

DESERT AIDS PROJECT, INC.
PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2018 AND 2017



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Desert AIDS Project, Inc.
Palm Springs, California

Report on the Financial Statements

We have audited the accompanying financial statements of Desert AIDS Project, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard 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 financial statements are free from material misstatement.

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

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

Independent Auditors' Report
(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desert AIDS Project, Inc. as of June 30, 2018 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

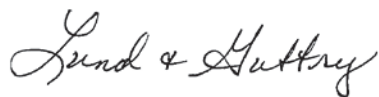
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of Desert AIDS Project Inc.'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 Desert AIDS Project Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Desert AIDS Project's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent in all material respects, with the audited financial statement from which it has been derived.



October 23, 2018

DESERT AIDS PROJECT, INC
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

ASSETS

	2018			2017
	Unrestricted	Temporarily Restricted	Total	(Memorandum Only)
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,652,555	\$ 980,924	\$ 6,633,479	\$ 3,079,450
Investments - Note 3	11,742,656	-	11,742,656	11,792,372
Accounts receivable, net - Note 5	2,737,159	-	2,737,159	2,242,720
Pledges receivable, current portion - Note 6	-	1,801,000	1,801,000	1,600,000
Inventory	423,822	-	423,822	401,509
Prepaid expenses	613,407	-	613,407	603,652
Receivable from other funds	-	5,954,571	5,954,571	2,640,133
Total current assets	<u>21,169,599</u>	<u>8,736,495</u>	<u>29,906,094</u>	<u>22,359,836</u>
PROPERTY AND EQUIPMENT, NET - Note 7	<u>12,712,435</u>	<u>-</u>	<u>12,712,435</u>	<u>6,951,592</u>
OTHER ASSETS				
Pledges receivable - net of current portion, net - Note 6	-	488,500	488,500	600,000
Art collection, net - Note 8	175,176	436,610	611,786	552,506
Deposits and other	109,574	-	109,574	145,385
Charitable remainder trusts receivable - Note 10	-	123,262	123,262	124,122
Investment - annuity/insurance policy - Note 11	302,998	-	302,998	323,756
Total other assets	<u>587,748</u>	<u>1,048,372</u>	<u>1,636,120</u>	<u>1,745,769</u>
TOTAL ASSETS	<u>\$ 34,469,782</u>	<u>\$ 9,784,867</u>	<u>\$ 44,254,649</u>	<u>\$ 31,057,197</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,018,888	\$ -	\$ 2,018,888	\$ 1,408,241
Accrued payroll and vacation	722,833	-	722,833	684,840
Deferred income	430,230	-	430,230	415,199
Related party payable - Note 9	16,755	-	16,755	16,825
Deferred grant revenue	-	-	-	31,356
Payable to other funds	5,954,571	-	5,954,571	2,640,133
Annuity payable - current portion - Note 14	-	51,000	51,000	-
Loan payable - current portion - Note 12	183,424	-	183,424	375,236
Total current liabilities	<u>9,326,701</u>	<u>51,000</u>	<u>9,377,701</u>	<u>5,571,830</u>
LONG-TERM LIABILITIES				
Annuity payable - net of current portion - Note 14	-	436,197	436,197	-
Loan payable - net of current portion - Note 12	5,178,136	-	5,178,136	106,147
Total long term liabilities	<u>5,178,136</u>	<u>436,197</u>	<u>5,614,333</u>	<u>106,147</u>
TOTAL LIABILITIES	<u>14,504,837</u>	<u>487,197</u>	<u>14,992,034</u>	<u>5,677,977</u>
NET ASSETS				
Unrestricted - undesignated	7,485,692	-	7,485,692	7,147,999
Unrestricted - board designated - Note 3	12,479,253	-	12,479,253	12,734,436
Temporarily restricted - Note 14	-	9,297,670	9,297,670	5,496,785
Total net assets	<u>19,964,945</u>	<u>9,297,670</u>	<u>29,262,615</u>	<u>25,379,220</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,469,782</u>	<u>\$ 9,784,867</u>	<u>\$ 44,254,649</u>	<u>\$ 31,057,197</u>

(The accompanying notes are an integral part of these financial statements)

DESERT AIDS PROJECT, INC
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018		2017	
	Unrestricted	Temporarily Restricted	Total	(Memorandum Only)
SUPPORT AND REVENUES				
Support:				
Contributions, net - Note 14	\$ 424,342	\$ 4,262,300	\$ 4,686,642	\$ 4,667,210
Fundraising/special events	1,584,880	51,761	1,636,641	1,913,908
Fundraising/thrift stores - net - Note 15	4,716,604	-	4,716,604	4,536,555
Bequests	114,730	-	114,730	126,706
Other non-cash contributions	59,187	65,000	124,187	145,044
Net assets released from restrictions	588,847	(588,847)	-	-
Total support	<u>7,488,590</u>	<u>3,790,214</u>	<u>11,278,804</u>	<u>11,389,423</u>
Revenue:				
Program revenue, net				
Grants	6,888,801	7,500	6,896,301	5,396,011
Fees for services	25,620,276	-	25,620,276	21,850,076
Interest and dividend income	339,565	4,030	343,595	274,599
Investment gain (loss) - net	258,876	(859)	258,017	401,172
Other income - Note 18	161,558	-	161,558	161,544
Total revenue	<u>33,269,076</u>	<u>10,671</u>	<u>33,279,747</u>	<u>28,083,402</u>
TOTAL SUPPORT AND REVENUE	<u>40,757,666</u>	<u>3,800,885</u>	<u>44,558,551</u>	<u>39,472,825</u>
EXPENSES				
Program services:				
Education/prevention	2,555,075	-	2,555,075	1,649,319
Social services	1,471,315	-	1,471,315	1,128,559
Mental health	1,544,794	-	1,544,794	1,541,058
Case management	1,179,725	-	1,179,725	1,045,628
Home health	982,002	-	982,002	856,260
Medical services	19,943,376	-	19,943,376	15,779,699
Dental services	1,844,426	-	1,844,426	1,287,145
Total program services	<u>29,520,713</u>	<u>-</u>	<u>29,520,713</u>	<u>23,287,668</u>
Supporting services:				
Fundraising/special events	2,485,114	-	2,485,114	1,905,130
Fundraising/thrift stores	3,794,781	-	3,794,781	3,484,257
Management and general	4,066,915	-	4,066,915	3,796,774
Marketing and communications	807,633	-	807,633	479,109
Total supporting services	<u>11,154,443</u>	<u>-</u>	<u>11,154,443</u>	<u>9,665,270</u>
TOTAL EXPENSES	<u>40,675,156</u>	<u>-</u>	<u>40,675,156</u>	<u>32,952,938</u>
INCREASE IN NET ASSETS	<u>82,510</u>	<u>3,800,885</u>	<u>3,883,395</u>	<u>6,519,887</u>
NET ASSETS, BEGINNING OF YEAR	<u>19,882,435</u>	<u>5,496,785</u>	<u>25,379,220</u>	<u>18,859,333</u>
NET ASSETS, END OF YEAR	<u>\$ 19,964,945</u>	<u>\$ 9,297,670</u>	<u>\$ 29,262,615</u>	<u>\$ 25,379,220</u>

(The accompanying notes are an integral part of these financial statements)

DESERT AIDS PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES - PROGRAM SERVICES
FOR THE YEAR ENDED JUNE 30, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018						2017		
	Education/ Prevention	Social Services	Behavior Health	Case Management	Home Health	Medical Services	Dental Services	Totals	(Memorandum Only)
Salaries	\$ 983,370	\$ 239,794	\$ 1,046,563	\$ 732,228	\$ 438,532	\$ 3,747,138	\$ 1,023,213	\$ 8,210,838	\$ 6,886,722
Employee benefits	220,188	76,063	213,413	169,716	80,784	810,258	217,740	1,788,162	1,382,766
Payroll taxes	<u>75,615</u>	<u>18,539</u>	<u>68,811</u>	<u>53,416</u>	<u>34,848</u>	<u>259,014</u>	<u>74,388</u>	<u>584,631</u>	<u>506,058</u>
Total salaries and related expenses	<u>1,279,173</u>	<u>334,396</u>	<u>1,328,787</u>	<u>955,360</u>	<u>554,164</u>	<u>4,816,410</u>	<u>1,315,341</u>	<u>10,583,631</u>	<u>8,775,546</u>
Advertising	301,662	-	613	-	-	19,111	-	321,386	213,288
Auto and travel	66,736	3,647	6,314	2,590	7,310	56,230	22,376	165,203	86,200
Direct client expenses	195,256	1,029,861	2,774	34,321	339,966	11,185,405	138,703	12,926,286	10,268,758
Depreciation and amortization	67,389	39,989	63,038	77,598	14,397	205,851	81,648	549,910	525,631
Dues, fees and licenses	81	48	2,367	93	17	278,190	971	281,767	224,885
Insurance	22,439	9,814	15,470	19,044	3,533	50,518	20,037	140,855	163,084
Interest	3,818	2,266	3,572	4,397	816	11,664	4,626	31,159	15,423
Miscellaneous	47,675	2,731	9,220	3,577	2,058	41,579	730	107,570	124,952
Office	31,954	12,092	24,751	21,974	10,933	183,518	83,865	369,087	204,619
Postage and printing	29,852	6,550	1,712	640	987	35,699	2,910	78,350	58,141
Professional services	390,250	306	33,135	923	36,937	2,845,172	103,856	3,410,579	2,160,747
Property taxes	2,763	1,640	2,585	3,182	590	8,440	3,348	22,548	19,714
Rent - Note 16	27,380	3,757	5,923	11,481	1,353	19,340	7,671	76,905	30,895
Repairs and maintenance	22,225	13,011	20,176	24,840	4,609	80,125	26,431	191,417	212,237
Seminars and workshops	40,219	1,576	3,980	3,296	697	54,731	13,761	118,260	49,715
Telephone and utilities	<u>26,203</u>	<u>9,631</u>	<u>20,377</u>	<u>16,409</u>	<u>3,635</u>	<u>51,393</u>	<u>18,152</u>	<u>145,800</u>	<u>153,833</u>
Total other expenses	<u>1,275,902</u>	<u>1,136,919</u>	<u>2,116,007</u>	<u>224,365</u>	<u>427,838</u>	<u>15,126,966</u>	<u>529,085</u>	<u>18,937,082</u>	<u>14,512,122</u>
TOTAL PROGRAM SERVICES	<u>\$ 2,555,075</u>	<u>\$ 1,471,315</u>	<u>\$ 1,544,794</u>	<u>\$ 1,179,725</u>	<u>\$ 982,002</u>	<u>\$ 19,943,376</u>	<u>\$ 1,844,426</u>	<u>\$ 29,520,713</u>	<u>\$ 23,287,668</u>

(The accompanying notes are an integral part of these financial statements)

DESERT AIDS PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES
FOR THE YEAR ENDED JUNE 30, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018			2017		
	Fundraising/ Special Events	Fundraising/ Thrift Stores	Management and General	Marketing and Communications	Totals	(Memorandum Only)
Salaries	\$ 574,489	\$ 1,252,262	\$ 1,931,427	\$ 208,806	\$ 3,966,984	\$ 3,837,348
Employee benefits	108,282	351,349	562,862	41,678	1,064,171	784,177
Payroll taxes	41,617	97,072	137,781	16,204	292,674	272,153
Total salaries and related expenses	<u>724,388</u>	<u>1,700,683</u>	<u>2,632,070</u>	<u>266,688</u>	<u>5,323,829</u>	<u>4,893,678</u>
Advertising	171,062	168,813	2,647	172,319	514,841	358,223
Auto and travel	7,721	83,027	63,911	4,045	158,704	166,598
Depreciation and amortization	16,279	231,630	177,407	16,295	441,611	376,123
Dues, fees and licenses	9,381	944	38,593	1,772	50,690	49,308
Event costs	1,013,566	16,311	38,136	32,341	1,100,354	798,144
Insurance	145,097	8,229	46,001	3,999	203,326	117,779
Interest	922	-	10,052	923	11,897	5,433
Investment fees	-	-	99,708	-	99,708	92,610
Miscellaneous	128,957	159,127	75,088	45,515	408,687	350,147
Office supplies and expense	82,480	46,562	174,135	9,968	313,145	217,626
Postage and printing	96,298	10,013	16,465	15,700	138,476	113,900
Professional services	75,037	106	444,019	219,628	738,790	663,766
Property taxes	951	5,500	7,274	668	14,393	12,666
Rent - Note 16	1,529	1,026,807	26,545	1,531	1,056,412	996,438
Repairs and Maintenance	5,271	82,302	56,789	5,216	149,578	127,411
Seminars and workshops	1,851	-	71,440	3,195	76,486	31,150
Telephone and utilities	4,324	254,727	86,635	7,830	353,516	294,270
Total other expenses	<u>1,760,726</u>	<u>2,094,098</u>	<u>1,434,845</u>	<u>540,945</u>	<u>5,830,614</u>	<u>4,771,592</u>
TOTAL SUPPORTING SERVICES	<u>\$ 2,485,114</u>	<u>\$ 3,794,781</u>	<u>\$ 4,066,915</u>	<u>\$ 807,633</u>	<u>\$ 11,154,443</u>	<u>\$ 9,665,270</u>

(The accompanying notes are an integral part of these financial statements)

DESERT AIDS PROJECT, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 3,883,395	\$ 6,519,887
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	991,521	901,754
Loss (gain) on disposals of property and equipment	15,007	(2,073)
Net unrealized investment gain	(114,693)	(325,992)
Fair market value adjustment for artwork	(11,325)	-
Donated artwork and other non-cash contributions	(124,187)	(145,044)
(Increase) decrease in assets		
Accounts receivable	(494,439)	(1,082,050)
Prepaid expenses	(9,755)	(256,887)
Pledges and charitable remainder trusts receivable	(88,640)	(2,094,959)
Inventory	(22,313)	42,423
Deposits and other assets	35,811	53,375
Receivable from other funds	(3,314,438)	(1,616,542)
Investment - annuity/insurance policy	(20,758)	-
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	610,647	(1,301,925)
Accrued payroll and vacation	37,993	(189,282)
Deferred income	15,031	(360,502)
Related party payable	(70)	(5,000)
Deferred grant revenue	(31,356)	(268,644)
Annuity payable	487,197	-
Payable to other funds	<u>3,314,438</u>	<u>1,616,542</u>
Net cash provided by operating activities	<u>5,159,066</u>	<u>1,485,081</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from note payable	5,400,000	-
Principal payments on debt	<u>(519,823)</u>	<u>(423,032)</u>
Net cash provided (used) for capital financing activities	<u>4,880,177</u>	<u>(423,032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,539,372)	(1,798,758)
Proceeds from sales of investments	2,496,809	1,438,834
Purchases of investments	<u>(2,442,651)</u>	<u>(4,459,680)</u>
Net cash used for investing activities	<u>(6,485,214)</u>	<u>(4,819,604)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,554,029</u>	<u>(3,757,555)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,079,450</u>	<u>6,837,005</u>
END OF YEAR	<u>\$ 6,633,479</u>	<u>\$ 3,079,450</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 43,057</u>	<u>\$ 21,350</u>

(The accompanying notes are an integral part of these financial statements)

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Desert AIDS Project, Inc. (D.A.P.) is a non-profit organization that was formed in 1984. Until there's a cure, the vision of Desert AIDS Project is of healthy individuals, families, and communities despite the existence of HIV. To bring this vision to life, the mission of Desert AIDS Project is to enhance and promote the health and well-being of our community. AIDS IS NOT OVER; THINK GLOBALLY, ACT LOCALLY; CARE; PREVENTION; ADVOCACY. The principal areas of service are the Greater Coachella Valley of the County of Riverside. At the discretion of the Board of Directors, service may be provided outside the principal areas of service.

Financial Statement Presentation

D.A.P. reports information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, unrestricted – designated net assets, temporarily restricted net assets, and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unrestricted Funds - Undesignated – These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Organization, as well as all property and equipment of the Organization.

Unrestricted Funds – Board Designated – These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Organization. The Board of Directors have designated funds for an endowment and reserves for the Organization. The Board has designated reserve funding to support approximately four months of operations in anticipation of possible federal funding changes due to the Affordable Care Act. (See Note 3)

Temporarily Restricted Funds – These funds represent those resources that are received with temporary donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Funds – These funds represent those resources that are subject to permanent restriction by the donor requiring that the principal be invested and only the income be used for operations. The Organization did not have any permanently restricted funds at June 30, 2018 and 2017.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase.

Investments

Investments are valued at their fair values.

Property and Equipment

Property and equipment are recorded at cost or fair market value at the date of purchase or donation and are depreciated on the straight-line method over the estimated useful lives ranging from 5 – 40 years. Expenditures for maintenance and repairs are charged to operations as incurred. The costs of betterments, which materially extend the useful lives of assets, are capitalized. It is D.A.P.'s current policy to capitalize property and equipment over \$5,000.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value.

Pledges Receivable

Pledges are recorded as receivables and recognized as revenue in the year made. Pledges receivable over a period of more than one year are discounted on a current net present value rate. Management has made allowances as deemed necessary for the possibility of uncollectible pledge receivable balances. For financial statement presentation management has presented pledge revenues net of the allowance established for the current fiscal year.

Income Taxes

D.A.P. is a not-for-profit corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service as other than a private foundation. D.A.P. may be subject to tax on income from any unrelated business operations. D.A.P. currently has unrelated business taxable income from the thrift store operations.

D.A.P.'s Form 990, *Return of Organization Exempt from Income Tax* are subject to examination by the IRS, generally for three years after they were filed.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Grant Revenue

Grants from federal, state and local governmental agencies included in program revenue are on a cost-reimbursement basis and, therefore, revenue is recorded as expenses are incurred, using the accrual basis of accounting.

Fair Value of Instruments

The carrying values of D.A.P.'s financial instruments are considered to approximate the fair value. Cash, accounts receivable, accounts payable and accrued expenses are settled so close to the balance sheet date that the fair value does not differ significantly from the stated amount.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Services

A substantial number of unpaid volunteers have made significant contributions of their time. For the year ended June 30, 2018 and 2017 total hours were 74,532 and 81,370 respectively, to develop programs and assist with fundraising activities. The value of donated volunteer services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services.

Memorandum Totals

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

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses, including volunteer and training services that are common to several functions, are allocated by various statistical bases.

The D.A.P.'s principal programs and services are comprised of:

Education/Prevention – This program provides HIV education to the D.A.P.'s principal areas of service including, but not limited to, schools, the general public, businesses and government agencies. Confidential HIV and other STD testing is provided in addition to risk assessment counseling, HIV and STD prevention, transmission and education.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Social Services – This program provides housing assistance to eligible HIV positive individuals residing in the San Bernardino/Riverside Eligible Metropolitan Area. Additionally, direct client expenses in the program include food and medical transportation assistance, a monthly Farmer’s Market at which healthy foods, staples, and fresh produce, are distributed to clients. The Organization also provides wellness programs including cooking classes, yoga, meditation, creative writing, quilting and other activities for clients in the community center. The community center includes a computer lab with internet access.

Mental Health Services – This program provides behavioral health services including psychotherapy, psycho-social services, focused counseling groups, support groups and substance abuse counseling. The Organization has full-time psychiatrists on staff in addition to mental health clinicians, licensed social workers and counselors. A full-time addictions specialist in addition to multiple staff members with alcohol and drug abuse counseling certifications and training are available to clients to supplement medical and other health services.

Case Management – Case management is the point of entry for new clients and includes mental and physical assessments as well as assessment of basic client needs for food and shelter. Case managers coordinate all program services available at D.A.P. and in the community for HIV positive and affected persons. In addition, clients are directed to and assisted in applying for federal, state, county and community services for which they may be eligible. Through the computer lab, clients are able to immediately apply for services on-line.

Home Health Services – These services encompass nurses and social workers providing case management, attendant care, homemaker services, psychotherapy, and non-emergency medical transportation. The In-home health services allow HIV positive persons in the mid-to-later stages of the disease to remain at home, rather than requiring lengthy hospital stays. The services are provided at no cost to eligible clients.

Clients eligible for Medi-Cal may also be eligible for home health services through the waiver program and may be subject to share-of-cost set by the state. Social workers, certified nursing assistants, and certified home health aides travel to clients’ homes to provide care and therapy, with the ultimate goal of “graduating” clients from the program and are once again independent. Through this program clients have a renewed sense of life and purpose.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Medical Services – This program provides primary health care, including drug therapy assistance to the HIV positive population residing primary in the Coachella Valley, through the Wells Fargo HIV Health Center. The Organization participates in the 340B Drug Pricing Program as administered by the U.S. Department of Health and Human Services Administration Office of Pharmacy Affairs as an eligible-covered entity and utilizes contracted pharmacies for pharmacy services and the dispensing of 340B purchased drugs. The purpose of the 340B program is to enable eligible-covered entities to stretch scarce resources by allowing savings on medications to be reallocated elsewhere for patient care, reach more eligible patients and providing more comprehensive services.

Dental Services – This program provides restorative and preventative care, including dental hygienist services, as well as oral health education to the population residing in the Coachella Valley. In addition, specialty dental services, including dental surgery, caps and bridges are provided through contracted specialist and labs.

Desert AIDS Project is designated as a Federally Qualified Health Care Center (FQHC). To maintain its status, D.A.P. must continually demonstrate a commitment to serve all populations residing in the designated service area, regardless of the ability of patients to pay for services, and to comply with all Health Center Program requirements. The FQHC designation requires annual certification application; annual renewal of designation application and annual detailed data reporting to HRSA.

Supporting Services – Expenses for fund raising, including special events and three thrift stores, together with communication/stigma reduction costs, management and general expenses are identified separately and reported under supporting services.

2. FAIR VALUE MEASUREMENTS

D.A.P. applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes 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 measurements involving significant unobservable inputs (Level 3 measurements).

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

2. FAIR VALUE MEASUREMENTS – (Continued)

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

At June 30, 2018, all marketable securities are measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets). Fair value for marketable securities at June 30, 2018 and 2017, was \$11,742,656 and \$11,792,372, respectively (see Note 3).

3. BOARD DESIGNATED NET ASSETS AND INVESTMENTS

The Board of Directors have designated funds for an endowment and reserves for D.A.P. Board designated funds at June 30, 2018 of \$12,479,253 consists of cash (\$736,597) and investments (\$11,742,656). Investments consist of the following at June 30, 2018:

	Fair Market Value	Cost	Unrealized Gain(Loss) At 6/30/18
Government obligations	\$ 1,635,193	\$ 1,698,025	\$ (62,832)
Corporate obligations	1,684,434	1,756,323	(71,889)
International obligations, equities and mutual funds	881,842	913,275	(31,433)
Mutual Funds	981,932	986,620	(4,688)
Fund and equity investments	4,630,790	3,564,634	1,066,156
Real estate and specialty assets	893,269	846,686	46,583
Alternative investments	1,035,196	1,086,735	(51,539)
	<u>\$ 11,742,656</u>	<u>\$ 10,852,298</u>	<u>\$ 890,358</u>

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

3. BOARD DESIGNATED NET ASSETS AND INVESTMENTS – (Continued)

The Board of Directors have designated funds for an endowment and reserves for D.A.P. Board designated funds at June 30, 2017 of \$12,734,436 consists of cash (\$942,064) and investments (\$11,792,372). Investments consist of the following at June 30, 2017:

	Fair Market Value	Cost	Unrealized Gain(Loss) At 6/30/17
Government obligations	\$ 1,626,673	\$ 1,659,435	\$ (32,762)
Corporate obligations	1,814,012	1,856,802	(42,790)
International obligations, equities and mutual funds	1,257,514	1,241,283	16,231
Mutual Funds	1,018,655	1,002,915	15,740
Fund and equity investments	4,141,554	3,341,352	800,202
Real estate and specialty assets	884,674	824,869	59,805
Alternative investments	1,049,290	1,086,734	(37,444)
	<u>\$ 11,792,372</u>	<u>\$ 11,013,390</u>	<u>\$ 778,982</u>

4. CONCENTRATION OF CREDIT RISK

All bank accounts are fully insured by either the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SPIC), or backed by the United States government. The FDIC guarantees up to \$250,000 on all deposit accounts and the SPIC guarantees up to \$500,000 on stocks, bonds, certificates of deposit and certain other investments identified as securities. Given the existing size of D.A.P.'s operations, it is not unusual for this limit to be exceeded on a periodic basis. Management is aware of this matter and evaluates alternatives for safeguarding cash while at the same time maximizing operational performance.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due from local government agencies under various contracts with the Organization which were earned, but not received, as of June 30, 2018 and 2017, and fees for services, net of allowances for uncollectible amounts.

	2018	2017
Grants and other contracts	\$ 736,007	\$ 848,814
Fees for service	2,600,029	2,394,116
Other receivables	25,504	20,958
	3,361,540	3,263,988
Less: allowance for uncollectible amounts	(624,381)	(1,021,268)
	<u>\$ 2,737,159</u>	<u>\$ 2,242,720</u>

6. PLEDGES RECEIVABLE

Pledges receivable amounted to \$2,289,500 and \$2,200,000 at June 30, 2018 and 2017, respectively. Pledge receivables have been pledged for future special events, memberships, and to support future expansion, net of allowance accounts.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

6. PLEDGES RECEIVABLE – (Continued)

For the years ended June 30, 2018 and 2017, pledges receivable consisted of the following:

	<u>2018</u>	<u>2017</u>
Building pledges (Note 14)	\$ 4,579,000	\$ 4,400,000
Fundraising, membership and special events	231,375	106,200
	<u>4,810,375</u>	<u>4,506,200</u>
Less: allowance for uncollectible amounts	<u>(2,520,875)</u>	<u>(3,306,200)</u>
	<u>\$ 2,289,500</u>	<u>\$ 2,200,000</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Administration build out	\$ 368,922	\$ 368,922
Building improvements	3,493,981	3,109,862
Clinical/social services build out	533,353	533,353
Community services wing	750,224	750,224
Dental clinic	431,009	383,259
Dog park improvements	38,409	38,409
Donated land	10,288	10,288
Equipment	2,229,170	1,998,163
Exterior and safety renovation	801,978	801,978
Furniture and fixtures	188,762	188,762
Revivals and other leasehold improvements	1,096,591	635,214
Serenity Garden	119,372	119,372
Signage	64,821	64,821
Sunrise building	7,569,693	2,320,000
Sunrise building – other capitalized cost	30,292	17,203
Sunrise land	1,226,602	1,226,602
Vehicles	424,299	315,599
Construction in process	971,871	742,099
	<u>20,349,637</u>	<u>13,624,130</u>
Less: accumulated depreciation	<u>(7,637,202)</u>	<u>(6,672,538)</u>
	<u>\$ 12,712,435</u>	<u>\$ 6,951,592</u>

8. ART COLLECTION

Fine art donated to the D.A.P. and considered inexhaustible, is recorded at estimated fair value at the date of the gift. The art collection includes paintings and similar objects with individual values ranging from \$350 to \$80,000.

Unrestricted art collection at June 30, 2018 and 2017 amounted to \$175,176 and \$180,896, respectively.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

8. ART COLLECTION – (Continued)

During the year ended June 30, 2018 and 2017, D.A.P. received a collection of artwork valued at \$65,000 and \$126,950, respectively. The artwork is donor restricted in that the Organization must retain the artwork for three years from the date of donation. Temporarily restricted art collection at June 30, 2018 and 2017 amounted to \$436,610 and \$371,610, respectively.

9. RELATED PARTY RECEIVABLE (PAYABLE) AND TRANSACTIONS

D.A.P. is the sole owner of Vista Sunrise Inc. a 501(c)(3) organization. D.A.P. formed Vista Sunrise Inc. to be the Managing General Partner of Vista Sunrise Apartments, L.P. (a California Limited Partnership). Vista Sunrise Apartments, L.P. (“Partnership”) is the owner and operator of an 80-unit low income housing project for people living with HIV/AIDS called the Vista Sunrise Apartments, located adjacent to the Desert AIDS Project.

Vista Sunrise Inc. has delegated its substantial management duties of the Rick Weiss Apartments to McCormack Baron Ragan Management Services, Inc. (“MBR”), a management company with extensive experience in the management of low-income projects. MBR is affiliated with MBS Urban Development Co., the development general partner of the Partnership. The Board of Vista Sunrise Inc. provides oversight to determine that the delegated management duties are being adequately performed by MBR. Vista Sunrise Inc. is operated by members of the Board of Directors of D.A.P.. Vista Sunrise Inc. does not maintain an office or place of business separate from D.A.P., nor has it hired separate, paid staff members. These financial statements include consolidated financial information from Vista Sunrise Inc. D.A.P. has spent a great deal of staff time and expenses for architectural, legal and other costs pertaining to the above project.

The balances payable amounted to \$16,755 and \$16,825 at June 30, 2018 and 2017, respectively.

The D.A.P. conducts various services with companies owned by members of the Board of Directors and relations of employees in the normal course of business. All transactions are at arm’s length.

10. CHARITABLE REMAINDER TRUSTS RECEIVABLE

D.A.P. is named in two irrevocable trusts. Total outstanding charitable remainder trusts receivable at June 30, 2018 and 2017 amounted to \$123,262 and \$124,122, respectively.

11. INVESTMENT – ANNUITY/ INSURANCE

D.A.P. invested in an annuity and life insurance policy on the life of a donor who has executed a gift agreement. As of June 30, 2018 and 2017 the investment annuity had a value of \$302,998 and \$323,756, respectively.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

12. LOAN PAYABLE

The D.A.P. established a loan with Wells Fargo Bank in March 2013 for \$2,420,000 for the refinance of the Sunrise Building. The terms of the \$2,420,000 are monthly payments of \$32,032, calculated with 2.95% interest and principal balances in 84 installment payments. During April 2018, D.A.P. established a new loan with Wells Fargo for \$5,400,000 to refinance the remaining balance of the Sunrise Building loan and purchase the neighboring building also on North Sunrise Way. Commencing May 15, 2018, D.A.P. will make monthly payments of \$32,439, with a fixed rate interest of 3.9% and the loan shall mature on April 15, 2038. As of June 30, 2018, the outstanding principal balance is \$5,361,560. Future maturities of this loan payable balance are as follows:

Year ended <u>June 30,</u>	
2019	\$ 183,424
2020	190,481
2021	198,044
2022	205,907
2023	214,082
Thereafter	<u>4,369,622</u>
	<u>\$ 5,361,560</u>

13. LINE OF CREDIT

D.A.P. had an available line of credit of \$1,000,000 with Wells Fargo Bank at June 30, 2017. The line was secured by the Sunrise building. Advances under the line of credit accrue interest at the prime interest rate plus .15 spread with a floor of 4% and matured in April 2018. D.A.P. renewed the line of credit as part of the loan transaction disclosed in Note 12, and increased the balance to \$2,000,000 with the same interest terms carried forward. There was no outstanding balance on the line of credit as of June 30, 2018 and 2017.

14. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Building improvements	\$ 8,280,587	\$ 4,376,093
100 Women – affected women and children	347,133	354,530
Pledges/due from other fund receivables	110,078	109,507
Charitable remainder trusts receivable (note 10)	123,262	124,122
Annette Bloch Cancer Care Center	-	160,923
Art collection (note 8)	<u>436,610</u>	<u>371,610</u>
	<u>\$ 9,297,670</u>	<u>\$ 5,496,785</u>

During the fiscal year June 30, 2018, D.A.P. received seven pledges totaling \$2,798,000, and of the total pledges received during the 2018 fiscal year, \$1,779,000 remain receivable for a total pledge receivable of \$4,579,000 as of June 30, 2018. Pledges receivable is offset by \$2,289,500 in allowance for uncollectible amounts (Note 6) for a net pledges receivable balance of \$2,289,500 as of June 30, 2018. Total temporarily restricted contributions revenue related to the capital campaign was \$4,262,300 as stated on the statement of activities.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

14. TEMPORARILY RESTRICTED NET ASSETS – (Continued)

Additionally, of the seven pledges received during 2018 there was \$2.5 million from Kyle Mudd (a current Board member) as part of his total capital campaign pledge of \$3 million. Part of this total \$3 million dollar pledge is a an annuity of \$1 million whereby D.A.P. will pay the donor for his life, an annual annuity of \$51,000 (5.1% gift value) in equal quarterly payments of \$12,750 at the end of each period. The total annuity payable as of June 30, 2018 is \$487,197.

During the fiscal year June 30, 2017, D.A.P received two pledges of \$3 million each from the Bloch Foundation and Tenet to fund the Building Expansion Capital Campaign Health Center. During the year the Bloch Foundation paid \$1 million and Tenet paid \$600,000 leaving \$4.4 million as of June 30, 2017 in pledges receivable which is offset by \$2.2 million in an allowance for uncollectible amounts (Note 6). The total temporarily restricted revenue related to these pledges is \$6 million less the allowance of \$2.2 million for a net temporarily restricted contribution revenue of \$3.8 million as stated on the statement of activities.

15. REVIVALS THRIFT SHOPS OPERATIONS

D.A.P. has Revivals Thrift Shops operations as a component of fundraising activity. The following summarizes the gross revenues received and costs of goods sold for the year ending June 30, 2018 and 2017. The amounts on the statement of activities are reported at net value.

	<u>2018</u>	<u>2017</u>
Thrift Store Sales	\$ 5,928,134	\$ 5,672,826
Thrift Store – Merchandise Donated	3,922,855	3,999,720
Cost of Goods Sold	<u>(5,134,385)</u>	<u>(5,135,991)</u>
Fundraising/Thrift Stores – Net	<u>\$ 4,716,604</u>	<u>\$ 4,536,555</u>

16. LEASED FACILITIES

D.A.P. has entered into twelve non-cancelable operating leases for the leasing of the Revivals Thrift Shops in Palm Springs, Cathedral City, Palm Desert, a retail processing center, the D.A.P. Indio office and various office space for administration. The monthly lease payments range from \$375 to \$27,544 per month through February 2025.

The following summarizes annual commitments including options to extend, as of June 30, 2018 under the terms of these leases:

Year ended	
<u>June 30,</u>	
2019	\$ 1,210,916
2020	1,218,380
2021	872,905
2022	801,801
2023	386,060
Thereafter	<u>635,924</u>
	<u>\$ 5,125,986</u>

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

16. LEASED FACILITIES – (Continued)

Total rent expense of \$1,133,317 and \$1,027,333 for the year ended June 30, 2018 and 2017, respectively. and is included in the accompanying statement of functional expenses-program services and statement of functional expenses-supporting services.

17. CONCENTRATION OF REVENUE

D.A.P. received 46% and 45% and as of June 30, 2018 and 2017, of revenue from the 340B Drug Pricing program. See Note 1 – Medical Services for a description of this program.

D.A.P. also received 15% and 13% and as of June 30, 2018 and 2017, of revenue from grants funded by governmental sources. A significant portion of government grant funding is provided by the federal Ryan White grant program and the HIV Prevention Activities Program. The Organization’s strategic plan has anticipated decreased Ryan White funding and is in process of and has implemented programs and to enable the continuation of services into the future.

18. RENTAL INCOME

D.A.P. has entered into two lease agreements to lease space in the Sunrise building. An exclusive lease agreement was entered into with Walgreen Co. for a pharmacy as a convenience and benefit to the D.A.P. clients. The lease has a twenty five-year term that expires November 2027 with monthly rental income of \$3,675. D.A.P. also entered into a lease agreement with the County of Riverside for the use of D.A.P. property to operate a medical clinic with monthly rental income of \$4,537. In February 2018 D.A.P. amended its lease agreement with the County of Riverside for the use of D.A.P. property to operate a medical clinic to now include the portion of D.A.P.’s new building that the County is leasing in addition to the existing leased property. The lease provides for annual payments in the amount of \$208,104, commencing June 2018 through May 2021.

Minimum future rental income to be received on these leases is as follows:

<u>Year ended June 30,</u>	
2019	\$ 252,204
2020	252,204
2021	234,772
2022	44,100
2023	44,100
2024 and thereafter	<u>176,400</u>
	<u>\$ 1,003,780</u>

Rental income for the year ending June 30, 2018 and 2017 totaled \$144,806 and \$120,068, respectively. These amounts are reported with other income in the accompanying statement of activities.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

19. EMPLOYEES' 401(k) PLAN

Eligible employees who have attained age 21 and have completed three (3) consecutive months of service may participate in the D.A.P. 401(k) Profit Sharing plan. This plan replaced the D.A.P. 401(k) Tax Deferred Annuity Plan and became effective on January 1, 2008. The funds in the 401(k) plan all became 100% vested at date of rollover. Employees may contribute 1% to 100% of their compensation with a maximum allowed by the Internal Revenue Service. Employees are always 100% vested in their contributions to the plan.

D.A.P. will make Safe Harbor matching contributions up to 4% and may make additional discretionary matching contributions up to 7% of an employee's eligible pay for those who have completed 500 hours of service. The Safe Harbor matching contributions are 100% vested. Additional discretionary contributions as approved by the Board are vested as follows:

<u>Years of Vesting Service</u>	<u>Vesting Percentage</u>
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
5 or more	100%

The plan also allows for elective profit sharing contributions by D.A.P.

Amounts contributed to employees' 401(k) and 457(B) plans by D.A.P. were \$556,106 and \$461,694 for the year ended June 30, 2018 and 2017, respectively. Plan forfeitures in the 401(k) plan are used to pay administrative expenses of the plan and to reduce employer contributions.

The 401(K) plan is intended to satisfy all of the requirements for a qualified retirement plan under the appropriate provisions of the Internal Revenue Code, ERISA and other applicable federal and state laws. D.A.P. is the Plan Administrator with the Board Treasurer acting as its agent for the Plan. Participants exercise control over some or all of the investments in their plan accounts. This limits the liability of the fiduciaries for losses resulting from investment decisions made by the participants.

20. SUBSEQUENT EVENTS

D.A.P. evaluated all potential subsequent events as of October 23, 2018 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2018 or as of October 23, 2018 that require disclosure to the financial statements, other than the event described below.

D.A.P. entered into a purchase agreement to purchase a commercial building to be used for administrative purposes in the amount of \$1,950,000 with an expected close date of November 14, 2018. It is D.A.P.'s intention to use existing investments for the purchase. No additional debt will be issued to secure the purchase.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITOR'S 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 Directors
Desert AIDS Project, Inc.
Palm Springs, California

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 financial statements of Desert AIDS Project, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Desert AIDS Project Inc.'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 Desert AIDS Project Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Desert AIDS Project Inc.'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 entity'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.

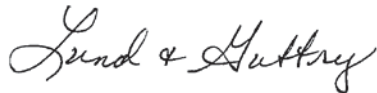
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during 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 Desert AIDS Project Inc.'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 entity'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.

A handwritten signature in cursive script that reads "Lund & Guttry".

October 23, 2018



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Desert AIDS Project, Inc.
Palm Springs, California

Report on Compliance for Each Major Federal Program

We have audited Desert AIDS Project Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Desert AIDS Project Inc.'s major federal programs for the year ended June 30, 2018. The Desert AIDS Project's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Desert AIDS Project Inc.'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* by the Comptroller General of the United States; and the audit requirements of Title 3 U.S. *Code of Federal Regulation* 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 Desert AIDS Project Inc.'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 Desert AIDS Project Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Desert AIDS Project, 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, 2018.

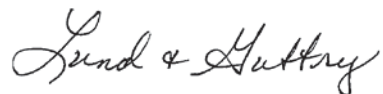
Report on Internal Control Over Compliance

Management of Desert AIDS Project, 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 Desert AIDS Project Inc.'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 Desert AIDS Project Inc.'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.



October 23, 2018

DESERT AIDS PROJECT, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-Through Agency/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
Direct programs:			
Health Center Program	93.224	6 H80CS28988-02-03	\$ 911,519
Subtotal Department of Health and Human Services direct programs			<u>911,519</u>
Pass-through programs from:			
County of Riverside Health Services Agency Department of HIV/AIDS			
HIV Care Program	93.917	14-027	123,441
EIS & MTS Program	93.917		<u>66,357</u>
			189,798
San Bernardino County Department of Public Health			
Part A, Ryan White HIV/AIDS Treatment Modernization Act	93.914	17-81	2,201,647
Ryan White HIV/AIDS Program - Minority AIDS Initiative	93.914		<u>94,102</u>
Subtotal of HIV Emergency Relief Project Grants Cluster			2,295,749
Riverside Community Health Agency			
HIV Anonymous Test Site	93.940	#HSARC94855-001-06/13	39,531
California Department of Public Health			
HIV Prevention Activities Program	93.940	15-10470	1,985,983
PrEP Navigation Program	93.940	15-11043	<u>116,219</u>
Subtotal of HIV Prevention Activities Cluster			<u>2,141,733</u>
Subtotal Department of Health and Human Services pass-through programs			<u>4,627,280</u>
Total U.S. Department of Health and Human Services			<u>5,538,799</u>
U.S. Department of Housing and Urban Development			
Pass-through programs from:			
County of Riverside Housing Authority			
Housing Opportunities for Persons with AIDS	14.241		351,409
City of Palm Springs			
Community Development Block Grant Program	14.253		28,666
City of Palm Desert			
Community Development Block Grant Program	14.253	C35340D	71,876
County of Riverside			
Community Development Block Grant Program	14.253	4.204-16	<u>275,403</u>
Subtotal of Community Development Block Grant Program Cluster			<u>375,945</u>
Total U.S. Department of Housing and Urban Development			<u>727,354</u>
Total expenditures of federal awards			<u>\$ 6,266,153</u>

DESERT AIDS PROJECT, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Desert AIDS Project, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Desert AIDS Project, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Desert AIDS Project.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3: INDIRECT COST RATE

Desert AIDS Project, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

DESERT AIDS PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Desert AIDS Project, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's 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.
3. No instances of noncompliance material to the financial statements of Desert AIDS Project, Inc., were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and Internal Control Over Compliance Required By The Uniform Guidance.
5. The auditor's report on compliance for the Part A, Ryan White HIV/AIDS Treatment Modernization Act and Ryan White HIV/AIDS Program – Minority AIDS Initiative, expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are should be disclosed in accordance with 2 CFR section 200.516(a).
7. The programs tested as major programs were:

<u>Program Name</u>	<u>CFDA#</u>
Health Center Program	93.224
Part A, Ryan White HIV/AIDS Treatment Modernization Act	93.914
Ryan White HIV/AIDS Program – Minority AIDS Initiative	93.914
HIV Prevention Activities Program	93.940
PrEP Navigation Program	93.940

8. The dollar threshold used for distinguishing between Type A and B programs was \$750,000.
9. Desert AIDS Project, Inc. was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

None

C. Findings And Questioned Costs – Major Federal Award Programs Audit

There were no findings and questioned costs for the year ended June 30, 2018.

DESERT AIDS PROJECT, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL COMPLIANCE

There were no prior year findings and questioned costs for the year ended June 30, 2017.