AIDS Healthcare Foundation
Audited Consolidated Financial Statements
and Supplementary Information
As of and For the Years Ended December 31, 2017 and 2016
with Report of Independent Auditors

An independently owned member
RSM US Alliance
RSM

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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	PAGE
REPORT OF INDEPENDENT AUDITORS	1
AUDITED CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
SUPPLEMENTARY INFORMATION	
Consolidated Schedules of Functional Expenses	30
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*	31

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Report of Independent Auditors

Board of Directors
AIDS Healthcare Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AIDS Healthcare Foundation, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIDS Healthcare Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2018 on our consideration of AIDS Healthcare Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AIDS Healthcare Foundation's internal control over financial reporting and compliance.

Vasquez + Company LLP

Los Angeles, California
April 26, 2018

		December 31		
		2017		2016
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**32,620,381**	$	63,135,801
Pharmacy revenue receivable, net of allowance for doubtful accounts of $3,400,468 and $8,527,025 at December 31, 2017 and 2016, respectively		**58,682,069**		52,254,952
Premiums receivable, net of allowance for doubtful accounts of $3,748,640 and $2,362,612 at December 31, 2017 and 2016, respectively		**9,660,604**		8,748,237
Grant revenue receivable		**8,433,226**		9,165,526
Accounts receivable, net of allowance for doubtful accounts of $6,398,426 and $5,402,146 at December 31, 2017 and 2016, respectively		**3,800,489**		3,386,658
Inventories		**30,843,334**		26,498,770
Investments		**18,437,312**		24,347,195
Prepaid expenses and other current assets		**22,967,807**		29,063,929
Total current assets		**185,445,222**		216,601,068
Noncurrent assets				
Assets limited as to use		**6,828,111**		2,828,111
Long-term premium revenue receivable, net of allowance for doubtful accounts of $9,532,200 and $4,996,403 at December 31, 2017 and 2016, respectively		**-**		4,535,797
Property and equipment, net		**138,426,791**		107,833,909
Long-term investments		**117,387,453**		51,600,333
Intangibles, deposits and other assets		**24,086,402**		21,692,388
Total assets	**$**	**472,173,979**	$	405,091,606
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**60,713,214**	$	55,993,083
Accrued expenses		**16,490,032**		17,456,002
Unearned premiums		**30,147,718**		10,073,170
Claims payable		**17,618,697**		25,269,225
Current portion of long-term debt		**2,616,154**		2,672,560
Total current liabilities		**127,585,815**		111,464,040
Noncurrent liabilities				
Deferred rent		**2,790,833**		2,575,894
Interest rate swap		**164,186**		482,478
Long-term debt, net of current portion		**19,523,397**		22,139,441
Total liabilities		**150,064,231**		136,661,853
Net assets				
Unrestricted		**321,806,096**		268,021,554
Temporarily restricted		**303,652**		408,199
Total net assets		**322,109,748**		268,429,753
Total liabilities and net assets	**$**	**472,173,979**	$	405,091,606

See notes to consolidated financial statements.

	Years ended December 31	
	2017	2016
Operating revenues		
Unrestricted revenues, gains, and other support		
Pharmacy revenue	**$ 1,030,597,409**	$ 924,139,313
Premiums earned, net	**191,986,268**	174,736,391
Grant revenue	**43,330,788**	42,890,612
Net patient service revenue	**9,311,874**	5,554,488
Contributions		
Cash	**1,991,949**	1,559,991
In-kind, thrift store	**10,420,670**	10,252,903
In-kind, other	**1,257,694**	208,674
Other	**4,341,310**	2,198,217
Operating revenues before net assets released from restrictions for operations	**1,293,237,962**	1,161,540,589
Net assets released from restrictions for operations	**499,671**	439,603
Total operating revenues	**1,293,737,633**	1,161,980,192
Operating expenses		
Salaries	**132,843,102**	114,478,994
Benefits	**44,853,774**	41,082,849
Medical services, supplies and drugs	**200,963,988**	200,776,371
Cost of pharmacy and thrift stores sales	**675,424,750**	597,944,807
Rent and other facilities related expenses	**40,205,626**	35,806,372
Depreciation and amortization	**13,349,254**	11,400,757
Interest expense	**1,309,499**	1,423,736
Provision for bad debts	**9,850,712**	16,990,611
Insurance	**2,050,488**	2,053,141
Professional services	**29,664,730**	26,380,754
Charitable contributions	**9,262,304**	6,504,929
Other expenses	**83,450,888**	66,844,534
Total operating expenses	**1,243,229,115**	1,121,687,855
Income from operations	**50,508,518**	40,292,337
Interest and net investment income	**3,276,024**	703,608
Increase in unrestricted net assets	**53,784,542**	40,995,945
Changes in temporarily restricted net assets		
Contributions	**395,124**	-
Net assets released from restrictions for operations	**(499,671)**	(439,603)
Decrease in temporarily restricted net assets	**(104,547)**	(439,603)
Increase in net assets	**53,679,995**	40,556,342
Net assets, beginning of year	**268,429,753**	227,873,411
Net assets, end of year	**$ 322,109,748**	$ 268,429,753

See notes to consolidated financial statements.

	Years ended December 31	
	2017	2016
Cash flows from operating activities		
Change in net assets	**$ 53,679,995**	$ 40,556,342
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Goodwill recognized from acquisition	**(3,500,000)**	(662,893)
Impairment of goodwill	**207,148**	(1,340,758)
Depreciation of property and equipment	**11,564,866**	9,962,456
Loss on sale of property and equipment	**63,944**	97,543
Amortization of debt issuance costs	**146,212**	146,212
Amortization of intangible assets	**1,437,980**	1,340,758
Provision for bad debts	**9,850,712**	16,990,611
Unrealized gain on interest rate swap	**(318,292)**	(305,917)
Contributed pharmacy inventory	**1,257,694**	208,674
Changes in operating assets and liabilities:		
Accounts receivable	**(15,959,360)**	(15,601,107)
Premiums receivable	**3,623,430**	12,597,689
Inventories	**(5,602,258)**	421,797
Prepaid expenses, deposits, and other current assets	**5,556,980**	(11,561,608)
Accounts payable	**24,794,680**	9,855,285
Accrued expenses and claims payable	**(8,616,499)**	12,412,664
Deferred rent	**214,939**	338,139
Net cash provided by operating activities	**78,402,171**	75,455,887
Cash flows from investing activities		
Additions to property and equipment	**(42,221,692)**	(24,151,396)
Assets limited as to use	**(4,000,000)**	438,095
Purchases of investments	**(59,877,237)**	(27,854,186)
Sale of investments	**-**	10,949,472
Net cash used in investing activities	**(106,098,929)**	(40,618,015)
Cash flows from financing activities		
Principal payments on long-term debt	**(2,818,662)**	(3,476,728)
Net cash used in financing activities	**(2,818,662)**	(3,476,728)
Net change in cash and cash equivalents	**(30,515,420)**	31,361,144
Cash and cash equivalents, beginning of year	**63,135,801**	31,774,657
Cash and cash equivalents, end of year	**$ 32,620,381**	$ 63,135,801
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	**$ 1,309,499**	$ 1,423,736

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) headquartered 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 patient advocacy, housing and scientific research for those in need. The Mission of the Foundation is to provide “Cutting edge medicine and advocacy regardless of the ability to pay”. The Foundation has a network of 48 outpatient healthcare centers and 46 pharmacies that are located in 15 States including California, Florida, Texas, Washington, New York, Georgia, Nevada, Louisiana, South Carolina, Mississippi, Maryland, Illinois, Indiana and Ohio as well as Washington DC. The Foundation operates 21 Out of the Closet Thrift Stores in 8 States. The Foundation also operates in 39 countries including 12 in Africa, 10 in the Americas, 9 in Asia and 8 in Europe. In 2017, the Foundation purchased two properties in Los Angeles to provide very low income and transitional housing.

Principles of Consolidation

The Foundation’s consolidated financial statements include the accounts of AIDS Healthcare Foundation, AHF Healthcare Centers, AHF MCO of Florida, Inc., AIDS Healthcare Foundation Disease Management of Florida, Inc., HIV Immunotherapeutics Institute (formerly AHF Pharmacy Network), AIDS Healthcare Foundation Texas, Inc., AJ Brooklyn Medical Practice, P.C., AIDS Task Force of Greater Cleveland, Women Organized to Respond to Life-threatening Diseases (WORLD), AIDS Center of Queens County, Inc. (ACQC), South Side Help Center, Inc. (SSHC), AID Atlanta, Incorporated, AHF China LLC., AHF MCO of Georgia, Inc. and AIDS Outreach Center (AOC). 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 (GAAP) 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: retroactive adjustments on premium revenues, valuation allowances on receivables, useful lives for property and equipment, estimates of the liability for claims incurred but not reported, revenues recognized under the Foundation’s savings sharing programs and interest rate swap valuation. 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.

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

Assets Limited as to Use
Assets limited as to use primarily include deposits restricted by the States of Florida, California and Georgia in connection with the Foundation's Medicare and Medicaid health maintenance organization (HMO) contracts. Assets limited as to use include deposits as required by Florida Office of Insurance Regulation (FLOIR), the Florida Agency for Healthcare Administration (FL AHCA), the California Department of Managed HealthCare (CA DMHC) and the Georgia Office of Insurance and Safety Fire Commissioner. These assets consist primarily of cash deposits and investments in money market funds which are reported at fair value based on quoted market prices.

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 pharmacy drugs, test kits, condoms and thrift store merchandise. Thrift store inventory consists primarily of donated goods held for resale. Contributions of thrift store inventory are recorded in the period received at estimated fair value.

All inventories other than thrift store inventory are determined on the first-in, first-out (FIFO) method and are stated at the lower of cost or market.

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, as follows.

Buildings and fixed equipment	5 to 50 years
Furniture and movable equipment	3 to 15 years
Software	3 to 10 years

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

Property and Equipment (continued)
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.

Impairment of Long-lived Assets
The Foundation reviews the carrying amount 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 during the years ended December 31, 2017 and 2016 that would impair the carrying amount of its long-lived assets.

Goodwill and Intangible Assets
Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed less fair value of assets and businesses acquired. As of December 31, 2017 and 2016, goodwill of $5,942,930 and $6,150,078, respectively, is recorded in the Foundation's consolidated balance sheets within intangibles, deposits and other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with GAAP, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. Based on management's analysis, no impairments were identified as of and for the years ended December 31, 2017 and 2016.

Intangible assets primarily represent the customer relationships acquired in the MOMs Pharmacies business acquisition. The intangible was measured at fair value using Level 3 inputs. The income approach was utilized in valuing the customer relationships, whereby the Foundation capitalized the future cash flows attributable to the customers based upon their expected future mortality dispersion function. The value of the customer relationships is amortized, to reflect the pattern of economic benefits consumed, on a straight-line basis over its useful life of 15 years. As of December 31, 2017 and 2016, net intangible assets amounted to $16,377,187 and $14,315,167, respectively.

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. The debt issuance costs are related to the notes and loan agreements with Wells Fargo as further described in Note 11.

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

Claims Payable

Claims payable includes the liability for claims and medical services incurred but not paid and the estimated liability for claims incurred but not reported as of year end. The liability for claims incurred but not reported is determined based on historical evaluations and statistical analysis of paid claims. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimate is continually reviewed and adjusted, as necessary, based on claims experience or as new information becomes known; such adjustments are included in current operations.

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 individually contracted rates determined between the Foundation and the third-party payers as well as charges determined by publicly funded payers including Medi-Cal, Medicaid and Medicare. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including 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.

Provision for bad debts from patient service revenue amounted to $187,624 and $128,152 for the years ended December 31, 2017 and 2016, respectively.

Premiums

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 premiums earned.

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. Premiums are a predetermined amount on a per member per month (PMPM) basis. For the Medicare Plans, the Center for Medicare and Medicaid Services (CMS) determines the amount based on the county in which the member resides and other factors.

For the Medicaid Plans, the Medicaid agency for each state 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. Premiums earned are recorded net of stop loss reinsurance ceded premiums.

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

Premiums (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 or when the service has been performed.

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 or Acquisition Cost. Pharmacy revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for pharmacy drugs dispensed. The allowance for doubtful accounts from pharmacy revenue receivables amounted to $3,400,468 and $8,527,025 at December 31, 2017 and 2016, respectively.

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.

GAAP 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 years ended December 31, 2017 and 2016, the Foundation had no material unrecognized tax benefits or tax penalties or interest.

The Foundation's federal and state income tax returns for the years 2013 through 2017 are subject to examination by regulatory agencies. Tax returns are subject to examination generally for three and four years after they were filed for federal and state, respectively.

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)

Transactions in Foreign Currencies
The Foundation operates in 39 countries and accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars at the appropriate exchange rates when each transaction is executed. The net loss from foreign currency transactions amounted to $839,592 and $318,113 for the years ended December 31, 2017 and 2016, respectively and is included in other expenses in the accompanying consolidated statements of operations and changes in net assets. The U.S. dollar is considered to be the functional and reporting currency of the Foundation.

Interest Rate Swap
The Foundation entered into interest rate swap agreements as a hedge against the variability in future interest payments due on certain term notes and its Public Finance Authority Revenue Bonds. The terms of the swap agreements effectively convert the variable rate interest payments due on the term notes to fixed rates through maturity (see Note 12). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 815 (ASC 815), *Accounting for Derivative Instruments and Hedging Activities*, the interest rate swap is measured at fair value and recognized as either an asset or a liability in the balance sheets. The change in fair value of the swap is recognized as a gain or loss in the period of change.

Fair Value Measurements
Generally accepted accounting principles, which define fair value, establish a framework for measuring fair value and disclosures about fair value measurements. 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.

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

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09*, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.* This new standard will supersede most existing revenue recognition guidance, including industry-specific health care guidance when it becomes effective. This accounting standard permits use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for the Foundation for annual reporting periods beginning after December 31, 2017.

In February 2016, FASB issued ASU 2016-02, *Leases*. This accounting standard requires organizations that lease assets to recognize a right-of use asset and a liability, initially measured at the present value of the lease payments, in its balance sheet. Lessor accounting is largely unchanged from that applied under current GAAP. This accounting standard will also require additional disclosure about the amount, timing, and uncertainty of cash flows arising from leases. This accounting standard is effective for fiscal years beginning after December 15, 2018.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. This accounting standard will change the presentation of net assets into two (2) categories: net assets with donor restrictions and net assets without donor restrictions. This accounting standard requires enhanced disclosures about the composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of the resources, qualitative information on how the not-for-profit manages its liquid resources and quantitative information that communicates the availability of the not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date, the amounts of expenses by both their natural classification and their functional classification, and methods used to allocate costs among program and support functions. This accounting standard also requires investments return to be reported net of external and direct internal investment expenses and use, in the absence of explicit donor stipulations, and the placed-in-service approach to be used for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct long-lived assets. This accounting standard is effective for fiscal years beginning after December 15, 2017.

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

New Accounting Pronouncements (continued)
In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The new standard will be effective for fiscal years beginning after December 15, 2017.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. This accounting standard require that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This accounting standard is effective for fiscal years beginning after December 15, 2017.

In January 2017, FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. Under the new accounting standard, an organization should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This accounting standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Foundation has adopted the new accounting standard on January 1, 2017.

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:

		2017		2016
Gross patient service revenue	**$**	**26,089,056**	$	20,213,506
Contractual discounts and provision for bad debts		**(16,777,181)**		(14,659,018)
Net patient service revenue	**$**	**9,311,874**	$	5,554,488

NOTE 2 NET PATIENT SERVICE REVENUE

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

Medi-Cal and Medicaid
The Medi-Cal and Medicaid programs accounted for approximately 7% and 12% of consolidated net patient service revenue in 2017 and 2016, respectively. Outpatient services rendered to Medi-Cal and Medicaid program beneficiaries are paid at prospectively determined rates for outpatient care.

Medicare
The Medicare program accounted for approximately 11% of consolidated net patient service revenue in 2017 and 2016. Healthcare services rendered to Medicare program beneficiaries are paid at prospectively determined rates for outpatient care. 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 82% and 77% of consolidated net patient service revenue in 2017 and 2016, 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 PREMIUMS

Positive Healthcare
California Medicaid Primary Care Case Management (PCCM)
In April 1995, the Foundation contracted with the California Department of Health Care Services (DHCS) to provide capitated HIV healthcare to Medi-Cal beneficiaries. The capitated plan is known as Positive Healthcare (the Plan). 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 PREMIUMS (CONTINUED)

Positive Healthcare
California Medicaid Primary Care Case Management PCCM (Continued)
Membership contracts with DHCS are on a monthly basis subject to cancellation by the DHCS or the 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 compared to 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 long-term accounts receivables in the accompanying consolidated balance sheets. Savings sharing settlements that occur related to prior years are netted against premiums earned in the accompanying consolidated statements of operations and changes in net assets. As of December 31, 2017 and 2016, the gross premiums receivable relating to the Foundation's savings sharing amounted to $9,532,200 and $9,532,200, respectively. An allowance for doubtful accounts of $9,532,200 and $4,996,403 was provided as of December 31, 2017 and 2016, respectively.

The Foundation had a savings sharing and rate dispute with DHCS. In December 2017, the Foundation entered into a Settlement Agreement with DHCS whereby the Foundation agreed to pay DHCS $624,103 in full and final settlement of all claims arising from and related to the 2009, 2010 and 2012 capitation rates, the 2007 to 2009 savings sharing calculation and prescription drugs approved by the Federal Drug Administration after January 1, 2007. In addition, the Foundation and DHCS agreed that all rates paid to the Foundation for the service periods through and including December 31, 2017 are deemed final rates, regardless of the status of formal notification, issuance of change orders or whether the rates were designated as preliminary or final rates.

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 Medicaid HMO
In May 2010, AHF MCO of Florida, Inc. (AHF MCO) contracted with State of Florida Agency for Health Care Administration (FL AHCA) to provide Medicaid managed care services as Positive Healthcare to Medicaid beneficiaries living with a diagnosis of HIV/AIDS in Broward County. In September 2012, AHF MCO contracted with State of Florida AHCA to provide similar services in Dade County. In January 2014, FL AHCA and AHF MCO entered into a new contract to provide similar HMO services to Medicaid beneficiaries.

NOTE 3 PREMIUMS (CONTINUED)

Florida Medicaid HMO (Continued)
Beginning on July 1, 2014, Positive Healthcare began serving Medicaid beneficiaries in Broward, Dade and Monroe Counties. Positive Healthcare has a comprehensive network of contracted providers and offers the full range of Medicaid benefits, including contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals and hospitalization. FL AHCA compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's diagnosis.

Enrollment in this HMO is voluntary and subject to cancellation by FL AHCA 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 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.

Positive Healthcare Partners
California Medicare HMO, Florida Medicare HMO and Georgia 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. The Foundation established a California HMO to provide these services known as Positive Healthcare Partners. In January 2008, the Foundation contracted with 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. The Foundation established an HMO to provide these services known as Positive Healthcare Partners. In April 2017, the Foundation received the Certificate of Authority from the State of Georgia Office of Commissioner of Insurance. In August 2017, the Foundation contracted with CMS to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Fulton County. The Plan will begin operations on January 1, 2018.

These HMOs have a comprehensive network of contracted providers and offers the full range of traditional Medicare Parts 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 these HMOs 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.

NOTE 3 PREMIUMS (CONTINUED)

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
The Foundation contracted with the State of Florida Agency for Health Care Administration (AHCA) to provide services related to Project AIDS Care (PAC) Waiver Program. This program ended December 31, 2017.

The net premiums earned under the above programs for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Positive Healthcare Partners - Medicare (Florida)	**$ 79,491,275**	$ 74,174,657
Positive Healthcare - Medicaid (Florida)	**55,184,841**	47,814,864
Positive Healthcare Partners - Medicare (California)	**43,038,781**	41,996,684
Positive Healthcare - Medi-Cal (California)	**14,064,229**	10,221,162
Disease Management (Florida)	**207,142**	529,024
	$ 191,986,268	$ 174,736,391

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 14% and 13% of consolidated grant revenues in 2017 and 2016, 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. The Foundation's County cost reports have been reviewed and settled with the County through February 2016.

Other Counties
Other significant grant revenue sources were generated from affiliates, ACQC and AID Atlanta. For the years ended December 31, 2017 and 2016, ACQC grant revenue accounted for 26% and 30%, respectively while AID Atlanta accounted for 13% and 18%, respectively, of consolidated grant revenues.

NOTE 5 INVENTORIES

At December 31, inventories consist of:

	2017	2016
Pharmacy drugs	**$ 26,480,809**	$ 23,546,759
Test kits inventory	**1,238,825**	1,377,324
Thrift store inventory	**2,325,674**	1,252,136
Condoms	**798,026**	322,551
	$ 30,843,334	$ 26,498,770

NOTE 6 ASSETS LIMITED AS TO USE

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

	2017	2016
Restricted deposits:		
Cash deposit held as collateral for Georgia Medicare HMO contract	**$ 3,000,000**	$ -
Cash deposit held by the State of Georgia for Georgia Medicare HMO contract	**1,000,000**	-
Money market account restricted for Florida PHC	**2,187,753**	2,187,753
Cash deposits held by the State of Florida for Florida Medicare HMO contract	**300,000**	300,000
Money market mutual funds restricted for California Medicare HMO contract	**340,358**	340,358
Total assets limited as to use	**$ 6,828,111**	$ 2,828,111

NOTE 7 INVESTMENTS

At December 31, investments consist of:

	2017	2016
Cash, deposits and money market	**$ 18,437,312**	$ 14,126,317
Public equity	**27,810,198**	14,338,085
Fixed income	**75,178,467**	40,960,763
Hedge funds	**2,636,863**	1,857,734
Private equity	**6,713,862**	2,347,435
Asset allocation	**3,547,113**	1,766,244
Venture capital	**1,500,950**	550,950
	135,824,765	75,947,528
Less short-term portion	**(18,437,312)**	(24,347,195)
Long-term investments	**$ 117,387,453**	$ 51,600,333

NOTE 7 INVESTMENTS (CONTINUED)

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2017:

	Fair Value Measurements at December 31, 2017 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash, deposits and money market	$ 18,437,312	$ -	$ -	$ 18,437,312
Public equity				
Domestic	20,215,172	-	-	20,215,172
International	7,595,026	-	-	7,595,026
Fixed income	75,178,467	-	-	75,178,467
Hedge funds	959,696	1,663,130	14,037	2,636,863
Private equity	-	4,307,375	2,406,487	6,713,862
Asset allocation	3,547,113	-	-	3,547,113
Venture capital	-	-	1,500,950	1,500,950
Total	$ 125,932,786	$ 5,970,505	$ 3,921,474	$ 135,824,765

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2016:

	Fair Value Measurements at December 31, 2016 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash, deposits and money market	$ 14,126,317	$ -	$ -	$ 14,126,317
Public equity				
Domestic	12,148,806	-	-	12,148,806
International	2,189,279	-	-	2,189,279
Fixed income	40,960,763	-	-	40,960,763
Hedge funds	230,927	1,384,724	242,083	1,857,734
Private equity	-	-	2,347,435	2,347,435
Asset allocation	1,766,244	-	-	1,766,244
Venture capital	-	-	550,950	550,950
Total	$ 71,422,336	$ 1,384,724	$ 3,140,468	$ 75,947,528

NOTE 7 INVESTMENTS (CONTINUED)

The Foundation utilizes an external investment advisor to oversee the valuation process of the Foundation's Level 3 investments. The advisor is responsible for approving the valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies. These valuations are required to be supported by market data, third-party pricing sources, industry accepted pricing models, counterparty prices, or other methods the advisor deems to be appropriate, including the use of internal proprietary pricing models.

A reconciliation of investments in which significant unobservable inputs (Level 3) for the years ended December 31, 2017 and 2016 were used in determining fair value is as follows:

		2017		2016
Level 3 investments, beginning of year	**$**	**3,140,468**	$	2,553,420
Increase in unrealized appreciation on investments		**59,052**		36,098
Purchases		**950,000**		550,950
Dispositions		**(228,046)**		-
Level 3 investments, end of year	**$**	**3,921,474**	$	3,140,468
Increase (decrease) in unrealized appreciation on investments for the year relating to Level 3 investments held at December 31	**$**	**59,052**	$	36,098

NOTE 8 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

		2017		2016
Land	**$**	**48,881,045**	$	25,492,056
Buildings		**49,785,579**		40,407,157
Leasehold improvements		**23,108,933**		20,747,515
Furniture and fixtures		**8,228,645**		6,432,396
General equipment		**18,295,774**		15,139,822
Vehicles		**7,746,521**		6,897,500
Computer software		**18,454,552**		15,988,931
Computer equipment		**18,082,015**		14,908,888
Low value assets		**1,392,056**		1,210,253
Assets under construction		**5,822,544**		10,503,099
Total		**199,797,664**		157,727,617
Accumulated depreciation and amortization		**(61,370,873)**		(49,893,708)
Property and equipment, net	**$**	**138,426,791**	$	107,833,909

Provision for depreciation and amortization of property and equipment amounted to $11,564,866 and $9,962,456 in 2017 and 2016, respectively.

NOTE 9 CLAIMS PAYABLE

Claims payable is reviewed periodically, with any necessary adjustments reflected during the current period in the results of operations. While the ultimate amount of claims payable and related expenses are dependent on future developments, it is management's opinion that the liability that has been established is adequate to cover such costs.

The summary of changes in claims payable for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Claims payable at beginning of year	**$ 25,269,225**	$ 15,886,367
Incurred hospital and medical services claims:		
Current year	**191,062,078**	192,920,650
Prior years	**(7,253,975)**	(2,829,391)
Total incurred	**183,808,102**	190,091,259
Paid hospital and medical services claims:		
Current year	**(174,680,121)**	(168,589,777)
Prior years	**(16,778,509)**	(12,118,624)
Total paid	**(191,458,630)**	(180,708,401)
Claims payable at end of year	**$ 17,618,697**	$ 25,269,225

As of December 31, 2017, the liability for unpaid claims and claims adjustment expenses was $17,618,697. The estimated ultimate claims and claims adjustment expenses incurred has decreased by approximately $7.3 million for the prior years. The decrease is generally the result of ongoing analysis of recent claim payments and claim development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

NOTE 10 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, expiring on March 16, 2019, that provides for secured borrowings up to $30 million in 2017 and 2016, at a rate per annum equal to the LIBOR plus 2%. There was no outstanding balance on the line of credit as of December 31, 2017 and 2016. 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 consists of:

	2017	2016
Wells Fargo Public Financing Authority Bond of $18,746,162 bearing interest at 3.46% per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing April 2015 with the final installment consisting of all remaining unpaid principal due and payable in full on March 1, 2034.	**$ 16,487,460**	$ 17,342,539
Wells Fargo Equipment Loan of $2,027,979 bearing interest at 4.39% per annum compounded annually on the outstanding balance. Monthly principal and interest payments of $37,706 are due on the 1st of each month commencing April 15, 2014 with a final installment due and payable on March 15, 2019.	**549,379**	967,722
Wells Fargo Term Note (Term Note) of $10,000,000 bearing interest at 4% above LIBOR per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing December 2014 in installments of $119,048 through October 1, 2021, with a final installment consisting of all remaining unpaid principal due and payable in full on October 8, 2021.	**5,595,238**	7,023,810
Melrose Credit Union Note of $329,000 bearing interest at 5.5% per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing February 2013 in installments of $5,375, with a final installment consisting of all remaining unpaid principal due and payable in full on January 22, 2019.	**-**	116,668
	22,632,077	25,450,739
Current portion	**(2,616,154)**	(2,672,560)
Noncurrent portion	**20,015,923**	22,778,179
Less: unamortized debt issuance costs	**(492,526)**	(638,738)
Long-term debt	**$ 19,523,397**	$ 22,139,441

NOTE 11 LONG-TERM DEBT (CONTINUED)

Scheduled annual principal maturities of long-term debt, net of debt issuance costs, are as follows:

Year ending December 31		Amount
2018	$	2,616,154
2019		2,334,899
2020		2,268,245
2021		2,126,076
2022		851,588
Thereafter		11,942,589
Total	$	22,139,551

Wells Fargo PFA Bond
In March 2014, the Foundation extinguished all its outstanding debt as of December 31, 2013 by obtaining new loan agreements with Wells Fargo. The new loans have maturity dates ranging from two and half year (2.5) to seven (7) years and bear interest ranging from 3.9% to 4.61% per annum. The new loans are collateralized by the Foundation's assets, including without limitation, accounts receivables and other rights to payment, general intangibles, inventories, equipment and fixtures, equity interest in all of its Subsidiaries, and a lien of first priority on certain real property described in the loan agreement.

On February 6, 2015, the Foundation and Wells Fargo amended the new loan agreements to delete AHF MCO of Florida, Inc.'s name from the list of guarantors.

In March 2015, the Foundation entered into agreements with Wells Fargo and the Public Finance Authority (PFA). Under the terms of the agreements, PFA issued the $18.7 million Public Finance Authority Revenue Bonds (AIDS Healthcare Foundation Project), Series 2015, pursuant to the terms of the Indenture of Trust dated March 1, 2015 between PFA and Wells Fargo. Wells Fargo and loaned the proceeds of the Bonds to the Foundation. The Foundation used the proceeds to refinance a portion of its existing debt and to pay certain costs incurred in connection with the issuance of the Bonds.

On March 14, 2016, the Foundation and Wells Fargo amended the above loan agreement and the line of credit (see Note 10). The amended and restated agreements provide for, among other terms, the increase in allowed value of permitted acquisitions, provision of a borrowing base certificate, and extension of the line of credit to March 16, 2019.

NOTE 12 INTEREST RATE SWAP AGREEMENTS

In 2014, the Foundation executed interest rate swap agreements with Wells Fargo Bank to manage debt service costs of the Term A Note and Term Loan by achieving a synthetic fixed rate payment to the swap counterparty, and receiving a variable rate payment from the swap counterparty that would effectively offset the payment on the underlying variable rate notes.

In March 2015, the Foundation refinanced the Term A Note and secured a Public Financing Bond with Wells Fargo Bank (see Note 11).

Under the swap agreements, the Foundation pays Wells Fargo Bank a fixed rate of 2.16% and 1.86% for the Public Finance Authority Revenue Bonds and Term Loan, respectively. The details of the swap for the year ended December 31, 2017 are as follows:

	Public Finance Bond	Term Note
Outstanding notional amount	$ 16,487,460	$ 5,595,238
Fixed interest rate	2.16%	1.86%
Floating rate option	USD-Libor-BBA	USD-Libor-BBA
Floating rate day count fraction	Actual/360	Actual/360
Trade date	3/17/2014	10/8/2014
Effective date	3/18/2015	10/8/2014
Termination date	3/17/2021	10/8/2021

At December 31, 2017 and 2016, the fair value of the swap liability was $164,186 and $482,478, respectively. The fair values were the quoted market prices at December 31 of each year. The swap counterparty was rated A+ by Standard & Poor's as of December 31 of each year.

NOTE 13 TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Housing	**$ 78,069**	$ 184,000
Program support	**225,583**	224,199
Total	**$ 303,652**	$ 408,199

NOTE 14 BUSINESS AND ASSET ACQUISITIONS

In 2017, the Foundation acquired one pharmacy, located in Astoria, NY. Intangibles totaling $3,500,000 was recognized as a result of this acquisition.

In 2016, the Foundation acquired two practices, located in New York, NY. Goodwill totaling $603,844 was recognized as a result of these acquisitions.

Supplemental schedule of investing and financing activities
In connection with the above business and asset acquisitions, the Foundation expended cash of $3,500,000 in 2017 and $650,000 in 2016.

NOTE 15 EMPLOYEE RETIREMENT PLAN

The Foundation sponsors a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code: AHF Savings and Investment Plan (the Plan). All classes of employees, except for per diem and temporary employees, are eligible to participate in the Plan. An employee is eligible for participation in the months following 90 days from the date of employment. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan is administered by the employer and all contributions are held in accounts maintained by the Plan custodian.

Each year, participants may contribute up to 20% of pre-tax annual compensation as defined in the Plan, subject to certain limitations, with the contributions and earnings thereon being nontaxable until withdrawn from the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The Foundation may contribute up to $5,000 per participant depending on the number of years of service. The Foundation’s matching contribution expense for the years ended December 31, 2017 and 2016 amounted to $2,921,890 and $2,352,068, respectively.

NOTE 16 CONCENTRATIONS OF CREDIT RISK

a) The Foundation grants credit without collateral to its patients and patients insured under third-party agreements. At December 31, the mix of receivables from patients, third-party payers and grants was as follows:

	2017	2016
Private Insurance	**56.77%**	50.28%
AIDS Drug Assistance Program	**7.38%**	7.20%
Department of Health and Human Services	**12.63%**	5.81%
Other Grants	**15.70%**	17.33%
Medi-Cal/Medicaid	**3.45%**	4.94%
Centers for Medicare and Medicaid Services	**3.72%**	3.01%
Agency for Health Care Administration	**0.28%**	11.20%
Medicare (fee for service)	**0.07%**	0.23%
Total	**100.00%**	100.00%

b) The Foundation maintains its cash accounts at banks and financial institutions located in the United States and other countries. Bank accounts in other countries are subject to rules and regulations in the respective countries and amounts insured vary accordingly. At times, cash and cash equivalent balances at certain banks and financial institutions may exceed insurable amounts. The Foundation believes it mitigates this risk by monitoring the financial stability of institutions holding material cash balances.

NOTE 17 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Foundation leases certain equipment and facilities under non-cancelable operating lease agreements expiring at various dates through April 2035. Total rental expense for all operating leases was $16,060,116 and $15,034,149 in 2017 and 2016, respectively.

NOTE 17 COMMITMENTS AND CONTINGENCIES

Operating Leases (continued)
The following is a schedule of future minimum lease payments under operating leases as of December 31, 2017 that have initial or remaining lease terms in excess of one year:

Year ending December 31		Amount
2018	$	8,991,267
2019		7,801,795
2020		6,629,064
2021		5,769,351
2022		4,490,070
Thereafter		8,574,234
Total	$	42,255,781

Insurance Coverages
The Foundation maintains claims-made medical malpractice insurance for up to $3,000,000 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.

A lawsuit has been filed in California state court alleging a class claim on behalf of all non-exempt California employees for alleged failure to include bonus payments in calculating rate of pay for overtime and alleged failure to provide proper meal and rest breaks. Case is currently in discovery. Potential exposure and likelihood of success is unquantifiable at this time, and costs cannot be reasonably estimated at this time.

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.

NOTE 17 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 Foundation has received a final report for contract year 2008/2009 from the LA County Auditor Controller identifying a potential disallowance of $1.7 million of claimed costs. In addition, the Foundation has received a final report for contract years 2011/2012 and 2012/2013 from the LA County Auditor Controller identifying potential disallowance of $3.5 million of claimed costs. This dispute was the subject of a lawsuit that was dismissed in May 2017. LA County has nonetheless requested payment from the Foundation of approximately $5.2 million to compensate it for payments it made to the federal government. The Foundation disputes it received any amounts in violation of federal law or that any repayments are owed by it to LA County. There is currently no litigation pending between the parties on this issue.

NOTE 18 FUNCTIONAL EXPENSES

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

	2017	2016
Healthcare services	**$ 1,132,513,674**	$ 1,021,045,762
Housing services	**238,921**	-
Thrift stores	**9,833,891**	10,463,254
Outreach	**61,500,540**	53,478,025
Fundraising	**6,787,940**	3,996,587
Administration	**32,354,149**	32,704,227
Total	**$ 1,243,229,115**	$ 1,121,687,855

NOTE 19 CHARITY CARE

The Foundation provides care to patients who meet certain criteria under its charity care policy. The Foundation determines costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies and other operating expenses based on data from its accounting system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016 amounted to $63,135,560 and $45,752,776, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2017 and 2016 amounted to $1,360,385 and $1,356,558, respectively.

NOTE 20 SUBSEQUENT EVENTS

The Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 26, 2018, 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.

SUPPLEMENTARY INFORMATION

	Healthcare services	Housing Services	Thrift stores	Outreach	Fundraising	Administration	Total
2017							
Salaries	**$ 109,294,455**	**27,198**	**$ 4,073,726**	**$ 10,213,360**	**$ 1,348,804**	**$ 7,885,559**	**$ 132,843,102**
Benefits	**36,035,675**	**17,174**	**1,684,831**	**4,199,887**	**360,133**	**2,556,074**	**44,853,774**
Medical services, supplies and drugs	**195,777,264**	**-**	**2,814**	**4,728,470**	**13,007**	**442,433**	**200,963,988**
Cost of pharmacy and thrift stores sales	**675,366,228**	**-**	**58,522**	**-**	**-**		**675,424,750**
Rent and other facilities related expenses	**28,869,438**	**107,597**	**2,511,058**	**2,188,411**	**166,365**	**6,362,757**	**40,205,626**
Depreciation and amortization	**9,200,886**	**3,593**	**188,851**	**905,675**	**34,649**	**3,015,600**	**13,349,254**
Interest expense	**901,451**	**-**	**7,238**	**46,026**	**5,314**	**349,470**	**1,309,499**
Provision for bad debts	**9,828,719**	**-**	**-**	**21,993**	**-**	**-**	**9,850,712**
Insurance	**1,576,793**	**21,583**	**47,582**	**102,648**	**2,100**	**299,782**	**2,050,488**
Professional services	**17,681,716**	**54,539**	**256,706**	**4,999,846**	**486,878**	**6,185,045**	**29,664,730**
Charitable contributions	**1,884,642**	**-**	**1,849**	**4,250,437**	**1,663,931**	**1,461,445**	**9,262,304**
Other expenses	**46,096,407**	**7,237**	**1,000,714**	**29,843,787**	**2,706,759**	**3,795,984**	**83,450,888**
	$ 1,132,513,674	**238,921**	**$ 9,833,891**	**$ 61,500,540**	**$ 6,787,940**	**$ 32,354,149**	**$ 1,243,229,115**
2016							
Salaries	$ 93,326,043	$ -	$ 3,975,031	$ 8,244,042	$ 936,539	$ 7,997,339	$ 114,478,994
Benefits	32,441,089	-	1,856,098	3,543,146	276,868	2,965,648	41,082,849
Medical services, supplies and drugs	195,262,757	-	3,600	4,352,517	466	1,157,031	200,776,371
Cost of pharmacy and thrift stores sales	597,906,155	-	38,652	-	-	-	597,944,807
Rent and other facilities related expenses	23,920,353	-	2,767,360	1,292,099	76,353	7,750,207	35,806,372
Depreciation and amortization	6,811,262	-	331,850	843,712	13,013	3,400,920	11,400,757
Interest expense	935,037	-	19,035	55,387	11,659	402,618	1,423,736
Provision for bad debts	16,838,739	-	-	151,872	-	-	16,990,611
Insurance	1,496,385	-	76,696	88,125	1,857	390,078	2,053,141
Professional services	16,071,043	-	394,428	4,200,711	330,699	5,383,873	26,380,754
Charitable contributions	921,371	-	741	3,383,977	767,718	1,431,122	6,504,929
Other expenses	35,115,528	-	999,763	27,322,437	1,581,415	1,825,391	66,844,534
	$ 1,021,045,762	$ -	$ 10,463,254	$ 53,478,025	$ 3,996,587	$ 32,704,227	$ 1,121,687,855

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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*

Board of Directors
AIDS Healthcare Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AIDS Healthcare Foundation, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered AIDS Healthcare Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of AIDS Healthcare Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of AIDS Healthcare Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AIDS Healthcare Foundation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* when considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasquez + Company LLP

Los Angeles, California
April 26, 2018

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