Audited Financial Statements
and Supplementary Information
AIDS Healthcare Foundation
Years ended December 31, 2009 and 2008
with Report of Independent Auditors

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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, 2009 and 2008, 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, 2009 and 2008, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted 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 28, 2010 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 considered in assessing the results of our audits.

Vasquez + Company LLP

Los Angeles, California
April 28, 2010

		December 31,		
		2009		2008
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**3,341,735**	$	10,704,144
Assets limited as to use		**115,676**		115,483
Accounts receivable, net of allowance for doubtful accounts of $2,364,242 and $948,843 at December 31, 2009 and 2008, respectively		**18,200,094**		9,980,298
Premium revenue receivable, net of allowance for doubtful accounts of $0 and $1,475,341 at December 31, 2009 and 2008, respectively		**1,729,108**		14,051,632
Contributions receivable, due within one year		**175,507**		192,136
Inventories		**8,953,746**		5,188,175
Investments		**1,007,071**		-
Prepaid expenses and other current assets		**6,873,951**		3,368,215
Total current assets		**40,396,888**		43,600,083
Assets limited as to use , net of current portion		**695,243**		695,395
Contributions receivable, net of current portion		**342,982**		507,613
Long-term premium revenue receivable, net of allowance for doubtful accounts of $968,481 and $0 at December 31, 2009 and 2008, respectively		**2,363,718**		-
Property and equipment, net		**17,108,375**		14,330,510
Debt issuance costs, net of accumulated amortization of $343,144 and $306,015 at December 31, 2009 and 2008, respectively		**423,383**		460,512
Investments		**4,570,732**		-
Deposits and other assets		**859,700**		929,638
Total assets	**$**	**66,761,021**	$	60,523,751
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**12,429,785**	$	12,259,831
Accrued expenses		**6,813,911**		6,379,739
Accrued interest payable		**34,578**		35,710
Claims payable		**3,282,926**		1,959,378
Current portion of long-term debt		**579,616**		560,605
Line of credit		**2,499,707**		-
Total current liabilities		**25,640,523**		21,195,263
Long-term debt, net of current portion		**6,227,261**		6,728,045
Total liabilities		**31,867,784**		27,923,308
Net assets				
Unrestricted		**33,845,461**		31,392,949
Temporarily restricted		**1,047,776**		1,207,494
Total net assets		**34,893,237**		32,600,443
Total liabilities and net assets	**$**	**66,761,021**	$	60,523,751

See notes to consolidated financial statements.

	Years ended December 31	
	2009	2008
Unrestricted revenues, gains, and other support		
Pharmacy revenue	**$ 118,365,824**	$ 88,637,082
Premium revenue	**48,923,305**	60,796,612
Grant revenue	**15,872,359**	14,494,109
Net patient service revenue	**1,995,544**	672,173
Contributions		
Cash	**612,280**	1,143,067
In-kind, thrift store	**9,581,496**	8,971,744
In-kind, other	**194,269**	460,183
Other	**150,281**	299,904
Total unrestricted revenues, gains, and other support before net assets released from restrictions for operations	**195,695,358**	175,474,874
Net assets released from restrictions for operations	**2,621,993**	2,551,808
Total unrestricted revenues, gains and other support	**198,317,351**	178,026,682
Expenses		
Salaries and benefits	**44,249,742**	37,818,391
Medical services, supplies and drugs	**121,084,036**	98,422,917
Cost of sales, thrift stores	**42,791**	31,416
Rent	**5,455,409**	4,604,289
Depreciation and amortization	**1,487,123**	1,105,058
Interest expense	**512,235**	456,651
Provision for bad debts	**209,739**	1,776,275
Insurance	**1,116,126**	813,267
Professional services	**5,863,677**	5,595,732
Other expenses	**15,843,962**	12,185,982
Total expenses	**195,864,840**	162,809,978
Change in unrestricted net assets	**2,452,511**	15,216,704
Temporarily restricted net assets		
Contributions	**2,462,276**	2,319,573
Net assets released from restrictions for operations	**(2,621,993)**	(2,551,808)
Change in temporarily restricted net assets	**(159,717)**	(232,235)
Change in net assets	**2,292,794**	14,984,469
Net assets, beginning of year	**32,600,443**	17,615,974
Net assets, end of year	**$ 34,893,237**	$ 32,600,443

See notes to consolidated financial statements.

	Years ended December 31 **2009**	2008
Cash flows from operating activities		
Change in net assets	**$ 2,292,794**	$ 14,984,469
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	**1,487,123**	1,105,058
Amortization of debt issuance costs	**37,129**	37,127
Provision for bad debts	**209,739**	1,776,275
Contributed pharmacy inventory	**(189,392)**	(335,707)
Changes in operating assets and liabilities:		
Accounts receivable	**(8,429,535)**	(1,282,869)
Premium revenue receivable	**9,958,806**	1,305,606
Inventories	**(3,576,179)**	(965,525)
Prepaid expenses, deposits, and other assets	**(3,435,798)**	(2,385,542)
Contributions receivable	**181,260**	208,794
Accounts payable	**169,954**	2,518,709
Accrued expenses and claims payable	**1,757,720**	975,803
Accrued interest payable	**(1,132)**	(728,927)
Net cash provided by operating activities	**462,489**	17,213,271
Cash flows from investing activities		
Capital expenditures	**(4,264,988)**	(2,117,488)
Assets limited as to use	**(41)**	4,617
Investments	**(5,577,803)**	-
Net cash used in investing activities	**(9,842,832)**	(2,112,871)
Cash flows from financing activities		
Proceeds from borrowings on line of credit	**2,499,707**	29,297,986
Principal payments on line of credit	**-**	(33,588,011)
Principal payments on long-term debt	**(481,773)**	(1,608,185)
Net cash provided by (used in) financing activities	**2,017,934**	(5,898,210)
Net change in cash and cash equivalents	**(7,362,409)**	9,202,190
Cash and cash equivalents, beginning of year	**10,704,144**	1,501,954
Cash and cash equivalents, end of year	**$ 3,341,735**	$ 10,704,144
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	**$ 513,367**	$ 1,169,647

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 17 pharmacies that are located mainly in Los Angeles County, San Bernardino County, Oakland, San Francisco, Washington DC and throughout Florida. The Foundation previously had operated a residential skilled nursing facility located in Los Angeles. The Foundation also operates 27 healthcare centers in Africa, 24 healthcare centers in Asia and 10 healthcare centers in Latin/Central America. In addition, the Foundation operates 20 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, 2009 and 2008.

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, pharmacy drugs, test kits and condoms. 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. Test kits inventory consists of HIV test kits purchased for use in domestic and global programs. The test kits inventory is stated at the lower of cost or market. The test kits inventory has been determined on the FIFO method. Condoms inventory consist of bulk condoms purchased for distribution in domestic and global operations. The condoms inventory has been determined on the 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, 2009 and 2008.

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 payers 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 payers, 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 payers 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 payer'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.

Premiums are billed monthly and are recognized as revenue over the period in which the Foundation is obligated to provide services to its members. Premiums collected in advance are recorded as unearned premiums liability until earned. The premium is a predetermined amount on a per member per month basis. The Center for Medicare and Medicaid Services (CMS) determines the amount based on the county in which the member resides and other factors. Member census is subject to audit and retroactive adjustment and such adjustments when determinable are included in current operations. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

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

Premium Revenue (continued)
Contracts, laws and regulations governing Medicare and Medicaid are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future.

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 payers 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 payers, and others for pharmacy drugs dispensed.

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.

FASB Accounting Standards Codification (ASC) Topic 740-10-45, *Income Taxes – Other Presentation*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended December 31, 2009, the Foundation had no material unrecognized tax benefits or tax penalties or interest.

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.

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

Fair Value Measurements
FASB ASC Topic 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Foundation's adoption of ASC Topic 820 did not have a material impact on the Foundation's financial condition or results of operations but did require the Foundation to include additional disclosures in the notes to the financial statements as further described below.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities are measured at fair value using a three-level fair value hierarchy that ranks the quality and reliability of the information used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

The Foundation's financial assets and liabilities include primarily cash and cash equivalents, investments, receivables, accounts payable and accrued liabilities. Because of the short-term nature of the cash, investments, receivables, accounts payable and accrued liabilities, the carrying amounts of these assets and liabilities approximate their fair value.

NOTE 2 NET PATIENT SERVICE REVENUE

The Foundation has agreements with third party payers 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:

		2009		2008
Gross patient revenue	**$**	**4,196,644**	$	1,821,060
Contractual discounts		**(2,201,100)**		(1,148,887)
Net patient service revenue	**$**	**1,995,544**	$	672,173

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

Medi-Cal and Medicaid
The Medi-Cal and Medicaid programs accounted for approximately 25% and 31% of consolidated net patient service revenue in 2009 and 2008, respectively. Outpatient services rendered to Medi-Cal and Medicaid program beneficiaries are reimbursed at prospectively determined rates for outpatient care.

Medicare
The Medicare program accounted for approximately 18% and 27% of consolidated net patient service revenue in 2009 and 2008, 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 Payers
The Foundation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These payers accounted for approximately 57% and 42% of consolidated net patient service revenue in 2009 and 2008, respectively. The basis for payment to the Foundation under these agreements includes, among others, 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.

NOTE 3 PREMIUM REVENUE (Continued)

Positive Healthcare
California Medicaid PCCM (continued)
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 costs of providing services 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. Savings sharing revenues that are not expected to be collected within one year are included in the long-term accounts receivables in the accompanying consolidated balance sheets.

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.

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.

NOTE 3 PREMIUM REVENUE (Continued)

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.

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, 2009 and 2008 as follows:

		2009		2008
Positive Healthcare Partners - Medicare (California)	$	**27,595,812**	$	39,525,690
Florida Disease Management Program		**7,207,825**		7,367,209
Positive Healthcare Partners - Medicare (Florida)		**7,031,578**		2,644,604
Positive Healthcare - Medical (California)		**6,951,525**		11,259,109
California Disease Management Program		**136,565**		-
	$	**48,923,305**	$	60,796,612

NOTE 3 PREMIUM REVENUE (Continued)

Savings sharing settlements that occurred during the years ended December 31, 2009 and 2008 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:

		2009		2008
Positive Healthcare - Medical (California)	$	-	$	(545,679)
	$	-	$	(545,679)

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 66% and 67% of consolidated grant revenues in 2009 and 2008, 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 February 2009.

NOTE 5 CONTRIBUTIONS RECEIVABLE

Contributions receivable totaling $175,507 and $192,136 at December 31, 2009 and 2008, respectively, are expected to be received within one year.

Included in noncurrent contributions receivable at December 31, 2009 and 2008 are $342,982 and $507,613, 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 $164,631, 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:

		2009		2008
Pharmacy drugs	**$**	**6,153,787**	$	4,022,442
Thrift store inventory		**1,171,128**		1,165,733
Test kits inventory		**1,435,051**		-
Condoms		**193,780**		-
	$	**8,953,746**	$	5,188,175

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:

		2009		2008
Held by trustee under bond repayment agreement:				
Money market funds	**$**	**810,919**	$	810,878
Amount to be used to satisfy current liabilities		**(115,676)**		(115,483)
Long-term assets limited as to use	**$**	**695,243**	$	695,395

NOTE 8 INVESTMENTS

At December 31, 2009, investments consist of:

Money market mutual funds		$	337,959
U.S. government and corporate bonds			5,239,844
	Total		5,577,803
Less current portion			1,007,071
		$	4,570,732

The Foundation's investments were accounted for at fair value and were measured using Level 1 inputs which are the quoted market prices available in active markets.

NOTE 9 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

		2009		2008
Land	**$**	**2,835,956**	$	853,960
Buildings		**11,331,226**		12,380,558
Furniture and equipment		**11,502,455**		9,982,499
Leasehold improvements		**6,390,871**		4,904,981
Total		**32,060,508**		28,121,998
Accumulated depreciation and amortization		**(14,952,133)**		(13,791,488)
Property and equipment, net	**$**	**17,108,375**	$	14,330,510

Provision for depreciation and amortization for property and equipment amounted to $1,487,123 and $1,105,058 in 2009 and 2008, respectively. Land and buildings collateralize certain notes payable, as discussed in notes 10 and 11.

At December 31, 2009 and 2008, property and equipment balance includes the underutilized Carl Bean house inpatient facility with a net book value of approximately $3.3 million and $3.4 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 10 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, expiring on September 1, 2010, that provides for secured borrowings up to $15 million in 2009 and 2008, at a rate per annum equal to the prime rate. The amount outstanding on the line of credit amounted to $2,499,707 and $0 as of December 31, 2009 and 2008, respectively. The Foundation is subject to certain financial covenants relating to net assets, net income, and a specified debt ratio.

NOTE 11 LONG-TERM DEBT

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

		2009		2008
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.	$	**5,609,931**	$	6,070,000
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 $8,672.		**1,196,946**		1,218,650
		6,806,877		7,288,650
Current portion		**(579,616)**		(560,605)
Noncurrent portion	**$**	**6,227,261**	$	6,728,045

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

Year ending December 31		Amount
2010	$	579,616
2011		517,068
2012		535,242
2013		562,306
2014		587,624
Thereafter		4,025,021
Total	$	6,806,877

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.

NOTE 11 LONG-TERM DEBT (Continued)

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 $37,129 and $37,127 for the years ended December 31, 2009 and 2008, respectively.

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 has a thrift store and pharmacy.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

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

		2009		2008
Housing	**$**	**399,532**	$	440,074
Rental facilities		**507,657**		672,289
Program support		**140,587**		95,131
Total	**$**	**1,047,776**	$	1,207,494

NOTE 13 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 payers was as follows:

NOTE 13 CONCENTRATIONS OF CREDIT RISK (Continued)

	2009		2008	
Los Angeles County	**31**	%	8	%
Private Insurance	**23**		10	
AIDS Drug Assistance Program	**20**		14	
Medi-cal/Medicaid	**5**		5	
Department of Health and Human Services	**3**		16	
Agency for Health Care Administration	**2**		5	
Centers for Medicare and Medicaid Services	**5**		38	
Other Grants	**6**		0	
Other	**5**		4	
Total	**100**	%	100	%

The total cash balances are insured by the FDIC up to $250,000 per bank as of December 31, 2009 and 2008, respectively. The Foundation has cash balances on deposit with the financial institutions at December 31, 2009 and 2008 that exceeded the balance insured by the FDIC by approximately $3,733,063 and $10,357,000, respectively.

NOTE 14 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 $5,455,409 and $4,604,289 in 2009 and 2008, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2009 that have initial or remaining lease terms in excess of one year:

NOTE 14 COMMITMENTS AND CONTINGENCIES (Continued)

		Amount
Year ending December 31		
2010	$	3,199,529
2011		2,799,660
2012		2,477,121
2013		1,336,268
2014		619,238
Thereafter		65,084
Total	$	10,496,900

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. The Foundation also maintains such other insurance policies, as management has deemed prudent and necessary, including property, directors' and officers' liability, employment practices liability, flood insurance, errors and omissions, 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.

NOTE 15 FUNCTIONAL EXPENSES

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

		2009		2008
Healthcare services	**$**	**174,100,677**	$	145,921,951
Fundraising		**616,969**		1,207,008
Thrift stores		**8,887,992**		8,276,237
Outreach		**5,548,805**		2,954,436
Administration		**6,710,397**		4,450,346
Total	**$**	**195,864,840**	$	162,809,978

NOTE 16 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 $4,366,589 and $3,087,000 in 2009 and 2008, respectively.

NOTE 17 SUBSEQUENT EVENTS

In accordance with ASC Topic 855, *Subsequent Events*, AIDS Healthcare Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 28, 2010 the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no subsequent matters required disclosure or adjustment to the accompanying consolidated financial statements.

	Healthcare services	Fundraising	Thrift stores	Outreach	Administration	Total
2009:						
Salaries and benefits	$ 33,763,556	$ 185,718	$ 4,606,928	$ 2,761,809	$ 2,931,731	$ 44,249,742
Medical services, supplies and drugs	120,469,529	20	1,132	612,309	1,046	121,084,036
Cost of sales	2,702	-	40,089	-	-	42,791
Rent	2,838,214	7,120	2,163,425	98,010	348,640	5,455,409
Depreciation and amortization	1,139,697	9,354	178,023	62,000	98,049	1,487,123
Interest expense	367,050	1,149	76,596	7,182	60,258	512,235
Provision for bad debts	200,429	29	175	7,601	1,505	209,739
Insurance	736,141	1,529	282,829	46,807	48,820	1,116,126
Professional services	3,835,378	257,844	188,114	825,578	756,763	5,863,677
Other expenses	10,747,981	154,206	1,350,681	1,127,509	2,463,585	15,843,962
	$ 174,100,677	$ 616,969	$ 8,887,992	$ 5,548,805	$ 6,710,397	$ 195,864,840
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
	$ 145,921,951	$ 1,207,008	$ 8,276,237	$ 2,954,436	$ 4,450,346	$ 162,809,978

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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, 2009, and have issued our report thereon dated April 28, 2010. 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 *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.

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 over financial reporting that might be deficiencies, 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 or other matters 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.

Vasquez + Company LLP

Los Angeles, California
April 28, 2010