(1,072,426)	-
<i>Total revenues</i>	12,765,273	(478,697)	12,286,576
EXPENSES:			
Program services	9,918,103	-	9,918,103
Management and general	1,006,273	-	1,006,273
Fundraising	648,705	-	648,705
<i>Total expenses</i>	11,573,081	-	11,573,081
<i>CHANGE IN NET ASSETS</i>	1,192,192	(478,697)	713,495
<i>NET ASSETS, BEGINNING OF YEAR</i>	5,103,803	869,861	5,973,664
<i>NET ASSETS, END OF YEAR</i>	\$ 6,295,995	\$ 391,164	\$ 6,687,159

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

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2017
(See Independent Auditors' Report)

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Government contracts and grants	\$ 9,419,486	\$ -	\$ 9,419,486
Contributions and other grants	301,942	1,252,121	1,554,063
Buyers club	38,139	-	38,139
Investment income	12,430	5,289	17,719
Rent income	355,579	-	355,579
Special events, net of \$57,588 direct donor benefit costs	261,470	-	261,470
In-kind contributions	158,087	-	158,087
Debt forgiveness	26,114	-	26,114
Other	19,284	-	19,284
Net assets released from restrictions	841,815	(841,815)	-
Total revenues	11,434,346	415,595	11,849,941
EXPENSES:			
Program services	9,112,723	-	9,112,723
Management and general	893,994	-	893,994
Fundraising	800,457	-	800,457
Total expenses	10,807,174	-	10,807,174
CHANGE IN NET ASSETS	627,172	415,595	1,042,767
NET ASSETS, BEGINNING OF YEAR	4,476,631	454,266	4,930,897
NET ASSETS, END OF YEAR	\$ 5,103,803	\$ 869,861	\$ 5,973,664

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

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018
(See Independent Auditors' Report)

	Program Services				Total program services	Management and general	Fundraising	Total
	Client services	Stephenson Place	Prevention/ education	Volunteer resources				
Salaries	\$ 1,729,755	\$ -	\$ 691,814	\$ 17,422	\$ 2,438,991	\$ 461,971	\$ 242,966	\$ 3,143,928
Payroll taxes and benefits	474,442	-	184,421	5,333	664,196	96,690	54,085	814,971
	2,204,197	-	876,235	22,755	3,103,187	558,661	297,051	3,958,899
Bad debt	-	16,601	-	-	16,601	-	-	16,601
Computer equipment and software	45,752	1,211	13,127	980	61,070	31,357	7,359	99,786
Contracted services	9,033	14,592	74,042	-	97,667	2,073	14,220	113,960
Cost of merchandise sold	28,659	-	-	-	28,659	-	-	28,659
Depreciation	91,962	51,551	19,346	699	163,558	53,497	7,033	224,088
Direct assistance to individuals	5,533,963	-	198,181	4,945	5,737,089	65,464	217	5,802,770
Direct donor benefit costs	-	-	-	-	-	-	18,150	18,150
Dues, subscriptions and fees	4,703	39	108	-	4,850	31,607	11,637	48,094
Events	-	-	4,704	4,808	9,512	17,155	45,832	72,499
In-kind contributions	-	-	-	-	-	-	158,280	158,280
Insurance	15	13,463	3,979	-	17,457	58,846	225	76,528
Interest	533	-	-	-	533	24,512	-	25,045
Occupancy	302,634	68,068	15,729	605	387,036	47,955	7,015	442,006
Office supplies	13,444	-	5,954	220	19,618	12,489	3,526	35,633
Other	46,854	1,752	-	-	48,606	29,753	4,254	82,613
Postage	4,634	-	1,021	55	5,710	1,552	9,843	17,105
Printing and newsletters	5,445	-	2,417	52	7,914	9,905	69,061	86,880
Professional fees	300	12,205	-	-	12,505	43,067	410	55,982
Telephone	29,712	690	7,803	232	38,437	5,525	1,923	45,885
Travel and staff development	109,051	1,149	47,458	436	158,094	12,855	10,819	181,768
Volunteer support	-	-	-	-	-	-	-	-
Total functional expenses	8,430,891	181,321	1,270,104	35,787	9,918,103	1,006,273	666,855	11,591,231
Less direct donor benefit costs netted against revenue	-	-	-	-	-	-	(18,150)	(18,150)
Total expenses	\$ 8,430,891	\$ 181,321	\$ 1,270,104	\$ 35,787	\$ 9,918,103	\$ 1,006,273	\$ 648,705	\$ 11,573,081

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

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017
(See Independent Auditors' Report)

	Program Services							Total
	Client services	Stephenson Place	Prevention/ education	Volunteer resources	Total program services	Management and general	Fundraising	
Salaries	\$ 1,470,767	\$ -	\$ 632,571	\$ 22,352	\$ 2,125,690	\$ 398,833	\$ 261,555	\$ 2,786,078
Payroll taxes and benefits	402,924	-	181,795	7,071	591,790	81,034	62,613	735,437
	1,873,691	-	814,366	29,423	2,717,480	479,867	324,168	3,521,515
Bad debt	-	6,097	-	-	6,097	-	-	6,097
Computer equipment and software	36,549	689	7,327	256	44,821	10,862	3,590	59,273
Contracted services	44,929	14,066	83,061	7,827	149,883	19,254	63,308	232,445
Cost of merchandise sold	33,442	-	-	-	33,442	-	-	33,442
Depreciation	83,346	52,236	20,498	741	156,821	37,251	5,879	199,951
Direct assistance to individuals	5,228,669	-	171,387	-	5,400,056	70,362	2,747	5,473,165
Direct donor benefit costs	-	-	-	-	-	-	57,588	57,588
Dues, subscriptions and fees	1,733	14	176	-	1,923	24,100	11,783	37,806
In-kind contributions	-	-	-	-	-	-	158,087	158,087
Insurance	500	13,181	3,416	-	17,097	55,789	1,752	74,638
Interest	2,656	-	-	-	2,656	26,684	-	29,340
Occupancy	208,772	55,821	13,022	623	278,238	54,823	27,346	360,407
Office supplies	17,458	-	5,681	422	23,561	14,977	2,659	41,197
Other	52,583	834	300	-	53,717	34,864	5,822	94,403
Postage	10,566	-	3,498	205	14,269	2,321	8,715	25,305
Printing and newsletters	14,387	-	7,404	315	22,106	3,495	135,420	161,021
Professional fees	1,500	11,415	-	-	12,915	43,158	31,814	87,887
Telephone	25,563	828	8,944	347	35,682	6,300	3,895	45,877
Travel and staff development	77,822	3,882	53,122	17	134,843	9,887	13,221	157,951
Volunteer support	-	-	-	7,116	7,116	-	251	7,367
Total functional expenses	7,714,166	159,063	1,192,202	47,292	9,112,723	893,994	858,045	10,864,762
Less direct donor benefit costs netted against revenue	-	-	-	-	-	-	(57,588)	(57,588)
Total expenses	\$ 7,714,166	\$ 159,063	\$ 1,192,202	\$ 47,292	\$ 9,112,723	\$ 893,994	\$ 800,457	\$ 10,807,174

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

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,
(See Independent Auditors' Report)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 713,495	\$ 1,042,767
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized gain on marketable securities	(33,385)	(15,490)
Change in value of partnership	(4,029)	729
Depreciation	224,088	199,951
Debt forgiveness, net of accrued interest	(24,636)	(23,241)
Contributions restricted for long-term purposes	(181,381)	(927,819)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(675,130)	(60,240)
Pledges receivable	(1,804)	(67,112)
Other assets	3,000	-
Other receivables	8,479	14,367
Prepaid expenses	(2,334)	(12,461)
Inventory	(3,676)	1,665
Accounts payable	103,619	33,193
Subrecipient grants payable	3,083	1,183
Accrued payroll and vacation	3,530	(72,299)
Due to related parties	749	(2,974)
Other accrued liabilities	118,833	(80,345)
Security deposit liabilities	(1,153)	135
<i>Net cash provided by operating activities</i>	251,348	32,009
Cash flows from investing activities:		
Decrease (increase) in cash restricted for property and equipment	293,279	(293,279)
Distributions from marketable securities	12,454	11,777
Purchases of marketable securities	(7,551)	(3,043)
Purchases of property and equipment	(921,643)	(200,234)
<i>Net cash used in investing activities</i>	(623,461)	(484,779)
Cash flows from financing activities:		
Repayment of cash overdraft	-	(118,093)
Payments on notes payable	(31,518)	(40,284)
Proceeds from line of credit	639,739	560,000
Payments on line of credit	(639,739)	(560,000)
Collections of contributions restricted for long-term purposes	352,625	953,181
<i>Net cash provided by financing activities</i>	321,107	794,804
<i>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</i>	(51,006)	342,034
Cash and cash equivalents at beginning of year	438,350	96,316
Cash and cash equivalents at end of year	\$ 387,344	\$ 438,350
Supplemental disclosures:		
Interest paid	\$ 25,045	\$ 29,339

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

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017
(See Independent Auditors' Report)

NOTE A – SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied by Southern Arizona AIDS Foundation (“SAAF”) in the preparation of its financial statements follows:

Organization and Business Activity

SAAF, a not-for-profit organization incorporated in the state of Arizona, was established to increase an awareness of the AIDS epidemic in Southern Arizona through education, as well as providing support for individuals with HIV/AIDS. Funding is received from a variety of sources, including federal, state and local government agencies, other not-for-profit organizations, private and corporate donors, fees for services and product sales. The programs of SAAF include:

Client Services: Care services ensure that people living with HIV/AIDS have access to services that they need to maintain optimal health and live as independently and safely as possible. Care services are grouped into three areas: Clinical Services, Support Services, and Housing Services.

Prevention/Education: SAAF’s Prevention Department creates healthier communities through innovative education, training, and outreach services to reduce the transmission of HIV, hepatitis and sexually transmitted infections by using safe and supportive approaches through education targeted at both high-risk populations and the general public.

Volunteer Resources: Volunteers are given training, continuing education, and staff support to acquire the skills needed to take on these important roles throughout the organization.

Stephenson Place, Inc. (“Stephenson Place”) is a not-for-profit organization incorporated in the state of Arizona. Stephenson Place is operated under Section 811 of the National Affordable Housing Act and regulated by the U.S. Department Housing and Urban Development (“HUD”), with respect to rental charges and operating methods. SAAF has controlling authority over Stephenson Place through board appointments and common management, and accordingly, the financial statements of both organizations (collectively the “Organization”) have been consolidated.

The Organization’s Board of Directors established SAAF, LLC (the “LLC”), an Arizona limited liability company, that is wholly owned by SAAF. The LLC was formed to hold a donated timeshare, which is included in “other assets” on the consolidated statements of financial position.

Principles of Consolidation

The consolidated financial statements include the accounts of SAAF, Stephenson Place, and the LLC. All significant inter-organization accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“GAAP”) that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the notes are to the FASB Accounting Standards Codification (“ASC”).

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2018 and 2017
(See Independent Auditors' Report)

NOTE A – SUMMARY OF ACCOUNTING POLICIES (*continued*)

Basis of Presentation (*continued*)

The Organization's financial statements have been prepared in accordance with FASB ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- *Temporarily Restricted* – Net assets that represent resources restricted by the donor with the restriction being either time or purpose oriented.
- *Permanently Restricted* – Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return on these assets on continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as restriction releases between the applicable classes of net assets. Contributions and investment revenues that are received with donor-imposed restrictions that are expended in the same period as the revenue is recognized are classified as unrestricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term investments with an original purchased maturity of three months or less. Cash that is donor restricted for long-term purposes has been included in the accompanying financial statements under the caption cash restricted for property and equipment and is not included in cash and cash equivalents.

The Organization places its cash and cash equivalents with various credit institutions. At times, such investments may be in excess of the FDIC insurance limits; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Contributions and Pledges

Contributions are recognized as revenue when a donor makes an unconditional promise to give to the Organization. The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or specific purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2018 and 2017
(See Independent Auditors' Report)

NOTE A – SUMMARY OF ACCOUNTING POLICIES (*continued*)

Contributions and Pledges (*continued*)

SAAF's policy is to consider discounting pledges that are greater than three years and larger than or equal to \$5,000. When the actual payment stream on pledges receivable does not match management's estimate, management's policy is to treat the remaining pledge receivable as receivable on an equal pro rata basis over the remaining term of the pledge.

Inventories

Inventory is valued at the lower of cost (first-in first-out method) or market. Inventories for the Organization consist of Buyers Club merchandise held for resale.

Investment Valuation and Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment expenses are recorded as a reduction in investment earnings.

GAAP establishes the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

- | | |
|----------------|--|
| <i>Level 1</i> | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
| <i>Level 2</i> | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the assets or liabilities;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. |
| <i>Level 3</i> | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organizations investments are summarized in Note E. The Organization's other investments include an interest in a limited partnership, which is carried at fair market value. The Organization cannot obtain the underlying assets until the partnership dissolves. The Organization's interest in the partnership has been classified in the accompanying financial statements as temporarily restricted net assets due to the time restriction on the use of the funds.

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2018 and 2017
(See Independent Auditors' Report)

NOTE A – SUMMARY OF ACCOUNTING POLICIES (*continued*)

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Buildings & improvements	5 – 40
Furniture & fixtures	3 – 10
Equipment	3 – 10
Vehicles	5
Computer software	3 – 5

SAAF capitalizes purchased property and equipment in excess of \$1,000 with a useful life of more than one year. Stephenson Place capitalizes purchased property and equipment costing more than \$500 with a useful life of more than one year. Donated fixed assets are recorded at their fair value at the date of the gift. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the respective accounts, and any resulting gain or loss is recognized.

Cash Restricted for Property and Equipment

Cash restricted for property and equipment includes cash with donor-imposed restrictions limiting its use for long-term investment in property and equipment.

Vacation Pay

Vacation pay is accrued as a liability when earned by the employees who receive vested rights to this employee benefit.

Accounts Payable

Accounts payable includes the accrual of invoices for goods and services received prior to year-end. Additionally, SAAF records medical and dental expenses of its clients that are subject to reimbursement based upon when the service is received. SAAF has a 60 day cut-off period where they closely evaluate invoices received and dates of services performed to determine if the invoices should be accrued as expense and corresponding revenue.

Functional Expenses

The costs of providing the various program services and supporting activities of the Organization have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited.

Donated Goods, Facilities and Services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value when the services received require specialized skill and the services are provided by individuals possessing those skills, and would typically be purchased if not provided by donation.

SOUTHERN ARIZONA AIDS FOUNDATION AND AFFILIATES
(a not-for-profit organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2018 and 2017
(See Independent Auditors' Report)

NOTE A – SUMMARY OF ACCOUNTING POLICIES *(continued)*

Donated Goods, Facilities and Services *(continued)*

Although the Organization utilizes the services of many outside volunteers, the fair value of these services has not been recognized in the accompanying financial statements since they do not meet the criteria for the recognition under generally accepted accounting principles.

Advertising

The Organization expenses all advertising costs as incurred. Advertising expense for the years ended June 30, 2018 and 2017 were \$23,877 and \$41,267, respectively.

Use of Estimates

The preparation of consolidated 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.

Income Tax Status

SAAF and Stephenson Place are separately exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to SAAF's and Stephenson Place's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, SAAF and Stephenson Place qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have both been classified as organizations other than private foundations under Section 509(a)(2). The LLC, as a single member LLC, is a disregarded entity for tax purposes. Accordingly, no separate provision for income tax has been made in these financial statements.

Accounting principles generally accepted in the United States of America clarify the accounting for uncertainty in income taxes by creating a framework to recognize, measure, present, and disclose in financial statements uncertain tax positions that have been taken or expect to be taken in a tax return. The Organization's management believes there is no material possible existence of uncertain tax positions for which it is reasonably possible that reported total amounts could significantly differ from amounts that may be determined upon examination by taxing authorities. The Organization is no longer subject to federal tax examinations for years before 2014 and state tax examinations for years before 2013, unless specific conditions are met.

Reclassifications

Certain accounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications have no effect on previously reported net assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

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NOTE B – GRANTS AND CONTRACTS RECEIVABLE

The Organization bills for program services rendered under various grants and contracts in accordance with the contract terms. Most billing is rendered monthly, but some is rendered quarterly. Management believes that all receivables are collectible and, accordingly, has recorded no allowance for uncollectable grants and contracts receivable at June 30, 2018 and 2017.

At June 30, 2018, the following amounts were billed under various grants and contracts and paid by the various grantor entities in fiscal year 2019:

Contract billings to federal programs	\$ 2,087,238
Contract billings to county programs	<u>159,961</u>
<i>Total grants and contracts receivable</i>	<u>\$ 2,247,199</u>

At June 30, 2017, the following amounts were billed under various grants and contracts and paid by the various grantor entities in fiscal year 2018:

Contract billings to federal programs	\$ 1,516,739
Contract billings to county programs	<u>55,330</u>
<i>Total grants and contracts receivable</i>	<u>\$ 1,572,069</u>

NOTE C – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 and 2017 consisted of unconditional promises to give in the amounts of \$159,388 and \$328,828, respectively. Of the pledges receivable in 2018 and 2017, \$110,520 and \$281,763 is reported as long-term pledges, net of an associated discount to present value of \$0 and \$8,896, computed using a rate of 6.2%. Long-term pledges includes pledges currently due that are restricted to be used for the acquisition of long-term assets. Management believes all pledges receivable are fully collectible, and, accordingly, has recorded no allowance for uncollectible pledges at June 30, 2018 and 2017. All long term-pledges receivable are expected to be collected within one year.

NOTE D – BEQUEST RECEIVABLE

During the year ended June 30, 2014, SAAF became the beneficiary of a donor bequest. The estate has not been fully liquidated. SAAF has received \$150,000 in payments from the estate as of June 30, 2018. Based on correspondence from the trustee, management estimates the amount that remains receivable as of June 30, 2018 to be \$50,000, and has included this amount in other receivables.

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NOTE E – MARKETABLE SECURITIES

The following table sets forth by level within the fair value hierarchy, and by class of investment, the Organization's assets at fair value as of June 30, 2018 and 2017:

Marketable securities at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
Value funds	\$ 112,699	\$ -	\$ -	\$ 112,699
Common stock	175,757	-	-	175,757
Money market	164,623	-	-	164,623
Fixed annuity	11,270	-	-	11,270
Real estate funds	5,171	-	-	5,171
Partnership interests	-	-	38,666	38,666
Total marketable securities	\$ 469,520	\$ -	\$ 38,665	\$ 508,186

Marketable securities at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
Value funds	\$ 123,959	\$ -	\$ -	\$ 123,959
Common stock	142,371	-	-	142,371
Money market	6,162	-	-	6,162
Fixed annuity	11,159	-	-	11,159
Real estate funds	157,387	-	-	157,387
Partnership interests	-	-	34,637	34,637
Total marketable securities	\$ 441,038	\$ -	\$ 34,637	\$ 475,675

Fair values of assets measured on a recurring basis for the year ended June 30, 2018 using significant unobservable inputs (Level 3) consisted of the following:

	Beginning balance	Contributions	Distributions	Change in value	Ending balance
Partnership interests	\$ 34,637	\$ -	\$ -	\$ 4,029	\$ 38,666

Fair values of assets measured on a recurring basis for the year ended June 30, 2017 using significant unobservable inputs (Level 3) consisted of the following:

	Beginning balance	Contributions	Distributions	Change in value	Ending balance
Partnership interests	\$ 47,142	\$ -	\$ (11,776)	\$ (729)	\$ 34,637

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NOTE E – MARKETABLE SECURITIES *(continued)*

Investment income consisted of the following for the years ended June 30:

	2018	2017
Interest and dividends	\$ 7,586	\$ 2,958
Unrealized losses/gains	33,385	15,490
Change in value of partnership interest	4,029	(729)
<i>Total investment income</i>	\$ 45,000	\$ 17,719

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018:

	SAAF	Stephenson Place	Total
Land	\$ 513,074	\$ 120,000	\$ 633,074
Buildings & improvements	4,691,182	1,660,256	6,351,438
Furniture & fixtures	115,797	17,221	133,018
Equipment	65,180	45,007	110,187
Vehicles	8,278	-	8,278
Computer software	168,586	8,146	176,732
	5,562,097	1,850,630	7,412,727
Less accumulated depreciation	(2,018,621)	(941,888)	(2,960,509)
<i>Total property and equipment, net</i>	\$ 3,543,476	\$ 908,742	\$ 4,452,218

Property and equipment consisted of the following at June 30, 2017:

	SAAF	Stephenson Place	Total
Land	\$ 513,074	\$ 120,000	\$ 633,074
Buildings & improvements	3,883,720	1,656,926	5,540,646
Furniture & fixtures	60,131	17,221	77,352
Equipment	68,303	44,492	112,795
Vehicles	8,278	-	8,278
Computer software	136,812	8,146	144,958
	4,670,318	1,846,785	6,517,103
Less accumulated depreciation	(1,872,103)	(890,337)	(2,762,440)
<i>Total property and equipment, net</i>	\$ 2,798,215	\$ 956,448	\$ 3,754,663

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NOTE G – NOTES PAYABLE

Notes payable debt consists of the following as of June 30:

	2018	2017
Note payable to Wells Fargo Bank of Arizona, NA, effective April 2003, due in 180 monthly installments of \$1,248, including interest at 7% per annum, maturing April 2018, collateralized by a deed of trust in real property (Rillito) and by a security interest and lien upon all bank accounts and other assets in possession of or in deposit (currently and in the future) with lender or any of its affiliates.	\$ -	\$ 11,578
Note payable to Wells Fargo Bank of Arizona, NA, effective January 2003, due in 180 monthly installments of \$1,463, including interest at 7.17% per annum, maturing January 2018, collateralized by a deed of trust in real property (Glenn) and by a security interest and lien upon all bank accounts and other assets in possession of or in deposit (currently and in the future) with lender or any of its affiliates.	-	8,057
Note payable to Margaret E. Mooney Foundation, an Arizona corporation, effective December 2012, due in 4 annual installments of \$14,655, including interest at 6% per annum, with all unpaid principal and interest due December 2017, collateralized by a deed of trust in real property (South Park). During the year ended June 30, 2018, \$1,478 in interest and \$24,636 in principal was forgiven by the debtor as a charitable gift.	-	24,636
Note payable to Stan S. Katz, effective June 30, 2016, due in 36 monthly installments of \$2,752, including interest at 5.50% per annum, maturing July 31, 2019, on which the unpaid balance of said principal sum, together with interest due thereon shall become due and payable in full, collateralized by a deed of trust in real property (4 th Avenue).	377,781	389,664
Note payable to the City of Tucson, an Arizona municipal corporation, effective December 2011, due in 20 annual installments, beginning in 2019, of \$15,101, including interest at a one-time 2% simple fee, maturing December 2039, collateralized by a deed of trust in real property (Glenn) and a security interest in rents and profits of the property. The City and SAAF periodically review this note and, if permissible under the HOME Investment Partnership Program, will release and forgive the note based on the amount of funds obtained and used to improve the property.	296,100	296,100
Total notes payable	673,881	730,035
Less current portion of notes payable	(27,359)	(56,154)
Long-term portion of notes payable	\$ 646,522	\$ 673,881

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NOTE G – NOTE PAYABLE *(continued)*

The carrying value of assets pledged as collateral on notes payable is as follows:

Collateral	2018	2017
Glenn Street property	\$ 432,325	\$ 385,564
TLC/4 th Avenue	1,367,100	674,364

The scheduled maturities of notes payable at June 30, 2018 are as follows:

Year ending June 30,	Principal payments
2019	\$ 27,359
2020	380,032
2021	14,805
2022	14,805
2023	14,805
Thereafter	222,075
<i>Total</i>	\$ 673,881

NOTE H – LINE OF CREDIT

SAAF has a \$250,000 revolving line of credit with JPMorgan Chase Bank, with zero outstanding as of June 30, 2018 and 2017, respectively. Interest accrues at a variable rate of the Prime Rate plus 2.8% (Prime Rate at June 30, 2018 was 4.25%). The greater of accrued interest and fees on any outstanding balance or \$100 is due monthly. The line is available until the Organization receives written notice from the bank that no further advances are available, or until the Final Availability Date. After the Final Availability Date, monthly payments of the greater of accrued interest and 1/60th of the unpaid principal balance or \$250 are due. The line of credit is collateralized by a deed of trust on real property (Euclid) with a carrying value of \$571,869 and \$608,459 as of June 30, 2018 and 2017, respectively.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

	2018	2017
Community Resources	\$ 115,026	\$ 58,853
Prevention and Outreach	114,847	89,338
Complementary Therapies	45,661	28,289
Future Operations and Events	40,408	38,254
Client Services	37,009	50,467
Food Programs	24,702	29,618
Building and Facilities	13,511	575,042
<i>Total temporarily restricted net assets</i>	\$ 391,164	\$ 869,861

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NOTE J – IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following at June 30:

	2018	2017
Direct assistance to individuals	\$ 53,270	\$ 30,134
Advertising	6,369	5,057
Special events non-direct donor benefit	98,641	122,896
<i>Total in-kind contributions</i>	\$ 158,280	\$ 158,087

NOTE K – OPERATING LEASES

SAAF leases equipment under four non-cancelable operating leases with monthly payments of \$1,047, \$377 and \$720, and quarterly payments of \$219, respectively. The leases expire in December 2020. Equipment rent expense for the years ended June 30, 2018 and 2017 was \$23,211 and \$17,821, respectively.

SAAF leases office and other spaces under three non-cancelable operating leases with monthly payments of \$4,462, \$400, and \$1,039. The leases expire in October 2019. Space rent expense for the years ended June 30, 2018 and 2017 was \$71,331 and \$45,542, respectively.

Minimum future lease payments under existing leases for the remaining terms in excess of one year are as follows:

<u>Year ending</u> <u>June 30,</u>	
2019	\$ 85,038
2020	27,358
2021	2,262
<i>Total future minimum lease payments</i>	\$ 114,658

SAAF rents facilities to very low income disabled tenants. These leases are generally limited to one year terms, are supported by government subsidies and subject to adjustments based on tenant circumstances, and are cancelable by the tenant without penalty. Accordingly, no minimum future rents receivable are presented.

NOTE L – CONTINGENCIES

Grant Liens

SAAF received a \$292,300 grant from the Arizona Department of Housing for the purchase and renovation of the Palo Verde property. The grant agreement contains a fifteen year restriction and is subject to repayment upon the sale or other breach of the use restrictions, which expire August 2018. In addition, SAAF received \$240,000 from the U.S. Department of Housing and Urban Development for the purchase and renovation of the Palo Verde property. The grant contains a twenty year requirement to file an annual certification of the continued use for supportive housing. Failure to meet the use requirement could result in repayment of the grant. The use restriction expires August 2023. Both grants have required that a deed restriction be filed on the Palo Verde property.

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NOTE L – CONTINGENCIES (*continued*)

Federal and State Awards

SAAF and Stephenson Place participate in a number of Federal and State assisted grant and contract programs, and a significant reduction in this level of support, if it were to occur, would have a material effect on the programs and activities of SAAF and Stephenson Place. The governmental agency funding is also subject to compliance audits. Assessments from these audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

Stephenson Place's primary asset is the Stephenson Place apartment project. Stephenson Place's operations are concentrated in the multifamily real estate market. In addition, they operate in a heavily regulated environment. The operations of Stephenson Place are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with such a change.

The Section 811 HUD program provided a capital advance of \$1,510,700 to Stephenson Place. The capital advance bears no interest and need not be repaid so long as the housing remains available for very low income disabled persons for at least 40 years or, until 2037.

Contribution from Community Foundation of Southern Arizona

During December 2016, the Organization was notified that \$150,000 was placed in a donor advised fund through the Community Foundation of Southern Arizona ("CFSA"). A donor recommendation has been made to the CFSA to pay out these funds to SAAF on or before December 31, 2019. Although the Organization anticipates being the beneficiary of this contribution, this amount represents a contribution to the CFSA, who has ultimate authority over the distribution of these funds. Accordingly, no receivable has been recorded.

NOTE M – SUBSEQUENT EVENTS

Accounting principles generally accepted in the United States of America require the disclosure of the date through which subsequent events were evaluated when determining whether adjustment to or disclosure in the financial statements is required. However, the guidance does not change the definition of a subsequent event (i.e. an event or transaction that occurs after the balance sheet date but before the financial statements are issued). The Organization evaluated subsequent events through March 29, 2019 which represents the date the financial statements were available to be issued.