

**DESERT AIDS PROJECT, INC.**  
**PALM SPRINGS, CALIFORNIA**

**INDEPENDENT AUDITORS' REPORT,**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016 AND 2015**



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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, 2016, 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, 2016 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*

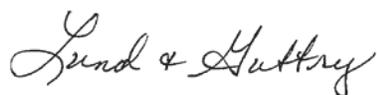
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 September 27, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent in all material respects, with the audited financial statement from which it has been derived.



September 27, 2016

**DESERT AIDS PROJECT, INC**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2016**

**WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

**ASSETS**

	<u>2016</u>			<u>2015</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>(Memorandum Only)</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,839,391	\$ 997,614	\$ 6,837,005	\$ 4,112,735
Investments - Note 3	8,302,494	-	8,302,494	7,839,356
Accounts receivable, net - Note 5	1,160,670	-	1,160,670	2,030,981
Inventory	443,932	-	443,932	359,545
Prepaid expenses	346,765	-	346,765	370,588
Receivable from other funds	-	1,023,591	1,023,591	947,295
	<u>16,093,252</u>	<u>2,021,205</u>	<u>18,114,457</u>	<u>15,660,500</u>
<b>PROPERTY AND EQUIPMENT, NET - Note 7</b>	<u>5,959,435</u>	<u>93,080</u>	<u>6,052,515</u>	<u>5,474,448</u>
<b>OTHER ASSETS</b>				
Pledges receivable, net - Note 6	50,900	26,608	77,508	678,353
Art collection, net - Note 8	180,896	244,660	425,556	233,556
Deposits and other	198,365	395	198,760	73,532
Charitable remainder trusts receivable - Note 10	-	151,655	151,655	190,019
Investment - annuity/insurance policy - Note 11	323,756	-	323,756	270,216
	<u>753,917</u>	<u>423,318</u>	<u>1,177,235</u>	<u>1,445,676</u>
<b>TOTAL ASSETS</b>	<u>\$ 22,806,604</u>	<u>\$ 2,537,603</u>	<u>\$ 25,344,207</u>	<u>\$ 22,580,624</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 2,626,875	\$ -	\$ 2,626,875	\$ 2,195,892
Accrued payroll and vacation	874,122	-	874,122	680,501
Deferred income	775,701	-	775,701	976,588
Related party payable - Note 9	21,825	-	21,825	24,886
Deferred grant revenue	300,000	-	300,000	-
Payable to other funds	355,045	668,546	1,023,591	947,295
Loan payable - current portion - Note 12	361,842	-	361,842	351,336
	<u>5,315,410</u>	<u>668,546</u>	<u>5,983,956</u>	<u>5,176,498</u>
<b>LONG-TERM LIABILITIES</b>				
Loan payable - net of current portion - Note 12	542,573	-	542,573	929,024
	<u>542,573</u>	<u>-</u>	<u>542,573</u>	<u>929,024</u>
<b>TOTAL LIABILITIES</b>	<u>5,857,983</u>	<u>668,546</u>	<u>6,526,529</u>	<u>6,105,522</u>
<b>NET ASSETS</b>				
Unrestricted - undesignated	6,319,376	-	6,319,376	5,531,154
Unrestricted - board designated - Note 3	10,629,245	-	10,629,245	9,160,553
Temporarily restricted - Note 14	-	1,869,057	1,869,057	1,783,395
	<u>16,948,621</u>	<u>1,869,057</u>	<u>18,817,678</u>	<u>16,475,102</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 22,806,604</u>	<u>\$ 2,537,603</u>	<u>\$ 25,344,207</u>	<u>\$ 22,580,624</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, 2016**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2016</u>			<u>2015</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>(Memorandum Only)</u>
<b>SUPPORT AND REVENUES</b>				
Support:				
Contributions	\$ 302,617	\$ 542,863	\$ 845,480	\$ 940,391
Fundraising/special events	1,740,794	45,110	1,785,904	2,206,405
Fundraising/thrift stores - net - Note 15	4,541,059	-	4,541,059	4,516,852
Bequests	361,475	(39,290)	322,185	175,332
Other non-cash contributions	18,200	216,991	235,191	-
Net assets released from restrictions	<u>1,409,471</u>	<u>(1,409,471)</u>	<u>-</u>	<u>-</u>
Total support	<u>8,373,616</u>	<u>(643,797)</u>	<u>7,729,819</u>	<u>7,838,980</u>
Revenue:				
Program revenue, net				
Grants	4,581,474	738,049	5,319,523	3,872,882
Fees for services	20,895,197	-	20,895,197	15,628,661
Interest and dividend income	284,143	410	284,553	276,434
Investment (loss) gain - net	(166,647)	(9,000)	(175,647)	(137,397)
Other income - Note 18	<u>236,617</u>	<u>-</u>	<u>236,617</u>	<u>127,069</u>
Total revenue	<u>25,830,784</u>	<u>729,459</u>	<u>26,560,243</u>	<u>19,767,649</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>34,204,400</u>	<u>85,662</u>	<u>34,290,062</u>	<u>27,606,629</u>
<b>EXPENSES</b>				
Program services:				
Education/prevention	2,035,293	-	2,035,293	1,363,807
Social services	940,100	-	940,100	826,528
Mental health	1,337,872	-	1,337,872	954,556
Case management	1,019,456	-	1,019,456	997,851
Home health	778,237	-	778,237	777,614
Medical services	15,361,199	-	15,361,199	11,251,199
Dental services	<u>1,117,678</u>	<u>-</u>	<u>1,117,678</u>	<u>821,253</u>
Total program services	<u>22,589,835</u>	<u>-</u>	<u>22,589,835</u>	<u>16,992,808</u>
Supporting services:				
Fundraising/special events	1,617,284	-	1,617,284	1,867,780
Fundraising/thrift stores	3,385,372	-	3,385,372	3,632,952
Management and general	3,780,078	-	3,780,078	2,925,862
Marketing and communications	<u>574,917</u>	<u>-</u>	<u>574,917</u>	<u>470,815</u>
Total supporting services	<u>9,357,651</u>	<u>-</u>	<u>9,357,651</u>	<u>8,897,409</u>
<b>TOTAL EXPENSES</b>	<u>31,947,486</u>	<u>-</u>	<u>31,947,486</u>	<u>25,890,217</u>
<b>INCREASE IN NET ASSETS</b>	<u>2,256,914</u>	<u>85,662</u>	<u>2,342,576</u>	<u>1,716,412</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>14,691,707</u>	<u>1,783,395</u>	<u>16,475,102</u>	<u>14,758,690</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 16,948,621</u>	<u>\$ 1,869,057</u>	<u>\$ 18,817,678</u>	<u>\$ 16,475,102</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, 2016**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	2016							2015	
	Education/ Prevention	Social Services	Mental Health	Case Management	Home Health	Medical Services	Dental Services	Totals	(Memorandum Only)
Salaries	\$ 725,531	\$ 174,382	\$ 965,535	\$ 628,877	\$ 352,790	\$ 1,864,205	\$ 672,520	\$ 5,383,840	\$ 4,373,441
Employee benefits	138,485	33,450	144,856	119,557	54,677	287,726	105,474	884,225	646,645
Payroll taxes	54,378	12,610	58,370	45,028	26,422	131,987	50,526	379,321	304,031
Total salaries and related expenses	918,394	220,442	1,168,761	793,462	433,889	2,283,918	828,520	6,647,386	5,324,117
Advertising	510,256	33	87	35	10	75,747	40	586,207	292,560
Auto and travel	32,433	3,196	2,578	1,354	5,638	11,473	2,245	58,918	53,906
Bad debt	-	-	702	827	3,975	11,667	565	17,736	29,021
Direct client expenses	55,972	627,845	2,629	24,152	275,964	9,724,069	110,148	10,820,779	7,896,522
Depreciation and amortization	54,714	16,923	15,919	57,667	5,308	144,540	31,968	327,040	287,293
Dues, fees and licenses	2,971	1,090	2,596	1,384	447	10,151	3,131	21,770	20,897
Insurance	22,241	6,709	6,593	23,742	2,198	32,751	13,241	107,476	110,120
Interest	1,334	597	587	2,112	196	2,914	1,178	8,917	12,256
Miscellaneous	29,696	30,534	1,003	2,100	2,306	46,966	315	112,920	64,390
Office	29,014	5,783	35,861	46,033	13,183	131,107	24,590	285,571	386,457
Postage and printing	12,342	2,195	918	3,773	1,049	22,174	901	43,352	48,819
Professional services	294,549	6,274	78,455	11,512	26,740	2,734,127	69,902	3,221,558	2,152,689
Property taxes	1,572	692	680	2,447	227	3,376	1,365	10,357	9,936
Rent - Note 16	25,922	693	592	1,426	219	1,797	1,058	31,707	27,820
Repairs and maintenance	18,454	8,980	10,607	24,275	2,241	67,606	14,959	147,121	121,450
Seminars and workshops	4,512	411	2,871	122	313	22,831	657	31,716	46,740
Telephone and utilities	20,917	7,704	6,433	23,033	4,336	33,986	12,894	109,304	107,815
Total other expenses	1,116,899	719,658	169,111	225,994	344,348	13,077,281	289,158	15,942,449	11,668,691
<b>TOTAL PROGRAM SERVICES</b>	<b>\$ 2,035,293</b>	<b>\$ 940,100</b>	<b>\$ 1,337,872</b>	<b>\$ 1,019,456</b>	<b>\$ 778,237</b>	<b>\$ 15,361,199</b>	<b>\$ 1,117,678</b>	<b>\$ 22,589,835</b>	<b>\$ 16,992,808</b>

(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, 2016**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	2016				2015	
	Fundraising/ Special Events	Fundraising/ Thrift Stores	Management and General	Marketing and Communications	Totals	(Memorandum Only)
Salaries	\$ 413,141	\$ 1,127,674	\$ 1,976,319	\$ 272,834	\$ 3,789,968	\$ 3,300,505
Employee benefits	81,476	288,665	314,363	47,948	732,451	602,418
Payroll taxes	29,027	82,923	119,447	19,434	250,830	231,467
Total salaries and related expenses	<u>523,643</u>	<u>1,499,262</u>	<u>2,410,128</u>	<u>340,215</u>	<u>4,773,249</u>	<u>4,134,390</u>
Advertising	46,959	168,941	-	125,610	341,510	370,733
Auto and travel	9,748	80,017	40,225	9,835	139,824	163,237
Bad debt (recoveries)	-	-	-	-	-	(3,426)
Depreciation and amortization	24,843	181,614	198,584	5,986	411,027	346,469
Dues, fees and licenses	5,455	445	22,312	7,623	35,834	31,909
Event costs	664,228	3,857	7,201	10,640	685,926	940,088
Insurance	59,297	9,475	84,413	2,479	155,664	123,061
Interest	-	-	30,028	221	30,248	26,190
Investment fees	-	-	82,039	-	82,039	74,952
Miscellaneous	105,516	156,744	106,635	22,164	391,059	471,448
Office supplies and expense	39,116	42,938	73,253	6,874	162,181	217,472
Postage and printing	83,269	3,464	8,949	968	96,650	110,669
Professional services	37,548	4,763	463,594	22,758	528,664	352,027
Property taxes	641	5,053	8,477	256	14,427	14,512
Rent - Note 16	5,796	910,024	12,938	3,314	932,072	987,018
Repairs and Maintenance	4,989	73,100	115,473	5,605	199,166	186,818
Seminars and workshops	242	193	16,821	6,572	23,828	23,798
Telephone and utilities	5,995	245,482	99,008	3,799	354,283	326,044
Total other expenses	<u>1,093,641</u>	<u>1,886,110</u>	<u>1,369,950</u>	<u>234,702</u>	<u>4,584,402</u>	<u>4,763,019</u>
TOTAL SUPPORTING SERVICES	<u>\$ 1,617,284</u>	<u>\$ 3,385,372</u>	<u>\$ 3,780,078</u>	<u>\$ 574,917</u>	<u>\$ 9,357,651</u>	<u>\$ 8,897,409</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, 2016**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2016</u>	(Memorandum Only) <u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 2,342,576	\$ 1,716,412
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	738,067	633,760
Loss on disposals of property and equipment	19,970	11,734
Net unrealized investment (gain) loss	115,313	193,778
Fair market value adjustment for artwork	9,000	-
Donated artwork and other non-cash contributions	(235,191)	-
Changes in operating asset and liabilities:		
Accounts receivable	870,311	(401,552)
Prepaid expenses	23,823	7,815
Pledges and charitable remainder trusts receivable	639,209	820,123
Inventory	(84,387)	(19,165)
Deposits and other assets	(125,228)	20,622
Receivable from other funds	(76,296)	(313,775)
Accounts payable and accrued liabilities	430,983	(92,362)
Accrued payroll and vacation	193,621	163,263
Deferred income	(200,887)	(299,986)
Related party payable	(3,061)	-
Deferred grant revenue	300,000	-
Payable to other funds	76,296	313,775
Net cash provided by operating activities	<u>5,034,119</u>	<u>2,754,442</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Principal payments on debt	(375,945)	(345,119)
Proceeds from line of credit	-	500,000
Repayment of line of credit	<u>-</u>	<u>(500,000)</u>
Net cash used for capital financing activities	<u>(375,945)</u>	<u>(345,119)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of property	5,200	30,715
Purchase of property and equipment	(1,336,104)	(1,275,719)
Proceeds from sales of investments	2,360,550	1,237,123
Purchases of investments	<u>(2,963,550)</u>	<u>(3,185,687)</u>
Net cash used for investing activities	<u>(1,933,904)</u>	<u>(3,193,568)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>2,724,270</u>	<u>(784,245)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>4,112,735</u>	<u>4,896,980</u>
<b>END OF YEAR</b>	<u>\$ 6,837,005</u>	<u>\$ 4,112,735</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	<u>\$ 39,548</u>	<u>\$ 38,446</u>

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

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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 six 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, 2016 and 2015. (See Note 4)

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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.

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, 2016 AND 2015**

**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.

Accrued Vacation

The Organization has accrued a liability for earned but unused vacation time available to the employees.

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 years ended June 30, 2016 and 2015 total hours were 84,226 and 92,854 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.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Reclassification**

During the year it was determined that certain temporarily restricted funds related to the Annette Bloch Cancer Care Center were expended for their restricted purpose in previous years. Therefore, \$297,660 of the temporarily restricted funds were reclassified as unrestricted and the reclassification is reflected in the opening net asset balances on the statement of financial position and statement of activities.

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.

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.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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.

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.

Effective April 12, 2012 Desert AIDS Project was designated as a Federally Qualified Health Care Center (FQHC) Look Alike. To maintain its Look Alike 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. On July 22, 2015, the HRSA issued Desert AIDS Project notification that is was awarded a New Access Point grant and designation as a FQHC 330 Grantee starting August 1, 2015.

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

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, 2016 AND 2015**

**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, 2016 and 2015, 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, 2016 and 2015, was \$8,302,494 and \$7,839,356, 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, 2016 of \$10,629,245 consists of cash (\$2,326,751) and investments (\$8,302,494). Investments consist of the following at June 30, 2016:

	Fair Market Value	Cost	Unrealized Gain(Loss) At 6/30/16
Government obligations	\$ 1,345,751	\$1,342,465	\$ 3,286
Corporate obligations	1,453,736	1,443,870	9,866
International obligations, equities and mutual funds	904,696	908,858	(4,162)
Mutual Funds	698,697	693,919	4,779
Fund and equity investments	2,570,837	2,217,413	353,423
Real estate and specialty assets	813,686	819,350	(5,664)
Alternative investments	515,091	422,148	92,943
	<u>\$ 8,302,494</u>	<u>\$7,848,023</u>	<u>\$ 454,471</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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

Board designated funds at June 30, 2015 of \$9,160,553 consists of cash (\$1,321,197) and investments (\$7,839,356). Investments consist of the following at June 30, 2015:

	Fair Market Value	Cost	Unrealized Gain(Loss) At 6/30/15
Government obligations	\$ 1,041,477	\$1,051,112	\$ (9,635)
Corporate obligations	1,135,696	1,155,096	(19,400)
International obligations, equities and mutual funds	1,885,730	1,834,150	51,580
Mutual Funds	614,164	636,951	(22,787)
Fund and equity investments	1,591,833	1,192,532	399,301
Real estate and specialty assets	1,570,456	1,578,401	(7,945)
	<u>\$ 7,839,356</u>	<u>\$7,448,242</u>	<u>\$ 391,114</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, 2016 and 2015, and fees for services, net of allowances for uncollectible amounts.

	2016	2015
Grants and other contracts	\$ 653,646	\$ 1,950,447
Fees for service	2,297,886	1,050,210
Other receivables	54,607	9,818
	<u>3,006,139</u>	<u>3,010,475</u>
Less: allowance for uncollectible amounts	(1,845,469)	(1,019,194)
	<u>\$ 1,160,670</u>	<u>\$ 1,991,281</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**6. PLEDGES RECEIVABLE**

Pledges receivable amounted to \$77,508 and \$678,353 at June 30, 2016 and 2015, respectively. Pledge receivables have been pledged for future special events, memberships, and to support the Get Tested Coachella Valley program funding, net of allowance accounts.

	<u>2016</u>	<u>2015</u>
Fundraising, membership and special events	\$ 392,939	\$ 412,539
Get Tested Coachella Valley	111,041	602,428
	<u>503,980</u>	<u>1,014,967</u>
Less: allowance for uncollectible amounts	(426,472)	(336,614)
	<u>\$ 77,508</u>	<u>\$ 678,353</u>

**7. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Administration build out	\$ 368,922	\$ 368,922
Building improvements	2,721,266	2,367,073
Clinical/social services build out	533,353	533,353
Community services wing	750,224	750,224
Dental clinic	383,259	383,259
Dog park improvements	38,409	38,409
Donated land	10,288	10,288
Equipment	1,537,957	1,142,183
Exterior and safety renovation	801,978	801,978
Furniture and fixtures	188,762	168,954
Revivals	631,055	490,809
Serenity Garden	119,372	119,372
Signage	64,821	64,821
Specialty clinic	157,787	157,787
Sunrise building	2,320,000	2,320,000
Sunrise building – other capitalized cost	17,203	17,203
Sunrise land	580,000	580,000
Vehicles	278,596	288,596
Construction in process	319,434	30,914
	<u>11,822,686</u>	<u>10,634,145</u>
Less: accumulated depreciation	(5,770,171)	(5,159,697)
	<u>\$ 6,052,515</u>	<u>\$ 5,474,448</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 \$100 to \$55,000. During the year ended June 30, 2012 certain pieces of fine art were written down \$868,236 from the original donated amount of \$1,133,947 to \$265,711 to more reasonably reflect the current fair market value as estimated by management.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**8. ART COLLECTION – (Continued)**

Unrestricted art collection at June 30, 2016 and 2015 amounted to \$180,896 each year.

During the year ended June 30, 2013, D.A.P. received a collection of artwork valued at \$50,000. 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, 2016 and 2015 amounted to \$244,660 and \$52,660, 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 \$21,825 and \$24,886 at June 30, 2016 and 2015, 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, 2016 and 2015 amounted to \$151,655 and \$190,019, 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, 2016 and 2015 the investment annuity had a value of \$323,756 and \$270,216, respectively.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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. The final payment will be due January 15, 2019. D.A.P. has on an annual basis the option to pay down an additional 10% of the outstanding principal balance. D.A.P. paid an additional principal payment of \$30,000 in May 2016. As of June 30, 2016, the outstanding principal balance is \$904,415. Future maturities of this loan payable balance are as follows:

Year ended <u>June 30,</u>	
2017	\$ 361,842
2018	372,662
2019	<u>169,911</u>
	<u>\$ 904,415</u>

**13. LINE OF CREDIT**

D.A.P. has an available line of credit of \$1,000,000 with Wells Fargo Bank at June 30, 2016 and 2015. The line is 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 mature April 10, 2018. There was no outstanding balance on the line of credit as of June 30, 2016 and 2015.

**14. TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
Building improvements	\$ 583,142	\$ 83,142
100 Women – affected women and children	333,750	351,445
Pledges/due from other fund receivables	106,698	107,624
Charitable remainder trusts receivable (note 10)	151,655	190,019
Annette Bloch Cancer Care Center	449,152	611,578
Get Tested Coachella Valley	-	386,927
Art collection (note 8)	<u>244,660</u>	<u>52,660</u>
	<u>\$ 1,869,057</u>	<u>\$ 1,783,395</u>

In fiscal year June 30, 2012, the D.A.P. received \$1,000,000 from the Bloch Foundation to fund the Annette Bloch Cancer Care Center. This restricted gift is intended to address the unique needs of the Organization's clients to promote patient empowerment when faced with a cancer diagnosis, to participate in clinical research and the provision of prevention education, screening and treatment of cancers.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**14. TEMPORARILY RESTRICTED NET ASSETS – (Continued)**

In fiscal year June 30, 2014, the D.A.P. established a “Get Tested Coachella Valley” program funded by local community partners. Get Tested Coachella Valley is a region wide public health campaign dedicated to dramatically reducing HIV.

The program was established to remove fear, judgment and stigma by making HIV testing a medical standard of care for everyone 12 and older, making HIV testing and access to HIV care available to everyone, including those who do not see a doctor on a regular basis, and educating those who test HIV negative on how to continue to protect themselves and others from being positive. This program has a broad coalition of community partners under the leadership of D.A.P.

**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 years ending June 30, 2016 and 2015. The amounts on the statement of activities are reported at net value.

	<u>2016</u>	<u>2015</u>
Thrift Store Sales	\$ 5,605,369	\$ 5,678,244
Thrift Store – Merchandise Donated	3,689,781	3,810,283
Cost of Goods Sold	<u>(4,754,091)</u>	<u>(4,971,675)</u>
Fundraising/Thrift Stores – Net	<u>\$ 4,541,059</u>	<u>\$ 4,516,852</u>

**16. LEASED FACILITIES**

D.A.P. has entered into six non-cancelable operating leases for the leasing of the Revivals Thrift Shops in Palm Springs, Cathedral City, Palm Desert, a retail processing center, and the D.A.P. Indio office. The monthly lease payments range from \$1,930 to \$30,711 per month through July 2022.

The following summarizes annual commitments including options to extend, as of June 30, 2016 under the terms of these leases:

Year ended	
<u>June 30,</u>	
2017	\$ 962,979
2018	957,953
2019	957,120
2020	657,660
2021	323,310
Thereafter	<u>358,072</u>
	<u>\$ 4,217,094</u>

Total rent expense of \$963,779 and \$1,017,838 for the years ended June 30, 2016 and 2015 respectively, are included in the accompanying statement of functional expenses-program services and statement of functional expenses-supporting services.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**17. CONCENTRATION OF REVENUE**

D.A.P. received 52% and 45% as of June 30, 2016 and 2015, of revenue from the 340B Drug Pricing program. See Note 1 – Medical Services for a description of this program.

D.A.P. also received 13% and 14% as of June 30, 2016 and 2015, of revenue from grants funded by governmental sources. A significant portion of government grant funding is provided by the federal Ryan White grant 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. A lease agreement was entered into with Laboratory Corporation of America for three years with monthly rental income of \$1,793, expired December 31, 2015 and now operates on a month to month basis. 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 has entered into a lease agreement with the County of Riverside for the use of D.A.P. property to operate a medical clinic. The lease provides for annual payments in the amount of \$50,000, adjusted annually for increases in the Consumer Price Index, through May 2062.

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

<u>Year ended June 30,</u>	
2017	\$ 94,100
2018	94,100
2019	94,100
2020	94,100
2021	94,100
2022 and thereafter	<u>2,043,466</u>
	<u>\$ 2,513,966</u>

Rental income for the years ending June 30, 2016 and 2015 totaled \$112,807 and \$120,068, respectively. These amounts are reported with other income in the accompanying statement of activities.

**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.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**19. EMPLOYEES' 401(k) PLAN – (Continued)**

D.A.P. will make Safe Harbor matching contributions up to 4% and may make 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 \$381,166 and \$246,895 for the years ended June 30, 2016 and 2015, 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 September 27, 2016 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2016 or as of September 27, 2016 that require disclosure to the financial statements.

## **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, 2016, 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 September 27, 2016.

**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.

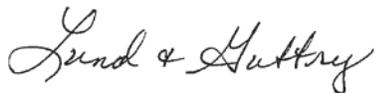
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during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

September 27, 2016



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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, 2016. 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, 2016.

#### 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.



September 27, 2016

**DESERT AIDS PROJECT, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2016**

<b><u>Federal Grantor/Pass-Through Agency/Program</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-through Entity Identifying Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>U.S. Department of Health and Human Services</b>			
Direct programs:			
Health Center Program	93.224		\$ 595,834
		Subtotal Department of Health and Human Services direct programs	<u>595,834</u>
Pass-through programs from:			
County of Riverside Health Services Agency Department of Mental Health Substance Abuse Education/Mental Health	93.959	4100514142.55600	38,947
County of Riverside Health Services Agency Department of HIV/AIDS HIV Care Program	93.917	14-027	205,353
Riverside Community Health Agency HIV Anonymous Test Site	93.940	09-072	61,870
San Bernardino County Department of Public Health Part A, Ryan White HIV/AIDS Treatment Modernization Act	93.914	H89HA00032	2,647,720
Ryan White HIV/AIDS Program - Minority AIDS Initiative	93.914		<u>87,526</u>
		Subtotal Department of Health and Human Services pass-through programs	<u>2,735,246</u>
		Total U.S. Department of Health and Human Services	<u>3,041,416</u>
<b>U.S. Department of Homeland Security</b>			
Pass-through programs from:			
County of Riverside Department of Public Social Services Emergency Food and Shelter Program	97.024	LRO#08200-098	6,935
<b>U.S. Department of Housing and Urban Development</b>			
Pass-through programs from:			
County of Riverside Housing Authority Housing Opportunities for Persons with AIDS	14.241		270,579
City of Palm Springs Community Development Block Grant Program	14.218	B-15-MC-06-0561	<u>39,873</u>
		Total U.S. Department of Housing and Urban Development	<u>310,452</u>
		Total expenditures of federal awards	<u>\$ 3,954,637</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2016**

**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, 2016. 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.

**DESERT AIDS PROJECT, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2016**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of Desert AIDS Project, Inc.
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., which would be required to be reported in accordance with *Government Auditing Standards*, 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 major federal award programs for Desert AIDS Project, Inc. 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 program tested as major program was:

<u>Program Name</u>	<u>CFDA#</u>
Part A, Ryan White HIV/AIDS Treatment Modernization Act	93.914

8. The dollar threshold used for distinguishing between Type A and B programs was \$300,000.
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, 2016.

**DESERT AIDS PROJECT, INC.**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2016**

**FEDERAL COMPLIANCE**

There were no prior year findings and questioned costs for the year ended June 30, 2015.