SOUTHERN ARIZONA AIDS FOUNDATION
AND AFFILIATES
(a not-for-profit organization)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
Years ended June 30, 2019 and 2018

R&A CPAs
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, 2019 and 2018, 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.

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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, 2019 and 2018, 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 February 7, 2020 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 CPAs

A Professional Corporation

Tucson, Arizona
February 7, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,730,176	$ 554,904
Grants and contracts receivable	1,832,959	2,247,199
Pledges receivable, net of discount	84,822	48,868
Other receivables	31,924	61,533
Investments	312,158	340,626
Prepaid expenses	226,742	265,528
Inventory	12,388	12,955
Total current assets	4,231,169	3,531,613
LONG-TERM ASSETS:		
Pledges receivable, net of discount and current portion	-	110,520
Other assets	6,500	6,500
Property and equipment, net of accumulated depreciation of $3,211,490 and $2,960,509, respectively	4,245,885	4,452,218
Total long-term assets	4,252,385	4,569,238
TOTAL ASSETS	$ 8,483,554	$ 8,100,851
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 325,510	$ 435,884
Subrecipient grants payable	6,886	8,896
Accrued payroll and vacation	150,567	148,104
Due to related parties	2,951	5,551
Other accrued liabilities	98,986	130,287
Current portion of notes payable	380,032	27,359
Security deposit liabilities	9,513	11,089
Total current liabilities	974,445	767,170
LONG-TERM LIABILITIES:		
Notes payable, less current portion	266,490	646,522
Total liabilities	1,240,935	1,413,692
NET ASSETS:		
Net assets without donor restrictions	6,941,048	6,295,995
Net assets with donor restrictions	301,571	391,164
Total net assets	7,242,619	6,687,159
TOTAL LIABILITIES AND NET ASSETS	$ 8,483,554	$ 8,100,851

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, 2019
(See Independent Auditors' Report)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES:			
Government contracts and grants	$ 10,565,897	$ -	$ 10,565,897
Contributions and other grants	239,236	524,993	764,229
Buyers club	45,783	-	45,783
Investment income	(3,397)	4,922	1,525
Rent income	321,902	-	321,902
Special events, net of $24,589 direct donor benefit costs	213,816	-	213,816
In-kind contributions	82,731	-	82,731
Other	3,560	-	3,560
Net assets released from restrictions	619,508	(619,508)	-
Total revenues	12,089,036	(89,593)	11,999,443
EXPENSES:			
Program services	9,735,093	-	9,735,093
Management and general	1,080,123	-	1,080,123
Fundraising	628,767	-	628,767
Total expenses	11,443,983	-	11,443,983
CHANGE IN NET ASSETS	645,053	(89,593)	555,460
NET ASSETS, BEGINNING OF YEAR	6,295,995	391,164	6,687,159
NET ASSETS, END OF YEAR	$ 6,941,048	$ 301,571	$ 7,242,619

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)

	Without Donor Restrictions	With Donor Restrictions	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)	-
Total revenues	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
Total expenses	11,573,081	-	11,573,081
CHANGE IN NET ASSETS	1,192,192	(478,697)	713,495
NET ASSETS, BEGINNING OF YEAR	5,103,803	869,861	5,973,664
NET ASSETS, END OF YEAR	$ 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 FUNCTIONAL EXPENSES

Year ended June 30, 2019
(See Independent Auditors' Report)

	Program Services							
	Client services	Stephenson Place	Prevention/ education	Volunteer resources	Total program services	Management and general	Fundraising	Total
Salaries	$ 2,034,487	$ -	$ 706,208	$ 12,050	$ 2,752,745	$ 537,200	$ 285,340	$ 3,575,285
Payroll taxes and benefits	531,024	-	167,498	3,567	702,089	111,379	64,021	877,489
	2,565,511	-	873,706	15,617	3,454,834	648,579	349,361	4,452,774
Bad debt	-	11,351	-	-	11,351	-	-	11,351
Computer equipment and software	71,192	2,380	15,403	8	88,983	24,080	20,416	133,479
Contracted services	28,390	18,259	80,034	-	126,683	531	1,600	128,814
Cost of merchandise sold	36,481	-	-	-	36,481	-	-	36,481
Depreciation	113,956	50,184	57,062	710	221,912	47,129	6,055	275,096
Direct assistance to individuals	4,769,250	-	259,731	3,535	5,032,516	53,835	2,896	5,089,247
Direct donor benefit costs	-	-	-	-	-	-	24,589	24,589
Dues, subscriptions and fees	14,688	1,109	470	25	16,292	30,981	14,387	61,660
Events	-	-	469	25	494	1,160	9,085	10,739
In-kind contributions	-	-	-	-	-	-	82,731	82,731
Insurance	-	14,258	1,548	2,745	18,551	62,970	3,476	84,997
Interest	296	-	-	-	296	20,465	-	20,761
Occupancy	314,690	108,982	12,969	139	436,780	54,521	27,069	518,370
Office supplies	15,664	-	4,802	20	20,486	17,553	5,236	43,275
Other	1,455	644	39	-	2,138	21,931	-	24,069
Postage	6,144	-	1,830	8	7,982	7,585	1,806	17,373
Printing and newsletters	4,792	-	3,180	17	7,989	11,039	65,317	84,345
Professional fees	105	12,650	-	-	12,755	68,178	430	81,363
Telephone	27,553	365	8,155	58	36,131	3,347	10,460	49,938
Travel and staff development	107,687	806	93,946	-	202,439	6,239	28,442	237,120
Volunteer support	-	-	-	-	-	-		-
Total functional expenses	8,077,854	220,988	1,413,344	22,907	9,735,093	1,080,123	653,356	11,468,572
Less direct donor benefit costs netted against revenue	-	-	-	-	-	-	(24,589)	(24,589)
Total expenses	$ 8,077,854	$ 220,988	$ 1,413,344	$ 22,907	$ 9,735,093	$ 1,080,123	$ 628,767	$ 11,443,983

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							
	Client services	Stephenson Place	Prevention/ education	Volunteer resources	Total program services	Management and general	Fundraising	Total
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 STATEMENTS OF CASH FLOWS

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

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 555,460	$ 713,495
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (loss) gain on marketable securities	11,666	(33,385)
Change in value of partnership	(3,064)	(4,029)
Depreciation	275,096	224,088
Debt forgiveness, net of accrued interest	-	(24,636)
Loss on sale of equipment	23,549	-
Contributions restricted for long-term purposes	(288,710)	(181,381)
Changes in operating assets and liabilities:		
Grants and contracts receivable	414,240	(675,130)
Pledges receivable	13,648	(1,804)
Other assets	-	3,000
Other receivables	29,609	8,479
Prepaid expenses	38,786	(2,334)
Inventory	567	(3,676)
Accounts payable	(110,374)	103,619
Subrecipient grants payable	(2,010)	3,083
Accrued payroll and vacation	2,463	3,530
Due to related parties	(2,600)	749
Other accrued liabilities	(31,301)	118,833
Security deposit liabilities	(1,576)	(1,153)
Net cash provided by operating activities	925,449	251,348
Cash flows from investing activities:		
Decrease (increase) in cash restricted for property and equipment	-	293,279
Distributions from marketable securities	21,000	12,454
Purchases of marketable securities	(1,134)	(7,551)
Purchases of property and equipment	(92,312)	(921,643)
Net cash used in investing activities	(72,446)	(623,461)
Cash flows from financing activities:		
Payments on notes payable	(27,359)	(31,518)
Proceeds from line of credit	-	639,739
Payments on line of credit	-	(639,739)
Collections of contributions restricted for long-term purposes	349,628	352,625
Net cash provided by financing activities	322,269	321,107
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,175,272	(51,006)
Cash and cash equivalents at beginning of year	554,904	605,910
Cash and cash equivalents at end of year	$ 1,730,176	$ 554,904
Supplemental disclosures:		
Interest paid	$ 20,761	$ 25,045

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

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.

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

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").

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:

- *Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

- *With Donor Restrictions* – Net assets that represent resources restricted by the donor with the restriction being either time or purpose oriented.

All contributions are considered to be available for use unless specifically restricted by the donor. Contributions of long-lived assets not having a donor-imposed purpose or time restrictions are reported as without donor restrictions contributions in amounts equal to the fair value of the contributed assets.

Expenses are generally reported as decreases in 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 net assets without donor restrictions.

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

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.

Included in cash and cash equivalents are certain funds which that are restricted in use and not available for general use. The Organization holds funds in trust for security deposits as is obligated to maintain reserves for residual receipts and replacements as required by HUD. Restricted cash amounted to $107,025 and $86,237 as of June 30, 2019 and 2018, respectively.

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 the Organization 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.

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.

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

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:

Level 1 — 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.

Level 2 — Inputs to the valuation methodology include:

- 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.

Level 3 — 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.

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:

	Years
Buildings & improvements	5 – 40
Furniture & fixtures	3 – 10
Equipment	3 – 10
Vehicles	5
Computer software	3 – 5

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

Property and Equipment *(continued)*

SAAF capitalizes purchased property and equipment in excess of $5,000 with a useful life of more than one year. Stephenson Place capitalizes purchased property and equipment costing more than $1,000 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.

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.

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

Advertising

The Organization expenses all advertising costs as incurred. Advertising expense for the years ended June 30, 2019 and 2018 were $32,234 and $23,877, 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 2015 and state tax examinations for years before 2014, 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.

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, 2019 and 2018.

At June 30, 2019, the following amounts were billed under various grants and contracts and paid by the various grantor entities in fiscal year 2020:

Contract billings to federal programs	$ 1,718,081
Contract billings to county programs	114,878
Total grants and contracts receivable	$ 1,832,959

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	159,961
Total grants and contracts receivable	$ 2,247,199

NOTE C – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2019 and 2018 consisted of unconditional promises to give in the amounts of $84,822 and $159,388, respectively. Of the pledges receivable in 2019 and 2018, $0 and $110,520 is reported as long-term pledges, net of an associated discount to present value of $0 and $0, computed using a rate of 6.2%. Long-term pledges include 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, 2019 and 2018. 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 $100,000 in payments from the estate as of June 30, 2019. Based on correspondence from the trustee, management estimates the amount that remains receivable as of June 30, 2019 to be $4,000, and has included this amount in other receivables.

NOTE E – INVESTMENTS

The financial statement value and value and cost basis of investments as of June 30, 2019 and 2018 are summarized as follows:

	2019 Financial Statement Value	2019 Cost	2018 Financial Statement Value	2018 Cost
Investments:				
Marketable securities:				
Mutual funds	$ 112,798	$ 112,962	$ 112,699	$ 114,962
Common stock	167,241	128,914	177,992	128,914
Total marketable securities	280,039	241,876	290,691	243,876
Other investments:				
Fixed annuity	11,390	10,202	11,270	10,202
Partnership interests	20,729	20,729	38,665	38,665
Total other investments	32,119	30,931	49,935	48,867
Total investments	$ 312,158	$ 272,807	$ 340,626	$ 292,743

The Organization's policies with respect to valuing the various categories of investments as of June 30, 2019 and 2018 are as follows:

- Mutual funds are valued at the net asset value as reported by the fund manager at the close of business which is a readily determinable fair value in accordance with GAAP.
- Common stock is valued at the closing prices at the close of business as reported on nationally recognized stock exchanges which represents fair value.
- Fixed annuities are valued at contract value as reported by the issuing insurance company.
- Partnership interests are recorded at the Organization's capital account, which represents the net amount expected to be realized and approximates fair value.

The following table sets forth by level within the fair value hierarchy, and by class of investment, the Organization's assets that are carried at fair value as of June 30, 2019 and 2018:

Investments at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 112,798	$ -	$ -	$ 112,798
Common stock	167,241	-	-	167,241
Partnership interests	-	20,729	-	20,729
Total investments at fair value	$ 280,039	$ 20,729	$ -	$ 300,768

NOTE E – INVESTMENTS *(continued)*

Investments at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 112,699	$ -	$ -	$ 112,699
Common stock	177,992	-	-	177,992
Partnership interests	-	38,665	-	38,665
Total investments at fair value	$ 290,691	$ 38,665	$ -	$ 329,356

Fair values of assets measured on a recurring basis for the year ended June 30, 2019 using significant unobservable inputs (Level 3) consisted of the following:

	Beginning balance	Contributions	Distributions	Change in value	Ending balance
Partnership interests	$ 38,665	$ -	$ 21,000	$ 3,064	$ 20,729

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	$ -	$ -	$ 4,028	$ 38,665

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

	2019	2018
Interest and dividends	$ 10,127	$ 7,586
Unrealized (losses) gains	(11,666)	33,385
Change in value of partnership interest	3,064	4,029
Total investment income	$ 1,525	$ 45,000

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019:

	SAAF	Stephenson Place	Total
Land	$ 513,074	$ 120,000	$ 633,074
Buildings & improvements	4,709,068	1,633,742	6,342,810
Furniture & fixtures	155,434	17,221	172,655
Equipment	81,219	42,607	123,826
Vehicles	8,278	-	8,278
Computer software	168,586	8,146	176,732
	5,635,659	1,821,716	7,457,375
Less accumulated depreciation	(2,243,533)	(967,957)	(3,211,490)
Total property and equipment, net	$ 3,392,126	$ 853,759	$ 4,245,885

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)
Total property and equipment, net	$ 3,543,476	$ 908,742	$ 4,452,218

NOTE G – NOTES PAYABLE

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

	2019	2018
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 (4th Avenue). Subsequent to year end, the balance of their note was paid in full.	365,227	377,781
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.	281,295	296,100
Total notes payable	646,522	673,881
Less current portion of notes payable	(380,032)	(27,359)
Long-term portion of notes payable	$ 266,490	$ 646,522

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

Collateral	2019	2018
Glenn Street property	$ 407,020	$ 432,325
TLC/4th Avenue	1,262,613	1,367,100

The scheduled maturities of notes payable at June 30, 2019 are as follows:

Year ending June 30,	Principal payments
2020	$ 380,032
2021	14,805
2022	14,805
2023	14,805
2024	14,805
Thereafter	207,270
Total	$ 646,522

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, 2019 and 2018, respectively. Interest accrues at a variable rate of the Prime Rate plus 2.8% (Prime Rate at June 30, 2019 was 5.50%). 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 $526,903 and $571,689 as of June 30, 2019 and 2018, respectively.

NOTE I – DONOR RESTRICTED NET ASSETS

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

	2019	2018
Prevention and Outreach	$ 88,085	$ 114,847
Community Resources	70,123	115,026
Food Programs	45,311	24,702
Client Services	35,872	37,009
Complimentary Therapies	26,013	45,661
Future Operations and Events	22,152	40,408
Building and Facilities	14,015	13,511
Total donor restricted net assets	$ 301,571	$ 391,164

NOTE J – IN-KIND CONTRIBUTIONS

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

	2019	2018
Direct assistance to individuals	$ 20,322	$ 53,270
Advertising	5,050	6,369
Special events non-direct donor benefit	57,359	98,641
Total in-kind contributions	$ 82,731	$ 158,280

NOTE K – OPERATING LEASES

SAAF leases equipment under four non-cancelable operating leases with monthly payments of $1,047, $377, $29, and $1,540, respectively. The leases expire in October 2019, December 2020, February 2023, and September 2022, respectively. Equipment rent expense for the years ended June 30, 2019 and 2018 was $31,785 and $23,221, 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 2022, January 2020, and September 2020, respectively. Space rent expense for the years ended June 30, 2019 and 2018 was $72,416 and $71,331, respectively.

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

Year ending June 30,	
2020	$ 95,249
2021	83,021
2022	79,405
2023	25,068
Total future minimum lease payments	$ 282,743

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

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.

NOTE L – CONTINGENCIES *(continued)*

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 though 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 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets on a combined basis as of 6/30/2019	$ 3,992,039
Less those unavailable for general expenditures within one year, due to:	
Lease commitments	95,249
Current portion of long-term debt	380,032
Deposits held in trust	3,747
Reserves mandated by HUD	103,278
Subject to appropriation and satisfaction of donor restrictions	301,571
Total financial assets unavailable for general expenditures within one year	883,877
Financial assets available to meet cash needs for general expenditures within one year	$ 3,108,162

As part of the Organization's liquidity management, management implemented a policy to structure the Organization's financial assets to be available as its general expenditures, liabilities, and other obligations become due. Typically, the Organization maintains financial assets which consist of cash, money market funds, and marketable securities in sufficient amounts to meet 90 days of normal operating expenses, which average approximately $2,700,000. These short-term, liquid investments may be used to fulfill needs resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity needs, SAAF has a variety of options including staging additional fundraising events and borrowing funds using long-term assets as collateral.

NOTE N – 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 February 7, 2020 which represents the date the financial statements were available to be issued.

Effective on November 1, 2019 the Organization entered into a Confidential Severance Agreement and General Release (the Severance Agreement) with its former Executive Director. As mentioned in the Severance Agreement the Organization will pay a total of $225,131 in three installments through July 1, 2020.