

**Audited Financial Statements
and Supplementary Information
AIDS Healthcare Foundation
*Years ended December 31, 2008 and 2007
with Report of Independent Auditors***

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
AUDITED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
SUPPLEMENTARY INFORMATION	
Consolidated Schedules of Functional Expenses	19
REPORT OF INDEPENDENT AUDITORS 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	20

Report of Independent Auditors

Board of Directors AIDS Healthcare Foundation

We have audited the accompanying consolidated balance sheets of AIDS Healthcare Foundation (Foundation) as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIDS Healthcare Foundation as of December 31, 2008 and 2007, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles used in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in the Foundation's consolidated schedules of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and in our opinion, is fairly stated in all material respects, in relation to the consolidated financial statements taken as whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2009 on our consideration of AIDS Healthcare Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.



Los Angeles, California
April 20, 2009

**AIDS Healthcare Foundation
Consolidated Balance Sheets**

	December 31	
	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,704,144	\$ 1,501,954
Assets limited as to use	115,483	115,553
Accounts receivable, net of allowance for doubtful accounts of approximately \$948,843 and \$1,584,626 at December 31, 2008 and 2007, respectively	9,980,298	10,473,704
Premium revenue receivable, net of allowance for doubtful accounts of approximately \$1,475,341 and \$0 at December 31, 2008 and 2007, respectively	14,051,632	15,357,238
Contributions receivable, due within one year	192,136	102,010
Inventories	5,188,175	3,886,943
Prepaid expenses and other current assets	3,368,215	1,007,183
Total current assets	43,600,083	32,444,585
Assets limited as to use , net of current portion	695,395	699,942
Contributions receivable, net of current portion	507,613	806,533
Property and equipment, net	14,330,510	13,318,080
Debt issuance costs, net of accumulated amortization of \$306,015 and \$268,888 at December 31, 2008 and 2007, respectively	460,512	497,639
Deposits and other assets	929,638	905,128
Total assets	\$ 60,523,751	\$ 48,671,907
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 12,259,831	\$ 9,741,122
Accrued expenses	6,379,739	5,768,509
Accrued interest payable	35,710	764,637
Claims payable	1,959,378	1,594,805
Current portion of long-term debt	560,605	1,684,603
Line of credit	-	4,290,025
Total current liabilities	21,195,263	23,843,701
Long-term debt, net of current portion	6,728,045	7,212,232
Total liabilities	27,923,308	31,055,933
Net assets		
Unrestricted	31,392,949	16,176,245
Temporarily restricted	1,207,494	1,439,729
Total net assets	32,600,443	17,615,974
Total liabilities and net assets	\$ 60,523,751	\$ 48,671,907

AIDS Healthcare Foundation
Consolidated Statements of Operations and Changes in Net Assets

	Years ended December 31	
	2008	2007
Unrestricted revenues, gains, and other support		
Pharmacy revenue	\$ 88,637,082	\$ 70,439,992
Premium revenue	60,796,612	52,132,459
Grant revenue	14,494,109	13,858,259
Net patient service revenue	672,173	621,066
Contributions		
Cash	1,143,067	1,257,454
In-kind, thrift store	8,971,744	8,789,148
In-kind, other	460,183	326,167
Other	299,904	422,718
Total unrestricted revenues, gains, and other support before net assets released from restrictions for operations	175,474,874	147,847,263
Net assets released from restrictions for operations	2,551,808	2,124,224
Total revenues, gains and other support	178,026,682	149,971,487
Expenses		
Salaries and benefits	37,818,391	34,168,072
Medical services, supplies and drugs	98,422,917	86,593,864
Cost of sales, thrift stores	31,416	36,374
Rent	4,604,289	4,589,212
Depreciation and amortization	1,105,058	962,648
Interest expense	456,651	737,498
Provision for bad debts	1,776,275	863,928
Insurance	813,267	717,589
Professional services	5,595,732	5,022,414
Other expenses	12,185,982	10,775,115
Total expenses	162,809,978	144,466,714
Change in unrestricted net assets	15,216,704	5,504,773
Temporarily restricted net assets		
Contributions	2,319,573	2,448,076
Net assets released from restrictions for operations	(2,551,808)	(2,124,224)
Change in temporarily restricted net assets	(232,235)	323,852
Change in net assets	14,984,469	5,828,625
Net assets, beginning of year	17,615,974	11,787,349
Net assets, end of year	\$ 32,600,443	\$ 17,615,974

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Cash Flows

	Years ended December 31	
	2008	2007
Cash flows from operating activities		
Change in net assets	\$ 14,984,469	\$ 5,828,625
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	1,105,058	962,648
Amortization of debt issuance costs	37,127	37,127
Provision for bad debts	1,776,274	863,928
Contributed pharmacy inventory	(335,707)	(388,080)
Changes in operating assets and liabilities:		
Accounts receivable	(1,282,868)	(1,228,567)
Premium revenue receivable	1,305,606	(8,719,996)
Inventories	(965,525)	513,968
Prepaid expenses, deposits, and other assets	(2,385,542)	961,297
Contributions receivable	208,794	(386,112)
Accounts payable	2,518,709	2,927,882
Accrued expenses and claims payable	975,803	(1,090,366)
Accrued interest payable	(728,927)	52,825
Net cash provided by operating activities	17,213,271	335,179
Cash flows from investing activities		
Capital expenditures	(2,117,488)	(2,648,115)
Proceeds from sales of assets limited as to use	4,617	4,336
Net cash used in investing activities	(2,112,871)	(2,643,779)
Cash flows from financing activities		
Proceeds from borrowings on line of credit	29,297,986	61,235,196
Principal payments on line of credit	(33,588,011)	(59,007,604)
Proceeds from issuance of long-term debt	-	1,286,107
Principal payments on long-term debt	(1,608,185)	(448,188)
Net cash provided by (used in) financing activities	(5,898,210)	3,065,511
Net change in cash and cash equivalents	9,202,190	756,911
Cash and cash equivalents, beginning of year	1,501,954	745,043
Cash and cash equivalents, end of year	\$ 10,704,144	\$ 1,501,954
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	\$ 1,169,647	\$ 644,998

See notes to consolidated financial statements.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

AIDS Healthcare Foundation (the Foundation) located in Los Angeles, California is a not-for-profit healthcare organization incorporated in 1987. The Foundation provides medical care for those affected by Human Immuno-deficiency Virus (HIV) or living with the Acquired Immune Deficiency Syndrome (AIDS). In addition, the Foundation participates in scientific research and patient advocacy for those in need. The Foundation has a network of 16 outpatient healthcare centers and 13 pharmacies that are located mainly in Los Angeles County, San Bernardino County, Oakland, San Francisco, and throughout Florida. The Foundation previously had operated a residential skilled nursing facility located in Los Angeles. The Foundation also operates 25 healthcare centers in Africa, 19 healthcare centers in Asia and 4 healthcare centers in Latin/Central America. In addition, the Foundation operates 18 thrift stores, the profits of which assist the Foundation's commitment to provide HIV- and AIDS-related healthcare services without regard to a person's financial resources.

Principles of Consolidation

The consolidated financial statements of the Foundation include the accounts of AIDS Healthcare Foundation, AHF Healthcare Centers, AHF MCO of Florida, Inc. and AHF DM of Florida, Inc., and an inactive not-for-profit organization, AHF Pharmacy Network. All significant inter-organization balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimation include: valuation allowances on receivables, useful lives for property and equipment, estimates for claims incurred but not reported, and amounts recognized under the Foundation's savings sharing programs. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees for the payment of principal, interest, and insurance on outstanding California Health Facilities Financing Authority 2005 Refunding Series A Bonds. These assets consist primarily of investments in money market funds and are reported at fair value based on quoted market prices. Amounts required to meet related current liabilities of the Foundation have been reclassified as current assets in the accompanying consolidated balance sheets at December 31, 2008 and 2007.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or for a specific purpose. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions for operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Contributions

Contributions include unconditional transfers of cash or other assets. Contributions, whether temporarily restricted or unrestricted, are recognized as revenue when they are received. Unconditional promises to give are recorded at fair value at the date the promise is received.

Inventories

Inventories consist of thrift store and pharmacy drug inventory. Thrift store inventory consists of donated goods held for resale. Contributions of thrift store inventory are recorded in the period received at estimated fair value.

Pharmacy drug inventory is stated at the lower of cost or market. Pharmacy drug inventory costs have been determined on the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if donated, at the estimated fair value at the date of donation. The provision for depreciation and amortization is computed using the straight-line method over the estimated useful life of each class of depreciable asset, except for leasehold improvements, for which amortization is provided over the shorter of the estimated useful life or remaining lease term.

Buildings and fixed equipment	5 to 50 years
Furniture and movable equipment	5 to 7 years

Maintenance, repairs, and investments in minor equipment are charged to operations. Expenditures that will materially increase the value of properties or extend useful lives are capitalized.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-lived Assets

The Foundation reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The measurement of possible impairment is based primarily on the undiscounted future operating cash flows without interest charges generated through the use of these assets during their remaining estimated useful life. The assessed recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved. Based upon its most recent analysis, the Foundation believes that no events occurred that would impair the carrying value of its long-lived assets during the years ended December 31, 2008 and 2007.

Debt Issuance Costs

Debt issuance costs are deferred and amortized to interest expense using a method that approximates the effective-level-interest method over the term of the related debt.

Net Patient Service Revenue

The Foundation has agreements with third-party payors that provide for payments to the Foundation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments that are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Foundation has not received or paid any significant settlements related to any cost report audits that have occurred.

Premium Revenue

The Foundation has agreements with third-party payors to provide medical services and/or disease management to subscribing participants. Under these agreements, the Foundation receives monthly capitation payments based on the number of each payor's participants, regardless of services actually performed by the Foundation. Such agreements also include savings sharing agreements, the revenue of which is included in premium revenue.

Grant Revenue

Amounts received under government grant agreements are recognized as revenue as qualifying expenditures are incurred.

Pharmacy Revenue

The Foundation has agreements with third-party payors that provide payments to the Foundation at amounts different from its established rates. Payment arrangements include contracted calculations based upon Average Wholesale Price. Pharmacy revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for pharmacy drugs dispensed.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal and State Income Taxes

The Foundation is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation code and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

Charity Care

The Foundation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Foundation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Reclassifications

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform with the 2008 presentation.

NOTE 2 NET PATIENT SERVICE REVENUE

The Foundation has agreements with third party payors that provide for payments to the Foundation at amounts that vary from its established rates. The difference between charges and the related payment amount during the years ended December 31 is reflected below:

	2008	2007
Gross patient revenue	\$ 1,821,060	\$ 2,008,494
Contractual discounts	(1,148,887)	(1,387,428)
Net patient service revenue	\$ 672,173	\$ 621,066

A summary of the payment arrangements with major third-party payors are as follows:

Medi-Cal and Medicaid

The Medi-Cal and Medicaid programs accounted for approximately 31% and 29% of consolidated net patient service revenue in 2008 and 2007, respectively. Inpatient and outpatient services rendered to Medi-Cal and Medicaid program beneficiaries are reimbursed at contracted per diem rates for inpatient care and prospectively determined rates for outpatient care.

NOTE 2 NET PATIENT SERVICE REVENUE (Continued)

Medicare

The Medicare program accounted for approximately 27% and 37% of consolidated net patient service revenue in 2008 and 2007, respectively. Healthcare services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Other Third-party Payors

The Foundation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These payors accounted for approximately 42% and 34% of consolidated net patient service revenue in 2008 and 2007, respectively. The basis for payment to the Foundation under these agreements includes, among others, prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE 3 PREMIUM REVENUE

Positive Healthcare

California Medicaid PCCM

In April 1995, the Foundation contracted with the California Department of Health Services (DHCS) to provide capitated HIV healthcare to Medi-Cal beneficiaries. The capitated plan is known as Positive Healthcare. Positive Healthcare has a comprehensive network of providers and offers the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, and long-term facility care to voluntary members of the plan. DHCS compensates the Foundation on a per member per month (PMPM) capitated basis. Acute inpatient services for members of the plan are the fiscal responsibility of DHCS. Membership contracts with DHCS are on a monthly basis subject to cancellation by the DHCS or member based on loss of Medi-Cal benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare is obligated to provide services to members. As part of the contract, the Foundation and DHCS share net savings between the cost of providing services to plan members on an inpatient fee-for-service basis versus the Foundation's plan experience. Actual savings sharing is estimated based on services rendered and is adjusted in future periods as final savings sharing amounts are determined by DHCS. Should the Foundation's plan members generate excess utilization, the Foundation bears the risk of repaying the excess cost over and above the inpatient fee-for-service equivalent.

The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of year end.

NOTE 3 PREMIUM REVENUE (Continued)

Positive Healthcare Partners

California Medicare HMO

In January 2006, the Foundation contracted with the Centers for Medicare and Medicaid Services (CMS) to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Los Angeles County. This HMO is known as Positive Healthcare Partners. Positive Healthcare Partners has a comprehensive network of contracted providers and offers the full range of traditional Medicare Part A, B, and D benefits, including the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, hospitalization, rehabilitation services, behavioral health and skilled nursing facility care to voluntary members of the plan. CMS compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's risk scoring as outlined in Medicare Advantage Risk Adjustment Policies. Enrollment in this HMO is voluntary and subject to cancellation by CMS or the member based on loss of Medicare benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare Partners is obligated to provide services to members.

The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of year end.

Florida Medicare HMO

In January 2008, the Foundation contracted with the Centers for Medicare and Medicaid Services (CMS) to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Broward and Dade Counties. This HMO is known as Positive Healthcare Partners. Positive Healthcare Partners has a comprehensive network of contracted providers and offers the full range of traditional Medicare Part A, B, and D benefits, including the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, hospitalization, rehabilitation services, behavioral health and skilled nursing facility care to voluntary members of the plan. CMS compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's risk scoring as outlined in Medicare Advantage Risk Adjustment Policies. Enrollment in this HMO is voluntary and subject to cancellation by CMS or the member based on loss of Medicare benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare Partners is obligated to provide services to members.

The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of year end.

NOTE 3 PREMIUM REVENUE (Continued)

Florida Disease Management Program

In March 1999, the Foundation contracted with the State of Florida Agency for Health Care Administration (AHCA) to provide disease management services to MediPass recipients who have been determined by AHCA standards as having HIV/AIDS. AHCA currently compensates the Foundation on an administrative fee. The administrative fee paid to the Foundation was increased. Enrollment of recipients for disease management services is on a monthly basis subject to cancellation/loss of benefits by an enrollee or upon mandatory AHCA disenrollment or "for cause" disenrollment approved by AHCA. Premiums are due monthly and are recognized as revenue during the period in which the Foundation is obligated to provide services to enrollees.

The Foundation recognized premium revenue under the above programs during the years ended December 31, 2008 and 2007 as follows:

	2008	2007
Positive Healthcare Partners - Medicare (California)	\$ 39,525,690	\$ 29,540,523
Positive Healthcare - Medical (California)	11,259,109	12,823,292
Florida Disease Management Program	7,367,209	9,768,644
Positive Healthcare Partners - Medicare (Florida)	2,644,604	-
	\$ 60,796,612	\$ 52,132,459

Savings sharing settlements that occurred during the years ended December 31, 2008 and 2007 related to prior years that are netted against premium revenue in the accompanying consolidated statements of operations and changes in net assets are as follows:

	2008	2007
Positive Healthcare - Medical (California)	\$ (545,679)	\$ 753,024
	\$ (545,679)	\$ 753,024

NOTE 4 GRANT REVENUE

Los Angeles County

Los Angeles County (the County) reimburses the Foundation for services provided to eligible beneficiaries that reside within the County. The County program accounted for approximately 67% and 65% of consolidated grant revenues in 2008 and 2007, respectively. For outpatient services rendered by the Foundation, the County reimburses the Foundation for all allowable expenses, up to the contract maximum. The Foundation is reimbursed at a contracted rate with final settlement determined after submission of annual cost reports by the Foundation and audits thereof by the County of Los Angeles. The Foundation's County cost reports have been reviewed and settled with the County of Los Angeles through December 2007.

AIDS Healthcare Foundation
Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

NOTE 5 CONTRIBUTIONS RECEIVABLE

Contributions receivable totaling \$192,136 and \$102,010 at December 31, 2008 and 2007, respectively, are expected to be received within one year.

Included in noncurrent contributions receivable at December 31, 2008 and 2007 are \$507,613 and \$806,533, respectively, of contributions of the use of a facility for inpatient services that expires in 2013. Such amounts are included as a component of temporarily restricted net assets and are reclassified to unrestricted net assets annually as net assets released from restrictions in amounts approximating \$164,628, reflecting the fair value of the annual use of the facility. The remaining contributions receivable are expected to be received within the next year.

NOTE 6 INVENTORIES

At December 31, inventories consist of:

	2008	2007
Thrift store inventory	\$ 1,165,733	\$ 1,046,001
Pharmacy drugs	4,022,442	2,840,942
	\$ 5,188,175	\$ 3,886,943

NOTE 7 ASSETS LIMITED AS TO USE

At December 31, the composition of assets limited as to use is set forth in the following table:

	2008	2007
Held by trustee under bond repayment agreement:		
Money market funds	\$ 810,878	\$ 815,495
Amount to be used to satisfy current liabilities	(115,483)	(115,553)
Long-term assets limited as to use	\$ 695,395	\$ 699,942

AIDS Healthcare Foundation
Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

NOTE 8 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

	2008	2007
Land	\$ 853,960	\$ 853,960
Buildings	12,380,558	12,344,145
Furniture and equipment	9,982,499	8,557,940
Leasehold improvements	4,904,981	4,572,501
Total	28,121,998	26,328,546
Accumulated depreciation and amortization	(13,791,488)	(13,010,466)
Property and equipment, net	\$ 14,330,510	\$ 13,318,080

Provision for depreciation and amortization for property and equipment amounted to \$1,105,058 and \$962,648 in 2008 and 2007, respectively. Land and buildings collateralize certain notes payable, as discussed in notes 10 and 11.

At December 31, 2008 and 2007, property and equipment balance includes the underutilized Carl Bean house inpatient facility with a net book value of approximately \$3.4 million and \$3.5 million, respectively. Although the facility is not being actively marketed, management believes that it will be sold at no less than its carrying amount.

NOTE 9 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, expiring on September 1, 2009, that provides for secured borrowings up to \$15 million (\$10 million in 2007), at a rate per annum equal to the prime rate. The amount outstanding on the line of credit amounted to \$0 and \$4,290,025 as of December 31, 2008 and 2007, respectively. The Foundation is subject to certain financial covenants relating to net assets, net income, and a specified debt ratio.

AIDS Healthcare Foundation
Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

NOTE 10 LONG-TERM DEBT

At December 31, long-term debt is composed of the following:

	2008	2007
California Health Facilities Financing Authority 2005 Insured Health Facility Series A Revenue Bonds bearing interest at various rates ranging from 3.0% to 4.2%; mandatory principal payments due annually, with interest sinking-fund payments due semiannually, through final maturity on April 1, 2022.	\$ 6,070,000	\$ 6,515,000
Wells Fargo Term Loan, collateralized by a second trust deed on the building, commencing on September 1, 2007 through July 1, 2014, bearing interest at 6.74% per annum; principal and interest payable in monthly installments of \$8,672.	1,218,650	1,238,697
Note payable (residual receipts notice) to the City of Los Angeles, collateralized by a second trust deed on the land and building, simple interest at 5%; principal and interest payable annually from available residual receipts, if any, as defined in the loan agreement; payable in October 2034. The note was paid in full in 2008.	-	1,100,000
Capital lease on five machines bearing interest at 6.25% per annum, payable in September 2008.	-	41,108
Other long-term debt	-	2,030
	7,288,650	8,896,835
Current portion	(560,605)	(1,684,603)
Noncurrent portion	\$ 6,728,045	\$ 7,212,232

Scheduled annual principal maturities of long-term debt for the next five years are as follows:

Year ending December 31		Amount
2009	\$	560,605
2010		499,995
2011		517,068
2012		535,241
2013		562,306
Thereafter		4,613,435
Total	\$	7,288,650

NOTE 10 LONG-TERM DEBT (Continued)

During the year ended December 31, 2005, the Foundation refinanced its California Health Facilities Financing Authority 1992 Series C and 1994 Series B Revenue Bonds. The Foundation is subject to certain financial covenants related to the bonds, including a current ratio of 1.5 to 1, a days cash on hand requirement equal to 20 days of operating expenses (as defined) and a debt service coverage ratio. The Foundation is subject to these covenants beginning with the year ended December 31, 2006.

The costs related to the issuance of the new California Health Facilities Financing Authority 2005 Series A Revenue Bonds are being amortized over the life of the new bonds. The unamortized debt issuance costs related to the California Health Facilities Financing Authority 1992 Series C and 1994 Series B Revenue Bonds in the original amount of \$379,994 will continue to be amortized along with the debt issue costs relating to the new bonds totaling \$383,878 through April 1, 2022. Amortization of debt issue costs amounted to \$37,127 and \$37,127 for the years ended December 31, 2008 and 2007, respectively.

The Foundation is subject to certain restrictions and use covenants related to the \$1,100,000 note payable with the City of Los Angeles. At December 31, 2007, the City of Los Angeles alleged that the Foundation was in technical default of the note's use covenant in that the facility was no longer being used as a hospice for persons with AIDS. Accordingly, the note payable has been classified as a current liability in the Foundation's consolidated balance sheets. On April 21, 2008, the Foundation received a Notice of Default and Election To Sell Under Deed of Trust filed by the City of Los Angeles against the Linn House property (House). This action was initiated after the Foundation filed suit against the City of Los Angeles to obtain a judicial determination regarding the appropriate use of the House under the note. The matter was resolved when payment of the note payable was made in July 2008.

The Foundation obtained a \$1,245,000 seven-year term loan from Wells Fargo Bank. The funds were used for the purchase of a building in Wilton Manors, Florida, which have a thrift store and pharmacy.

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

At December 31, temporarily restricted net assets are available for future periods as follows:

	2008	2007
Housing	\$ 440,074	\$ 480,616
Rental facilities	672,289	844,191
Program support	95,131	114,922
Total \$	1,207,494	\$ 1,439,729

AIDS Healthcare Foundation
Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

NOTE 12 CONCENTRATIONS OF CREDIT RISK

The Foundation grants credit without collateral to its patients, most of whom are residents of Los Angeles County and are insured under third-party agreements. At December 31, the mix of receivables from patients and third-party payors was as follows:

	2008		2007
Centers for Medicare and Medicaid Services	38	%	32
Department of Health and Human Services	16		15
AIDS Drug Assistance Program	14		12
Private Insurance	10		11
Los Angeles County	8		12
Medi-cal/Medicaid	5		5
Agency for Health Care Administration	5		7
Other	4		6
Total	100	%	100

The total cash balances are insured by the FDIC up to \$250,000 and \$100,000 per bank as of December 31, 2008 and 2007, respectively. The Foundation has cash balances on deposit with the financial institutions at December 31, 2008 and 2007 that exceeded the balance insured by the FDIC by approximately \$10,357,000 and \$1,100,000, respectively.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Foundation leases certain equipment and facilities under noncancelable operating lease agreements expiring at various dates through December 2017. Total rental expense for all operating leases was \$4,604,289 and \$4,589,212 in 2008 and 2007, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2008 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending December 31		
2009	\$	2,925,350
2010		2,617,930
2011		2,386,612
2012		1,818,672
2013		786,687
Thereafter		616,647
Total	\$	11,151,898

NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

Insurance

The Foundation maintains claims-made medical malpractice insurance for up to \$1,000,000 per occurrence and general liability insurance for up to \$1,000,000 per occurrence and \$3,000,000 annual aggregate. Claims-made insurance covers only those claims covered by the policy and reported to the insurance carrier during the policy term. The Foundation also maintains such other insurance policies, as management has deemed prudent and necessary, including property, directors' and officers' liability, employment practices liability, and crime.

Litigation

The Foundation is involved in litigation arising from the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material effect on the Foundation's financial position.

Government Regulation

The Foundation is subject to extensive regulation by numerous governmental authorities, including federal, state, and local jurisdictions. Although the Foundation believes that it is currently in compliance with applicable laws, regulations, and rules, some of such laws are broadly written and subject to interpretation by courts or administrative authorities. Specifically in the health care industry, government agencies have recently focused considerable attention and resources to the detection and prosecution of fraudulent activities under Medicare and Medicaid program regulations. While the Foundation believes that it is in compliance with applicable regulations, there can be no assurance that a third party, governmental agency, or private party will not contend that certain aspects of the Foundation's operations or procedures are subject to, or are not in compliance with such laws, regulations, or rules or that the state or federal regulatory agencies or courts would interpret such laws, regulations, and rules in the Foundation's favor. The sanctions for failure to comply with such laws, regulations, or rules could include exclusion from the Medicare and Medicaid programs, significant fines, and criminal penalties.

The Foundation participates in a number of federally funded grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time, although the Foundation expects such amounts, if any, would not be material to its financial position.

AIDS Healthcare Foundation
Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

NOTE 14 FUNCTIONAL EXPENSES

Expenses related to providing services on a functional basis as determined by management for the years ended December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Healthcare services	\$ 145,921,951	\$ 128,187,551
Fundraising	1,207,008	963,138
Thrift stores	8,276,237	8,316,870
Outreach	2,954,436	2,765,535
Administration	4,450,346	4,233,620
Total	<u>\$ 162,809,978</u>	<u>\$ 144,466,714</u>

NOTE 15 CHARITY CARE

The Foundation provides care to patients who meet certain criteria under its charity care policy. The amount of charges foregone for services and supplies furnished under the Foundation's charity care policy aggregate approximately \$3,087,000 and \$2,370,000 in 2008 and 2007, respectively.

AIDS Healthcare Foundation
Consolidated Schedules of Functional Expenses
Years ended December 31, 2008 and 2007

	Healthcare services	Fundraising	Thrift stores	Outreach	Administration	Total
2008:						
Salaries and benefits	\$ 29,081,469	236,450	4,443,863	1,773,118	2,283,491	\$ 37,818,391
Medical services, supplies and drugs	98,274,661	82	1,081	142,145	4,948	98,422,917
Cost of sales	-	-	31,416	-	-	31,416
Rent	2,295,083	4,932	1,922,037	84,710	297,527	4,604,289
Depreciation and amortization	824,372	8,518	203,137	14,201	54,830	1,105,058
Interest expense	349,501	500	74,995	1,500	30,155	456,651
Provision for bad debts	1,720,271	394	3,149	28,719	23,742	1,776,275
Insurance	602,870	4,773	162,230	23,933	19,461	813,267
Professional services	3,648,899	524,804	139,289	523,025	759,715	5,595,732
Other expenses	9,124,825	426,555	1,295,040	363,085	976,477	12,185,982
	<u>\$ 145,921,951</u>	<u>\$ 1,207,008</u>	<u>\$ 8,276,237</u>	<u>\$ 2,954,436</u>	<u>\$ 4,450,346</u>	<u>\$ 162,809,978</u>
2007:						
Salaries and benefits	\$ 26,005,552	\$ 190,374	\$ 4,434,659	\$ 1,542,110	\$ 1,995,377	\$ 34,168,072
Medical services, supplies and drugs	86,418,067	27	1,860	172,090	1,820	86,593,864
Cost of sales	-	-	36,374	-	-	36,374
Rent	1,993,765	26,829	2,159,629	63,353	345,636	4,589,212
Depreciation and amortization	758,219	5,434	162,626	10,018	26,351	962,648
Interest expense	520,527	1,906	43,637	5,719	165,709	737,498
Provision for bad debts	863,928	-	-	-	-	863,928
Insurance	475,194	488	194,308	21,383	26,216	717,589
Professional services	3,477,329	305,588	127,320	411,544	700,633	5,022,414
Other expenses	7,674,970	432,492	1,156,457	539,318	971,878	10,775,115
	<u>\$ 128,187,551</u>	<u>\$ 963,138</u>	<u>\$ 8,316,870</u>	<u>\$ 2,765,535</u>	<u>\$ 4,233,620</u>	<u>\$ 144,466,714</u>

**Report of Independent Auditors 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***

**The Board of Directors
AIDS Healthcare Foundation**

We have audited the consolidated financial statements of AIDS Healthcare Foundation as of and for the year ended December 31, 2008, and have issued our report thereon dated April 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered AIDS Healthcare Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AIDS Healthcare Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AIDS Healthcare Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data, reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AIDS Healthcare Foundation's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vargus + Company LLP

Los Angeles, California
April 20, 2009

