

DESERT AIDS PROJECT, INC.
PALM SPRINGS, CALIFORNIA

INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2015 AND 2014



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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, 2015, 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, 2015 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

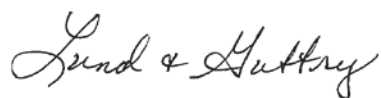
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic 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 29, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent in all material respects, with the audited financial statement from which it has been derived.



September 29, 2015

DESERT AIDS PROJECT, INC

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

ASSETS

	<u>2015</u>			<u>2014</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>(Memorandum Only)</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,433,742	\$ 678,993	\$ 4,112,735	\$ 4,896,980
Investments - Note 3	7,839,356	-	7,839,356	6,084,570
Accounts receivable, net - Note 5	2,030,981	-	2,030,981	1,629,429
Inventory	359,545	-	359,545	340,380
Prepaid expenses	368,856	1,732	370,588	378,403
Receivable from other funds	-	947,295	947,295	633,520
	<u>14,032,480</u>	<u>1,628,020</u>	<u>15,660,500</u>	<u>13,963,282</u>
PROPERTY AND EQUIPMENT, NET - Note 7	<u>5,295,395</u>	<u>179,053</u>	<u>5,474,448</u>	<u>4,844,223</u>
OTHER ASSETS				
Pledges receivable, net - Note 6	73,025	605,328	678,353	1,460,853
Art collection, net - Note 8	180,896	52,660	233,556	264,271
Deposits and other	71,557	1,975	73,532	94,154
Charitable remainder trusts receivable - Note 10	-	190,019	190,019	227,642
Investment - annuity/insurance policy - Note 11	270,216	-	270,216	270,216
	<u>595,694</u>	<u>849,982</u>	<u>1,445,676</u>	<u>2,317,136</u>
TOTAL ASSETS	<u>\$ 19,923,569</u>	<u>\$ 2,657,055</u>	<u>\$ 22,580,624</u>	<u>\$ 21,124,641</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,195,892	\$ -	\$ 2,195,892	\$ 2,288,254
Accrued payroll and vacation	680,501	-	680,501	517,238
Deferred income	400,588	576,000	976,588	1,276,574
Related party payable - Note 9	24,886	-	24,886	24,886
Payable to other funds	947,295	-	947,295	633,520
Loan payable - current portion - Note 12	351,336	-	351,336	345,122
	<u>4,600,498</u>	<u>576,000</u>	<u>5,176,498</u>	<u>5,085,594</u>
LONG-TERM LIABILITIES				
Loan payable - net of current portion - Note 12	929,024	-	929,024	1,280,357
	<u>929,024</u>	<u>-</u>	<u>929,024</u>	<u>1,280,357</u>
TOTAL LIABILITIES	<u>5,529,522</u>	<u>576,000</u>	<u>6,105,522</u>	<u>6,365,951</u>
NET ASSETS				
Unrestricted - undesignated	5,233,494	-	5,233,494	4,393,702
Unrestricted - board designated - Note 3	9,160,553	-	9,160,553	8,076,293
Temporarily restricted - Note 14	-	2,081,055	2,081,055	2,288,695
	<u>14,394,047</u>	<u>2,081,055</u>	<u>16,475,102</u>	<u>14,758,690</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,923,569</u>	<u>\$ 2,657,055</u>	<u>\$ 22,580,624</u>	<u>\$ 21,124,641</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, 2015

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

	2015			2014
	Unrestricted	Temporarily Restricted	Total	(Memorandum Only)
SUPPORT AND REVENUES				
Support:				
Contributions	\$ 343,288	\$ 597,103	\$ 940,391	\$ 1,348,310
Fundraising/special events	2,116,308	90,097	2,206,405	2,234,840
Fundraising/thrift stores - net - Note 15	4,516,852	-	4,516,852	4,477,928
Bequests	175,332	-	175,332	81,930
Other non-cash contributions	-	-	-	50,500
Net assets released from restrictions	961,481	(961,481)	-	-
Total support	<u>8,113,261</u>	<u>(274,281)</u>	<u>7,838,980</u>	<u>8,193,508</u>
Revenue:				
Program revenue, net				
Grants	3,769,433	103,449	3,872,882	3,574,743
Fees for services	14,345,986	-	14,345,986	9,823,103
Interest and dividend income	275,620	814	276,434	159,964
Investment (loss) gain - net	(99,775)	(37,622)	(137,397)	436,645
Other income - Note 18	127,069	-	127,069	131,019
Total revenue	<u>18,418,333</u>	<u>66,641</u>	<u>18,484,974</u>	<u>14,125,474</u>
TOTAL SUPPORT AND REVENUE	<u>26,531,594</u>	<u>(207,640)</u>	<u>26,323,954</u>	<u>22,318,982</u>
EXPENSES				
Program services:				
Education/prevention	1,363,807	-	1,363,807	678,504
Social services	826,528	-	826,528	818,303
Mental health	954,556	-	954,556	608,645
Case management	997,851	-	997,851	827,055
Home health	777,614	-	777,614	843,893
Medical services	9,968,524	-	9,968,524	7,950,583
Dental services	821,253	-	821,253	776,622
Total program services	<u>15,710,133</u>	<u>-</u>	<u>15,710,133</u>	<u>12,503,605</u>
Supporting services:				
Fundraising/special events	1,867,780	-	1,867,780	1,832,310
Fundraising/thrift stores	3,632,952	-	3,632,952	3,506,429
Management and general	2,925,862	-	2,925,862	1,939,531
Marketing and communications	470,815	-	470,815	401,760
Total supporting services	<u>8,897,409</u>	<u>-</u>	<u>8,897,409</u>	<u>7,680,030</u>
TOTAL EXPENSES	<u>24,607,542</u>	<u>-</u>	<u>24,607,542</u>	<u>20,183,635</u>
INCREASE (DECREASE) IN NET ASSETS	<u>1,924,052</u>	<u>(207,640)</u>	<u>1,716,412</u>	<u>2,135,347</u>
NET ASSETS, BEGINNING OF YEAR	<u>12,469,995</u>	<u>2,288,695</u>	<u>14,758,690</u>	<u>12,623,343</u>
NET ASSETS, END OF YEAR	<u>\$ 14,394,047</u>	<u>\$ 2,081,055</u>	<u>\$ 16,475,102</u>	<u>\$ 14,758,690</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, 2015

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

	2015						2014		
	Education/ Prevention	Social Services	Mental Health	Case Management	Home Health	Medical Services	Dental Services	Totals	(Memorandum Only)
Salaries	\$ 464,457	\$ 168,576	\$ 724,106	\$ 634,806	\$ 313,568	\$ 1,539,759	\$ 528,169	\$ 4,373,441	\$ 3,325,625
Employee benefits	79,348	38,240	75,554	137,450	46,773	193,709	75,571	646,645	530,506
Payroll taxes	34,268	12,774	46,207	45,876	23,630	103,896	37,380	304,031	237,481
Total salaries and related expenses	578,073	219,590	845,867	818,132	383,971	1,837,364	641,120	5,324,117	4,093,612
Advertising	292,560	-	-	-	-	-	-	292,560	31,204
Auto and travel	26,743	2,368	4,610	1,645	6,746	10,162	1,632	53,906	51,514
Bad debt	903	-	4,782	-	2,354	18,360	2,622	29,021	41,290
Direct client expenses	71,372	526,383	13,658	18,144	318,887	6,869,301	78,777	7,896,522	5,706,905
Depreciation and amortization	48,150	15,261	14,673	49,742	7,642	124,328	27,497	287,293	343,669
Dues, fees and licenses	1,056	993	2,224	1,076	329	12,185	3,034	20,897	13,868
Insurance	21,926	6,810	6,898	23,208	3,762	34,699	12,817	110,120	151,064
Interest	1,661	816	829	2,770	472	4,180	1,528	12,256	24,704
Miscellaneous	15,559	25,003	150	793	2,377	20,095	413	64,390	60,704
Office	18,899	4,422	5,980	19,408	7,643	320,000	10,105	386,457	186,876
Postage and printing	25,852	2,006	623	3,525	967	15,235	611	48,819	43,885
Professional services	198,260	5,895	37,190	13,349	34,727	570,002	10,591	870,014	1,409,937
Property taxes	1,486	667	656	2,351	219	3,248	1,309	9,936	15,196
Rent - Note 16	23,951	300	302	1,028	154	1,516	569	27,820	27,941
Repairs and maintenance	15,015	8,680	7,465	20,860	3,141	50,960	15,329	121,450	140,127
Seminars and workshops	3,425	266	2,008	284	89	39,294	1,374	46,740	20,135
Telephone and utilities	18,916	7,068	6,641	21,536	4,134	37,595	11,925	107,815	140,974
Total other expenses	785,734	606,938	108,689	179,719	393,643	8,131,160	180,133	10,386,016	8,409,993
TOTAL PROGRAM SERVICES	\$ 1,363,807	\$ 826,528	\$ 954,556	\$ 997,851	\$ 777,614	\$ 9,968,524	\$ 821,253	\$ 15,710,133	\$ 12,503,605

(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, 2015

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

	2015			2014		
	Fundraising/ Special Events	Fundraising/ Thrift Stores	Management and General	Marketing and Communications	Totals	(Memorandum Only)
Salaries	\$ 374,858	\$ 1,178,177	\$ 1,539,289	\$ 208,181	\$ 3,300,505	\$ 2,613,517
Employee benefits	72,677	278,722	214,505	36,514	602,418	529,715
Payroll taxes	27,258	89,313	99,277	15,619	231,467	181,941
Total salaries and related expenses	<u>474,793</u>	<u>1,546,212</u>	<u>1,853,071</u>	<u>260,314</u>	<u>4,134,390</u>	<u>3,325,173</u>
Advertising	54,837	138,392	1,902	175,602	370,733	259,987
Auto and travel	35,470	96,591	30,097	1,079	163,237	162,017
Bad debt (recoveries)	-	-	(3,426)	-	(3,426)	(3,217)
Depreciation and amortization	24,266	154,629	162,181	5,393	346,469	180,764
Dues, fees and licenses	4,073	1,609	23,921	2,306	31,909	56,592
Event costs	913,945	10,611	13,127	2,405	940,088	846,604
Insurance	22,957	16,161	81,413	2,530	123,061	205,426
Interest	558	-	25,328	304	26,190	34,636
Investment fees	57	-	74,895	-	74,952	54,548
Miscellaneous	161,356	249,379	55,174	5,539	471,448	410,720
Office supplies and expense	47,263	77,208	89,625	3,376	217,472	165,375
Postage and printing	95,637	2,112	12,260	660	110,669	105,611
Professional services	21,563	24,077	302,391	3,996	352,027	346,974
Property taxes	630	5,503	8,134	245	14,512	7,399
Rent - Note 16	201	983,338	3,368	111	987,018	1,119,563
Repairs and Maintenance	4,367	88,818	91,074	2,559	186,818	114,204
Seminars and workshops	334	-	21,846	1,618	23,798	32,980
Telephone and utilities	5,473	238,312	79,481	2,778	326,044	254,674
Total other expenses	<u>1,392,987</u>	<u>2,086,740</u>	<u>1,072,791</u>	<u>210,501</u>	<u>4,763,019</u>	<u>4,354,857</u>
TOTAL SUPPORTING SERVICES	<u>\$ 1,867,780</u>	<u>\$ 3,632,952</u>	<u>\$ 2,925,862</u>	<u>\$ 470,815</u>	<u>\$ 8,897,409</u>	<u>\$ 7,680,030</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, 2015

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

	<u>2015</u>	(Memorandum Only) <u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,716,412	\$ 2,135,347
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	633,760	524,433
Loss on disposals of property and equipment	11,734	-
Net unrealized investment (gain) loss	193,778	(363,059)
Changes in operating asset and liabilities:		
Accounts receivable	(401,552)	(187,365)
Prepaid expenses	7,815	(59,128)
Pledges and charitable remainder trusts receivable	820,123	(1,442,206)
Inventory	(19,165)	123,311
Deposits and other assets	20,622	(9,439)
Receivable from other funds	(313,775)	(282,104)
Investment - annuity/insurance policy	-	103,761
Accounts payable and accrued liabilities	(92,362)	791,360
Accrued payroll and vacation	163,263	119,833
Deferred income	(299,986)	1,217,728
Related party payable	-	(2,643)
Payable to other funds	<u>313,775</u>	<u>282,104</u>
Net cash provided by operating activities	<u>2,754,442</u>	<u>2,951,933</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from sales of property	30,715	-
Purchase of property and equipment	(1,275,719)	(771,645)
Principal payments on debt	(345,119)	(508,733)
Proceeds from line of credit	500,000	-
Repayment of line of credit	<u>(500,000)</u>	<u>-</u>
Net cash used for capital financing activities	<u>(1,590,123)</u>	<u>(1,280,378)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,237,123	717,794
Purchases of investments	<u>(3,185,687)</u>	<u>(4,222,664)</u>
Net cash used for investing activities	<u>(1,948,564)</u>	<u>(3,504,870)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(784,245)</u>	<u>(1,833,315)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,896,980</u>	<u>6,730,295</u>
END OF YEAR	<u>\$ 4,112,735</u>	<u>\$ 4,896,980</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 38,446</u>	<u>\$ 59,340</u>

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

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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, 2015 and 2014 total hours were 92,854 and 101,077 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.

Reclassifications

Reclassifications were made to the 2014 revenue and liability amounts in order to conform to the 2015 presentation.

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, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. 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, 2015 AND 2014

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.

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). 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.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2. FAIR VALUE MEASUREMENTS – (Continued)

- 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, 2015 and 2014, 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, 2015 and 2014, was \$7,839,356 and \$6,084,570, 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, 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>

Board designated funds at June 30, 2014 of \$8,076,293 consists of cash (\$1,991,723) and investments (\$6,084,570). Investments consist of the following at June 30, 2014:

	Fair Market Value	Cost	Unrealized Gain(Loss) At 6/30/14
Government obligations	\$ 641,238	\$ 643,693	\$ (2,455)
Corporate obligations	834,412	831,282	3,130
International obligations, equities and mutual funds	1,562,613	1,377,001	185,612
Mutual Funds	455,592	447,279	8,313
Fund and equity investments	1,330,186	1,010,653	319,533
Real estate and specialty assets	1,260,529	1,189,726	70,803
	<u>\$ 6,084,570</u>	<u>\$5,499,634</u>	<u>\$ 584,936</u>

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014, and fees for services, net of allowances for uncollectible amounts.

	<u>2015</u>	<u>2014</u>
Grants and other contracts	\$ 1,950,447	\$ 642,305
Fees for service	1,050,210	1,270,747
Other receivables	9,818	10,235
	<u>3,010,475</u>	<u>1,923,287</u>
Less: allowance for uncollectible amounts	(1,019,194)	(293,858)
	<u>\$ 1,991,281</u>	<u>\$ 1,629,429</u>

6. PLEDGES RECEIVABLE

Pledges receivable amounted to \$678,353 and \$1,460,853 at June 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Fundraising, membership and special events	\$ 412,539	\$ 685,717
Get Tested Coachella Valley	602,428	1,141,125
	<u>1,014,967</u>	<u>1,826,842</u>
Less: allowance for uncollectible amounts	(336,614)	(365,989)
	<u>\$ 678,353</u>	<u>\$ 1,460,853</u>

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Administration build out	\$ 368,922	\$ 368,922
Building improvements	2,367,073	1,538,187
Clinical/social services build out	533,353	533,353
Community services wing	750,224	750,224
Dental clinic	383,259	380,122
Dog park improvements	38,409	38,409
Donated land	10,288	10,288
Equipment	1,142,183	897,825
Exterior and safety renovation	801,978	785,873
Furniture and fixtures	168,954	167,875
Revivals	490,809	267,915
Serenity Garden	119,372	119,372
Signage	64,821	64,821
Specialty clinic	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	288,596	207,946
Construction in process	30,914	330,207
	<u>10,634,145</u>	<u>9,378,542</u>
Less: accumulated depreciation	(5,159,697)	(4,534,319)
	<u>\$ 5,474,448</u>	<u>\$ 4,844,223</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.

Unrestricted art collection at June 30, 2015 and 2014 amounted to \$180,896 and \$211,611, respectively.

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, 2015 and 2014 amounted to \$52,660 for each year.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 \$24,886 at June 30, 2015 and 2014.

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, 2015 and 2014 amounted to \$190,019 and \$227,642, 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, 2015 and 2014 the investment annuity had a value of \$270,216.

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 \$183,693 in June 2014. As of June 30, 2015, the outstanding principal balance is \$1,280,360. Future maturities of this loan payable balance are as follows:

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

12. LOAN PAYABLE – (Continued)

Year ended		
<u>June 30,</u>		
2016	\$	351,336
2017		361,842
2018		372,662
2019		194,520
Thereafter		<u>-</u>
	\$	<u>1,280,360</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, 2015 and 2014. 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, 2015 and 2014.

14. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Building improvements	\$ 83,142	\$ 83,110
100 Women – affected women and children	351,445	325,869
Pledges/due from other fund receivables	107,624	106,482
Charitable remainder trusts receivable (note 10)	190,019	227,642
Annette Bloch Cancer Care Center	909,239	959,813
Get Tested Coachella Valley	386,927	533,119
Art collection (note 8)	<u>52,660</u>	<u>52,660</u>
	<u>\$ 2,081,055</u>	<u>\$ 2,288,695</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.

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.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014. The amounts on the statement of activities are reported at net value.

	<u>2015</u>	<u>2014</u>
Thrift Store Sales	\$ 5,678,244	\$ 5,644,792
Thrift Store – Merchandise Donated	3,810,283	3,915,498
Cost of Goods Sold	<u>(4,971,675)</u>	<u>(5,082,362)</u>
Fundraising/Thrift Stores – Net	<u>\$ 4,516,852</u>	<u>\$ 4,477,928</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 February 2020.

The following summarizes annual commitments including options to extend, as of June 30, 2015 under the terms of these leases:

Year ended	
<u>June 30,</u>	
2016	\$ 835,589
2017	647,735
2018	656,317
2019	763,572
Thereafter	<u>489,488</u>
	<u>\$ 3,392,701</u>

Total rent expense of \$1,017,838 and \$1,146,503 for the years ended June 30, 2015 and 2014 respectively, are 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 45% and 37% as of June 30, 2015 and 2014, of revenue from the 340B Drug Pricing program. See Note 1 – Medical Services for a description of this program.

D.A.P. also received 14% and 16% as of June 30, 2015 and 2014, of revenue from grants funded by governmental sources. A significant portion of government grant funding is provided by the federal Ryan White grant program. This program is approved by Congress through 2016. There is the possibility the program may not be continued after that date or the reimbursement ratios and factors may change from the current standards. 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.

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, expiring December 31, 2015. 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>	
2016	\$ 104,858
2017	94,100
2018	94,100
2019	94,100
2020 and thereafter	<u>2,231,666</u>
	<u>\$ 2,618,824</u>

Rental income for the years ending June 30, 2015 and 2014 totaled \$120,068 and \$123,113, 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.

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:

DESERT AIDS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

<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 \$246,895 and \$214,481 for the years ended June 30, 2015 and 2014, 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 29, 2015 when the financial statements were authorized and available to be issued. D.A.P. was notified that it was awarded a New Access Point grant and designation as a FQHC Grantee for the period starting August 1, 2015. Further reference to this designation is detailed in Note 1. No other subsequent events or transactions were identified after June 30, 2015 or as of September 29, 2015 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, 2015, 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 29, 2015.

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.

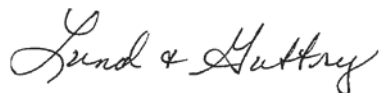
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during 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 29, 2015



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2015. 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*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

Report on Internal Control Over Compliance

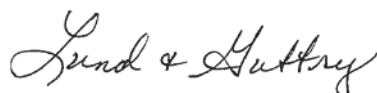
Management of Desert AIDS Project, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Desert AIDS Project Inc.'s internal control over 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

September 29, 2015



DESERT AIDS PROJECT, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

<u>Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>County of Riverside Health Services Agency</u>		
Department of Mental Health		
Substance Abuse Education/Mental Health	93.959	\$ 35,822
Department of HIV/AIDS		
HIV Care Program	93.917	99,195
 <u>County of Riverside Department of Public Social Services</u>		
Emergency Food and Shelter Program	97.024	3,569
 <u>Riverside Community Health Agency</u>		
HIV Anonymous Test Site	93.940	53,344
 <u>San Bernardino County Department of Public Health</u>		
Part A, Ryan White HIV/AIDS Treatment Modernization Act	93.914	2,932,895
Ryan White HIV/AIDS Program - Minority AIDS Initiative	93.914	106,534
 <u>County of Riverside Housing Authority</u>		
Housing Opportunities for Persons with AIDS	14.241	161,726
 <u>City of Palm Springs</u>		
Community Development Block Grant Program	14.253	102,866
 <u>City of Palm Desert</u>		
Community Development Block Grant Program	14.253	<u>28,700</u>
		<u>\$ 3,524,651</u>

DESERT AIDS PROJECT, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Desert AIDS Project, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. 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, 2015

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 OMB Circular A-133.
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 Section 510(a) of OMB Circular A-133.
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, 2015.

DESERT AIDS PROJECT, INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

FEDERAL COMPLIANCE

There were no prior year findings and questioned costs for the year ended June 30, 2014.