

**SOUTHERN ARIZONA AIDS FOUNDATION
AND AFFILIATES**
(a not-for-profit organization)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
Years ended June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its 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 30, 2018 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

A Professional Corporation

Tucson, Arizona
March 30, 2018

Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30,

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$ 438,350	\$ 96,316
Grants and contracts receivable	1,572,069	1,511,829
Pledges receivable, net of discount	165,449	151,932
Other receivables	70,012	84,379
Marketable securities, at fair value	475,675	469,648
Prepaid expenses	263,194	250,733
Inventory	9,279	10,944
Total current assets	2,994,028	2,575,781
LONG-TERM ASSETS:		
Cash restricted for property and equipment	293,279	-
Pledges receivable, net of discount and current portion	163,379	135,146
Other assets	9,500	9,500
Property and equipment, net of accumulated depreciation of \$2,762,440 and \$2,567,439, respectively	3,754,663	3,754,380
Total long-term assets	4,220,821	3,899,026
TOTAL ASSETS	\$ 7,214,849	\$ 6,474,807
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Cash overdraft	\$ -	\$ 118,093
Accounts payable	332,265	299,072
Subrecipient grants payable	5,813	4,630
Accrued payroll and vacation	144,574	216,873
Due to related parties	4,802	7,776
Other accrued liabilities	11,454	91,799
Current portion of long-term notes payable	56,154	63,293
Security deposit liabilities	12,242	12,107
Total current liabilities	567,304	813,643
LONG-TERM LIABILITIES:		
Long-term notes payable, less current portion	673,881	730,267
Total liabilities	1,241,185	1,543,910
NET ASSETS:		
Unrestricted:		
Available for operations	2,079,175	1,515,811
Expended on property and equipment	3,024,628	2,960,820
Total unrestricted	5,103,803	4,476,631
Temporarily restricted	869,861	454,266
Total net assets	5,973,664	4,930,897
TOTAL LIABILITIES AND NET ASSETS	\$ 7,214,849	\$ 6,474,807

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

	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
Buyer's 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	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
	CHANGE IN NET ASSETS	415,595	1,042,767
	NET ASSETS, BEGINNING OF YEAR	454,266	4,930,897
	NET ASSETS, END OF YEAR	\$ 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 ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Government contracts and grants	\$ 7,320,988	\$ -	\$ 7,320,988
Contributions and other grants	850,815	673,521	1,524,336
Buyer's club	70,063	-	70,063
Investment income	(2,091)	30,623	28,532
Rent income	417,406	-	417,406
Special events, net of \$38,006 direct donor benefit costs	220,133	-	220,133
In-kind contributions	228,433	-	228,433
Debt forgiveness	26,114	-	26,114
Other	17,042	-	17,042
Net assets released from restrictions	668,093	(668,093)	-
Total revenues	9,816,996	36,051	9,853,047
EXPENSES:			
Program services	7,674,113	-	7,674,113
Management and general	720,306	-	720,306
Fundraising	654,156	-	654,156
Total expenses	9,048,575	-	9,048,575
CHANGE IN NET ASSETS	768,421	36,051	804,472
NET ASSETS, BEGINNING OF YEAR	3,708,210	418,215	4,126,425
NET ASSETS, END OF YEAR	\$ 4,476,631	\$ 454,266	\$ 4,930,897

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

	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	-	-	-	-	-	-	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 STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016

	Program Services							Total
	Client services	Stephenson Place	Prevention/ education	Volunteer resources	Total program services	Management and general	Fundraising	
Salaries	\$ 1,209,282	\$ -	\$ 582,232	\$ 23,737	\$ 1,815,251	\$ 370,885	\$ 207,284	\$ 2,393,420
Payroll taxes and benefits	339,495	-	166,222	8,561	514,278	87,117	52,467	653,862
	1,548,777	-	748,454	32,298	2,329,529	458,002	259,751	3,047,282
Bad debt	-	5,915	-	-	5,915	-	-	5,915
Capital budget	-	-	-	-	-	-	-	-
Computer equipment and software	36,973	169	12,410	280	49,832	4,510	6,723	61,065
Contracted services	8,060	12,823	62,235	-	83,118	680	25,519	109,317
Cost of merchandise sold	63,064	-	-	-	63,064	-	-	63,064
Depreciation	81,344	51,103	19,426	574	152,447	26,401	3,989	182,837
Direct assistance to individuals	4,311,533	-	133,905	250	4,445,688	17,562	6,832	4,470,082
Direct donor benefit costs	-	-	-	-	-	-	38,006	38,006
Dues, subscriptions and fees	4,522	14	-	-	4,536	6,731	9,641	20,908
In-kind	-	-	-	-	-	-	228,443	228,443
Insurance	-	12,844	3,777	2,631	19,252	48,085	1,140	68,477
Interest	4,845	-	-	-	4,845	17,517	-	22,362
Occupancy	180,231	127,818	11,664	568	320,281	37,610	4,644	362,535
Office supplies	11,620	152	6,941	217	18,930	10,948	1,744	31,622
Other	7,820	-	2,862	2,448	13,130	29,590	20,837	63,557
Postage	11,559	-	4,677	504	16,740	2,426	8,325	27,491
Printing and newsletters	6,190	-	3,100	153	9,443	9,334	65,115	83,892
Professional fees	-	10,748	-	-	10,748	38,285	-	49,033
Telephone	21,278	1,533	8,447	277	31,535	8,199	2,618	42,352
Travel and staff development	46,766	4,571	39,505	6	90,848	4,426	6,395	101,669
Volunteer support	-	-	-	4,232	4,232	-	2,440	6,672
Total functional expenses	6,344,582	227,690	1,057,403	44,438	7,674,113	720,306	692,162	9,086,581
Less direct donor benefit costs netted against revenue	-	-	-	-	-	-	(38,006)	(38,006)
Total expenses	\$ 6,344,582	\$ 227,690	\$ 1,057,403	\$ 44,438	\$ 7,674,113	\$ 720,306	\$ 654,156	\$ 9,048,575

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,

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,042,767	\$ 804,472
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (loss) gain on investments	(15,490)	9,229
Change in value of partnership	729	(31,331)
Depreciation	199,951	182,837
Debt forgiveness, net of accrued interest	(23,241)	(21,925)
Loss on sale of equipment	-	556
Contributions restricted for long-term purposes	(927,819)	(416,000)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(60,240)	(438,149)
Pledges receivable	(67,112)	37,906
Other receivables	14,367	100,141
Prepaid expenses	(12,461)	(184,020)
Inventory	1,665	2,328
Accounts payable	33,193	(38,657)
Subrecipient grants payable	1,183	(658)
Accrued payroll and vacation	(72,299)	32,216
Due to related parties	(2,974)	7,776
Other accrued liabilities	(80,345)	52,717
Security deposit liabilities	135	1,941
<i>Net cash provided by operating activities</i>	32,009	101,379
Cash flows from investing activities:		
Increase in cash restricted for property and equipment	(293,279)	-
Distributions from partnership	11,777	9,844
Purchases of marketable securities	(3,043)	(85,386)
Purchases of property and equipment	(200,234)	(265,541)
<i>Net cash used in investing activities</i>	(484,779)	(341,083)
Cash flows from financing activities:		
Cash overdraft	(118,093)	118,093
Payments on notes payable	(40,284)	(27,868)
Proceeds from line of credit	560,000	-
Payments on line of credit	(560,000)	(145,000)
Collections of contributions restricted for long-term purposes	953,181	150,700
<i>Net cash provided by financing activities</i>	794,804	95,925
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	342,034	(143,779)
Cash and cash equivalents at beginning of year	96,316	240,095
Cash and cash equivalents at end of year	\$ 438,350	\$ 96,316
Supplemental disclosures:		
Interest paid	\$ 29,339	\$ 22,362

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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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 Buyer's 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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016 were \$41,267 and \$25,981, 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 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 2013 and state tax examinations for years before 2012, 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.

**Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

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, 2017 and 2016.

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>

At June 30, 2016, the following amounts were billed under various grants and contracts and paid by the various grantor entities in fiscal year 2017:

Contract billings to federal programs	\$ 1,476,177
Contract billings to county programs	<u>35,652</u>
<i>Total grants and contracts receivable</i>	<u>\$ 1,511,829</u>

NOTE C – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 and 2016 consisted of unconditional promises to give in the amounts of \$328,828 and \$287,078, respectively. Of the pledges receivable in 2017 and 2016, \$172,275 and \$157,000 is reported as long-term pledges, net of an associated discount to present value of \$8,896 and \$21,854, computed using a rate of 6.2%. Management believes all pledges receivable are fully collectible, and, accordingly, has recorded no allowance for uncollectible pledges at June 30, 2017 and 2016. All long term-pledges receivable are expected to be collected within two years.

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, 2017. Based on correspondence from the trustee, management estimates the amount that remains receivable as of June 30, 2017 to be \$50,000, and has included this amount in other receivables.

Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

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, 2017 and 2016:

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

Marketable securities at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
Value funds	\$ 122,365	\$ -	\$ -	\$ 122,365
Common stock	139,942	-	-	139,942
Money market	6,013	-	-	6,013
Real estate funds	154,186	-	-	154,186
Partnership interests	-	-	47,142	47,142
Total marketable securities	\$ 422,506	\$ -	\$ 47,142	\$ 469,648

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
	<u>\$ 47,142</u>	<u>\$ -</u>	<u>\$ (11,776)</u>	<u>\$ (729)</u>	<u>\$ 34,637</u>

Fair values of assets measured on a recurring basis for the year ended June 30, 2016 using significant unobservable inputs (Level 3) consisted of the following:

	Beginning balance	Contributions	Distributions	Change in value	Ending balance
Partnership interests	\$ 25,655	\$ -	\$ (9,844)	\$ 31,331	\$ 47,142
	<u>\$ 25,655</u>	<u>\$ -</u>	<u>\$ (9,844)</u>	<u>\$ 31,331</u>	<u>\$ 47,142</u>

**Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

NOTE E – MARKETABLE SECURITIES *(continued)*

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

	2017	2016
Interest and dividends	\$ 2,958	\$ 6,430
Unrealized losses/gains	15,490	(9,229)
Change in value of partnership interest	(729)	31,331
<i>Total investment income</i>	\$ 17,719	\$ 28,532

NOTE F – PROPERTY AND EQUIPMENT

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

Property and equipment consisted of the following at June 30, 2016:

	SAAF	Stephenson Place	Total
Land	\$ 513,074	\$ 120,000	\$ 633,074
Buildings & improvements	3,781,747	1,631,202	5,412,949
Furniture & fixtures	37,472	17,221	54,693
Equipment	35,226	44,492	79,718
Vehicles	8,278	-	8,278
Computer software	124,961	8,146	133,107
	4,500,758	1,821,061	6,321,819
Less accumulated depreciation	(1,729,338)	(838,101)	(2,567,439)
<i>Total property and equipment, net</i>	\$ 2,771,420	\$ 982,960	\$ 3,754,380

**Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

NOTE G – NOTES PAYABLE

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

	2017	2016
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	\$ 25,205
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	24,379
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, 2017, \$2,873 in interest and \$23,241 in principal was forgiven by the debtor as a charitable gift.	24,636	47,876
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).	389,664	400,000
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	730,035	793,560
Less current portion of notes payable	(56,154)	(63,293)
Long-term portion of notes payable	\$ 673,881	\$ 730,267

**Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

NOTE G – NOTE PAYABLE (*continued*)

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

Collateral	2017	2016
Rillito Street property	\$ 181,988	\$ 182,625
Glenn Street property	385,564	393,519
South Park Avenue property	239,966	210,625
4 th Avenue	674,364	636,355

The scheduled maturities of notes payable at June 30, 2017 are as follows:

Year ending June 30,	Principal payments
2018	\$ 56,154
2019	27,359
2020	380,032
2021	14,805
2022	14,805
Thereafter	236,880
Total	\$ 730,035

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, 2017 and 2016, respectively. Interest accrues at a variable rate of the Prime Rate plus 2.8% (Prime Rate at June 30, 2017 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 \$608,459 and \$670,678 as of June 30, 2017 and 2016, respectively.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Building and Facilities	\$ 575,042	\$ 41,685
Prevention and Outreach	89,338	65,763
Community Resources	58,853	64,004
Client Services	50,467	47,749
Future Operations and Events	38,254	51,174
Complementary Therapies	28,289	25,515
Food Programs	29,618	23,230
Pledges Receivable	-	135,146
Total temporarily restricted net assets	\$ 869,861	\$ 454,266

**Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

NOTE J – IN-KIND CONTRIBUTIONS

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

	2017	2016
Direct assistance to individuals	\$ 30,134	\$ 43,690
Advertising	5,057	23,480
Special events non-direct donor benefit	122,896	161,263
<i>Total in-kind contributions</i>	\$ 158,087	\$ 228,433

NOTE K – OPERATING LEASES

SAAF leases equipment under three non-cancelable operating leases with monthly payments of \$1,047 and \$720, and quarterly payments of \$219, respectively. The leases expire through October 2019. Equipment rent expense for the years ended June 30, 2017 and 2016 was \$17,821 and \$20,646, respectively.

SAAF leases office and other spaces under three non-cancelable operating leases with monthly payments of \$480, \$4,270, and \$400. The leases expire through October 2019. Space rent expense for the years ended June 30, 2017 and 2016 was \$45,542 and \$1,920, respectively.

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

<u>Year ending June 30,</u>	
2018	\$ 75,807
2019	68,360
2020	22,834
<i>Total future minimum lease payments</i>	\$ 167,001

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.

**Southern Arizona AIDS Foundation and Affiliates
(a not-for-profit organization)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - *CONTINUED*

June 30, 2017 and 2016

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 30, 2018 which represents the date the financial statements were available to be issued.

SOUTHERN ARIZONA AIDS FOUNDATION
(a not-for-profit organization)
SINGLE AUDIT REPORT AND SCHEDULE
OF EXPENDITURES OF FEDERAL
AND OTHER GOVERNMENTAL AWARDS
Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Southern Arizona AIDS Foundation
Tucson, Arizona

We have audited, in accordance with the 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, the consolidated financial statements of Southern Arizona AIDS Foundation and its subsidiaries (a not-for-profit organization) (collectively the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance

with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R&A CPA's

A Professional Corporation

Tucson, Arizona
March 30, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Southern Arizona AIDS Foundation
Tucson, Arizona

Report on Compliance for Each Major Federal Program

We have audited Southern Arizona AIDS Foundation's (a not-for-profit organization) (collectively the "Organization") compliance with the types of compliance requirements described in the *OMB Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Southern Arizona AIDS Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing

our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Southern Arizona AIDS Foundation and its subsidiaries as of and for the year ended June 30, 2017, and have issued our report thereon dated March 30, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

R&A CPA

A Professional Corporation

Tucson, Arizona
March 30, 2018

**Southern Arizona AIDS Foundation
(a not-for-profit organization)**

June 30, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|---|------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified, which are not considered to be material weaknesses? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards Section

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified, which are not considered to be material weaknesses? | No |
| 2. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed, which are required to be reported in accordance with section 2 CFR 200.516(a)? | No |
| 4. Identification of major programs: | |

CFDA Number(s)	Name of Federal Program
14.241	Housing Opportunities for Persons with AIDS
93.917	HIV Care Formula Grants

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee? | Yes |

**Southern Arizona AIDS Foundation
(a not-for-profit organization)**

June 30, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

PART II – FINANCIAL STATEMENT AUDIT

This section identifies significant deficiencies, material weaknesses, and instances of fraud, illegal acts, violations of provision of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in the Uniform Guidance audit.

No findings were noted.

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance including questioned costs, as well as any abuse involving federal awards that are material to a major program.

No findings were noted.

PART IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

Southern Arizona AIDS Foundation
(a not-for-profit organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

Year Ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA number</u>	<u>Grantor/Pass-through grantor's number</u>	<u>Expenditures</u>		<u>Expenditures to subrecipients</u>
			<u>Federal</u>	<u>Other</u>	
<u>U.S. Department of Housing and Urban Development</u>					
<i>Passed through the City of Tucson:</i>					
Supportive Housing Program	14.225	18326	\$ 57,573		
Supportive Housing Program	14.225	18476	<u>17,660</u>		
Total CFDA 14.225			<u>75,233</u>		
<i>Direct:</i>					
Supportive Housing Program	14.235		93,419		
Supportive Housing Program	14.235		129,233		
Supportive Housing Program	14.235		38,768		
<i>Passed through Community Partnership of Southern Arizona:</i>					
Supportive Housing Program	14.235	SAAFPB13	329,924		
<i>Passed through the City of Tucson:</i>					
Supportive Housing Program	14.235	18329	186,487		
Supportive Housing Program	14.235	18508	<u>46,419</u>		
Total CFDA 14.235			<u>824,250</u>		
<i>Passed through the City of Tucson:</i>					
Housing Opportunities for Persons with AIDS	14.241	18165	19,130		
Housing Opportunities for Persons with AIDS	14.241	18294	396,224		
<i>Passed through Pima County Community Services:</i>					
Housing Opportunities for Persons with AIDS	14.241	CT-CD15*194	<u>522,868</u>		
Total CFDA 14.241			<u>938,222</u>		
<u>U.S. Department of Health and Human Services</u>					
<i>Passed through Arizona Department of Health Services:</i>					
Injury Prevention and Control Research and State and Community Based Programs	93.136	ADHS15-087981	<u>169,645</u>		
<i>Direct:</i>					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		313,000		\$ 90,318
<i>Passed through CODAC:</i>					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	MAI02	162,823		
<i>Passed through Southwest Institute for Research on Women:</i>					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	PO252051	59,798		
<i>Passed through Pima County Community College:</i>					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	MOU	<u>107,228</u>		
Total CFDA 14.243			<u>642,849</u>		<u>90,318</u>
<i>Passed through Pima Prevention Partnership:</i>					
Tobacco Cessation for Disparate Populations	93.305	77043-YFS/PPP SAAF	<u>31,693</u>		
<i>Passed through Pima County Community Services:</i>					
Community Services Block Grant	93.569	CT-CS-15*543	<u>29,281</u>		
<i>Passed through Arizona Department of Health Services:</i>					
HIV Care Formula Grants	93.917	ADHS12-029328	1,452,434		
HIV Care Formula Grants	93.917	ADHS13-050869	<u>4,536,824</u>		
Total CFDA 93.917			<u>5,989,258</u>		

Southern Arizona AIDS Foundation
(a not-for-profit organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

Year Ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA number</u>	<u>Grantor/Pass-through grantor's number</u>	<u>Expenditures</u>		<u>Expenditures to subrecipients</u>
			<u>Federal</u>	<u>Other</u>	
<u>U.S. Department of Health and Human Services (continued)</u>					
<i>Passed through Pima County Health Department</i>					
HIV Prevention Activities - Health Department Based	93.940	CT-HD-13*515	\$ 105,304		
<i>Passed through Cenpatico:</i>					
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	Prevention: HIV	31,489		
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	Prevention	130,039		
Total CFDA 93.959			<u>161,528</u>		
<u>U.S. Department of Justice</u>					
<i>Passed through Arizona Department of Public Safety</i>					
Crime Victim Assistance	16.575		59,536		
<i>Passed through Governor's Office</i>					
Violence Against Women Formula Grants	16.588		24,621		
<i>Direct:</i>					
Transitional Housing Assistance for Victims of Domestic Violence, Stalking, or Sexual Assault	16.736		189,221		\$ 9,053
<u>Other Governmental Awards</u>					
<i>Arizona Criminal Justice Commission</i>					
Victim Assistance Grant Funds	N/A	VA-16-091		\$ 19,791	
<i>Pima County:</i>					
Food, Nutrition, and Basic Needs Services for Low Income People Living with HIV/AIDS	N/A	CT-CD16*370		99,969	
ALLY Project	N/A	CT-CD16*370		37,901	
Eon Project	N/A	CT-CD16*370		24,886	
Anti Violence Project	N/A	CT-CD16*370		23,339	
			<u>\$ 9,240,641</u>	<u>\$ 205,886</u>	<u>\$ 99,371</u>

**Southern Arizona AIDS Foundation
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June 30, 2017

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Southern Arizona AIDS Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the audit requirement of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, basic financial statements.

2. 10% de Minimis Indirect Cost Rate

The Organization has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. Summary of Federal Expenditures by CFDA Number

The following table summarizes the federal expenditures reported in the schedule by CFDA number:

<u>CFDA Number:</u>	<u>Description:</u>	<u>Amount Expended:</u>
14.225	Supportive Housing Program	\$ 75,233
14.235	Supportive Housing Program	824,250
14.241	Housing Opportunities for Persons with AIDS	938,222
16.575	Crime Victim Assistance	59,536
16.588	Violence Against Women Formula Grants	24,621
16.736	Transitional Housing Assistance for Victims of Domestic Violence, Stalking, or Sexual Assault	189,221
93.136	Injury Prevention and Control Research and State and Community Based Programs	169,645
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	642,849
93.305	Tobacco Cessation for Disparate Populations	31,693
93.569	Community Services Block Grant	29,281
93.917	HIV Care Formula Grants	5,989,258
93.940	HIV Prevention Activities - Health Department Based	105,304
93.959	Block Grants for the Prevention and Treatment of Substance Abuse	161,528
	<i>Total</i>	<u><u>\$ 9,240,641</u></u>