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AIDS Healthcare Foundation
Audited Consolidated Financial Statements
and Supplementary Information
As of and For the Years Ended December 31, 2019 and 2018
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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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, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, functional expenses 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, 2019 and 2018, and the changes in its net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020 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 the effectiveness of AIDS Healthcare Foundation's 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

Glendale, California
April 30, 2020

		December 31		
		2019		2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**148,111,850**	$	82,871,672
Pharmacy revenue receivable, net of allowance for doubtful accounts of $7,937,240 and $6,046,344 at December 31, 2019 and 2018, respectively		**71,961,553**		61,344,162
Premium revenue receivable, net of allowance for doubtful accounts of $0 and $3,748,640 at December 31, 2019 and 2018, respectively		**8,318,026**		8,057,158
Grant revenue receivable		**14,548,985**		11,278,675
Accounts receivable, net of allowance for doubtful accounts of $9,437,644 and $7,576,952 at December 31, 2019 and 2018, respectively		**6,111,166**		5,924,348
Inventories		**42,873,613**		34,980,430
Investments		**16,930,102**		9,980,060
Prepaid expenses and other current assets		**21,494,034**		23,084,187
Total current assets		**330,349,329**		237,520,692
Noncurrent assets				
Assets limited as to use		**6,828,111**		6,828,111
Property and equipment, net		**264,513,362**		192,978,034
Long-term investments		**60,813,423**		68,510,128
Intangibles, deposits and other assets		**21,688,117**		22,435,100
Total assets	**$**	**684,192,342**	$	528,272,065
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**69,998,453**	$	42,699,104
Accrued expenses		**23,720,291**		22,695,882
Unearned premiums		**202,662**		9,690,159
Claims payable		**20,137,392**		22,223,621
Current portion of long-term debt		**3,141,886**		3,103,463
Total current liabilities		**117,200,684**		100,412,229
Deferred rent		**2,929,047**		2,892,710
Interest rate swap		**1,049,033**		354,345
Long-term debt, net of current portion		**73,608,269**		37,604,121
Total liabilities		**194,787,033**		141,263,405
Net assets				
Without donor restrictions		**489,036,515**		386,651,104
With donor restrictions		**368,794**		357,556
Total net assets		**489,405,309**		387,008,660
Total liabilities and net assets	**$**	**684,192,342**	$	528,272,065

See notes to consolidated financial statements.

	Years ended December 31 2019	2018
Operating revenues		
Unrestricted revenues, gains, and other support		
Pharmacy revenue, net	**$ 1,254,183,119**	$ 1,135,863,420
Premiums earned, net	**157,008,760**	194,357,261
Grant revenue	**58,607,291**	52,085,078
Net patient service revenue	**9,009,434**	8,260,844
Contributions		
Cash	**3,156,054**	4,922,820
In-kind, thrift store	**10,266,895**	9,994,684
In-kind, other	**5,274,441**	2,000,245
Other	**11,911,651**	4,137,879
Operating revenues before net assets released from restrictions for operations	**1,509,417,645**	1,411,622,231
Net assets released from restrictions for operations	**35,810**	303,652
Total operating revenues	**1,509,453,455**	1,411,925,883
Operating expenses		
Salaries	**168,261,434**	155,135,213
Benefits	**56,251,968**	49,186,140
Medical services, supplies and drugs	**172,474,501**	211,667,398
Cost of pharmacy and thrift stores sales	**818,988,980**	722,075,551
Rent and other facilities related expenses	**53,385,299**	47,034,518
Depreciation and amortization	**18,207,717**	14,887,029
Interest expense	**1,907,137**	1,238,418
Provision for bad debts	**7,955,023**	3,573,253
Insurance	**2,498,492**	2,384,598
Professional services	**32,404,197**	33,473,779
Charitable contributions	**8,873,792**	10,182,912
Other expenses	**73,786,308**	96,172,778
Total operating expenses	**1,414,994,848**	1,347,011,587
Income from operations	**94,458,607**	64,914,296
Investment income (loss), net	**7,926,804**	(69,288)
Increase in net assets without donor restrictions	**102,385,411**	64,845,008
Changes in net assets with donor restrictions		
Contributions	**47,048**	357,556
Net assets released from restrictions for operations	**(35,810)**	(303,652)
Increase in net assets with donor restrictions	**11,238**	53,904
Increase in net assets	**102,396,649**	64,898,912
Net assets, beginning of year	**387,008,660**	322,109,748
Net assets, end of year	**$ 489,405,309**	$ 387,008,660

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Functional Expenses
Years ended December 31,2019 and 2018

	Healthcare Services	Housing Services	Thrift Stores	Outreach	Fundraising	Administration	Total
2019							
Salaries	**$ 137,221,606**	**$ 802,516**	**$ 4,782,463**	**$ 13,261,563**	**$ 1,662,908**	**$ 10,530,378**	**$ 168,261,434**
Benefits	**45,372,830**	**166,408**	**1,890,401**	**4,905,452**	**362,463**	**3,554,415**	**56,251,968**
Medical services, supplies and drugs	**164,175,122**	**21**	**13,097**	**8,000,510**	**4,801**	**280,950**	**172,474,501**
Cost of pharmacy and thrift stores sales	**818,935,145**	**-**	**53,835**	**-**	**-**	**-**	**818,988,980**
Rent and other facilities related expenses	**37,423,813**	**2,041,113**	**2,496,855**	**3,141,001**	**145,326**	**8,137,191**	**53,385,299**
Depreciation and amortization	**12,686,383**	**835,812**	**117,444**	**841,703**	**16,561**	**3,709,814**	**18,207,717**
Interest expense	**1,243,773**	**-**	**14,428**	**73,288**	**-**	**575,649**	**1,907,137**
Provision for bad debts	**7,715,570**	**180,110**	**19,000**	**28,027**	**-**	**12,317**	**7,955,023**
Insurance	**1,545,074**	**117,473**	**77,009**	**213,448**	**1,777**	**543,711**	**2,498,492**
Professional services	**19,902,934**	**519,368**	**256,415**	**5,584,599**	**529,956**	**5,610,926**	**32,404,197**
Charitable contributions	**1,176,967**	**14,415**	**-**	**5,510,685**	**1,784,398**	**387,327**	**8,873,792**
Other expenses	**55,366,309**	**77,413**	**963,913**	**12,339,021**	**1,785,997**	**3,253,655**	**73,786,308**
	$ 1,302,765,526	**$ 4,754,648**	**$ 10,684,861**	**$ 53,899,296**	**$ 6,294,186**	**$ 36,596,332**	**$ 1,414,994,848**

	Healthcare Services	Housing Services	Thrift Stores	Outreach	Fundraising	Administration	Total
2018							
Salaries	$ 127,199,097	$ 300,844	$ 4,444,818	$ 12,519,281	$ 1,468,387	$ 9,202,786	$ 155,135,213
Benefits	40,103,274	98,955	1,736,842	4,651,930	381,773	2,213,366	49,186,140
Medical services, supplies and drugs	205,531,180	5,666	1,037	5,953,040	51,534	124,941	211,667,398
Cost of pharmacy and thrift stores sales	722,039,097	-	36,454	-	-	-	722,075,551
Rent and other facilities related expenses	36,002,829	1,636,144	2,432,861	3,091,822	115,243	3,755,619	47,034,518
Depreciation and amortization	9,925,696	498,917	142,329	1,201,410	20,083	3,098,594	14,887,029
Interest expense	814,711	7	8,866	45,014	-	369,820	1,238,418
Provision for bad debts	3,120,813	4,957	-	447,483	-	-	3,573,253
Insurance	2,013,653	120,797	46,458	141,481	758	61,451	2,384,598
Professional services	20,274,676	470,269	219,351	5,946,721	307,240	6,255,522	33,473,779
Charitable contributions	1,458,748	43,104	-	6,397,183	2,078,605	205,272	10,182,912
Other expenses	54,462,066	107,193	833,484	33,164,795	2,513,228	5,092,012	96,172,778
	$ 1,222,945,840	$ 3,286,853	$ 9,902,500	$ 73,560,160	$ 6,936,851	$ 30,379,383	$ 1,347,011,587

See notes to consolidated financial statements.

	Years ended December 31	
	2019	2018
Cash flows from operating activities		
Change in net assets	**$ 102,396,649**	$ 64,898,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Impairment of goodwill and intangible assets	**-**	275,000
Depreciation of property and equipment	**16,651,959**	13,415,299
(Gain) loss on investment	**(5,425,431)**	3,194,911
(Gain) loss on sale of property and equipment	**(3,544,506)**	26,221
Amortization of debt issuance costs	**274,525**	158,397
Amortization of intangible assets	**1,555,758**	1,471,730
Provision for bad debts	**7,955,023**	3,573,253
Unrealized loss on interest rate swap	**694,688**	190,159
Contributed pharmacy inventory	**5,274,441**	2,000,245
Changes in operating assets and liabilities:		
Accounts receivable	**(18,759,232)**	(11,204,654)
Premiums revenue receivable	**(260,868)**	4,448,895
Grant revenue receivable	**(3,270,310)**	(2,845,449)
Inventories	**(13,167,624)**	(6,137,341)
Prepaid expenses, deposits, and other current assets	**781,378**	(211,808)
Accounts payable	**27,299,349**	(18,014,110)
Unearned premiums	**(9,487,497)**	(20,457,559)
Accrued expenses	**1,024,409**	6,205,850
Claims payable	**(2,086,229)**	4,604,924
Deferred rent	**36,337**	101,877
Net cash provided by operating activities	**107,942,819**	45,694,752
Cash flows from investing activities		
Purchases of property and equipment	**(100,478,915)**	(67,992,763)
Proceeds from sale of property and equipment	**15,836,134**	-
Sales of investments, net	**6,172,094**	54,139,666
Net cash used in investing activities	**(78,470,687)**	(13,853,097)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**63,600,000**	21,930,000
Principal payments on long-term debt	**(27,149,208)**	(3,237,364)
Debt issuance costs	**(682,746)**	(283,000)
Net cash provided by financing activities	**35,768,046**	18,409,636
Net change in cash, cash equivalents and restricted cash	**65,240,178**	50,251,291
Cash, cash equivalents and restricted cash, beginning of year	**89,699,783**	39,448,492
Cash, cash equivalents and restricted cash, end of year	**$ 154,939,961**	$ 89,699,783
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	**$ 1,907,137**	$ 1,238,418

See notes to consolidated financial statements.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows.

	Years ended December 31	
	2019	2018
Cash and cash equivalents	**$ 148,111,850**	$ 82,871,672
Restricted cash included in assets limited as to use	**6,828,111**	6,828,111
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	**$ 154,939,961**	$ 89,699,783

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 67 outpatient healthcare centers and 55 pharmacies that are located in 16 States including California, Florida, Texas, Washington, New York, New Jersey, Pennsylvania, Georgia, Nevada, Louisiana, South Carolina, Mississippi, Maryland, Illinois, Indiana and Ohio as well as Washington, DC and Puerto Rico. The Foundation operates 20 Out of the Closet Thrift Stores in 7 states. The Foundation also operates in 45 countries including 13 in Africa, 13 in the Americas, 10 in Asia and 9 in Europe. During 2019 and 2018, the Foundation purchased properties in Los Angeles, California and Hollywood, Florida 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., AHF MCO of Georgia, 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, AIDS Outreach Center (AOC), IRIS House, AIDS Interfaith Network, Inc.(AIN), AHF China LLC., and Coalition to Preserve LA. All significant inter-organization balances and transactions have been eliminated in consolidation.

Basis of Presentation
The consolidated financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Foundation to report information regarding its financial position and activities according to the following net assets classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

Basis of Presentation (Continued)

Donor restricted contributions are reported as increase in net assets with donor restrictions. When a restriction expires, net assets are classified from net assets with donor restrictions to net assets without donor restrictions in the statement of operations and changes in net assets.

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, 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.

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.

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.

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

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

The Foundation's policy is to capitalize acquisitions of property and equipment with a cost of $1,000 or more. 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, 2019 and 2018 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, 2019, and 2018, goodwill of $5,972,930 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.

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.

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

Goodwill and Intangible Assets (Continued)
As of December 31, 2019, and 2018, net intangible assets amounted to $13,074,699 and $14,630,457, respectively.

Based on management's analysis, goodwill and intangible assets amounting to $0 and $275,000 was written off for the years ended December 31, 2019 and 2018, 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 12.

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.

Revenue Recognition
The Foundation has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* which provides guidance to clarify and improve the scope and accounting for contributions received and made. The Company has also adopted ASU No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer or promised goods and services to customers. Management's analysis of the various provisions of these standards resulted in no significant changes in the way the Foundation recognizes revenue. The presentation and disclosures of revenue in the accompanying consolidated financial statements have been enhanced in accordance with this ASU.

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 $7,937,240 and $6,046,344 at December 31, 2019 and 2018, respectively.

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

Pharmacy Revenue (Continued)
The Foundation recognizes revenue when control of the prescription drugs is transferred to customers, in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those prescription drugs. The following revenue recognition policies have been established:

1. Revenues generated from prescription drugs sold in the pharmacies and associated administrative fees are recognized at the Foundation's point-of-sale, which is when the claim is adjudicated by the Foundation's online claims processing system and the Foundation has transferred control of the prescription drug to the customer and performed all of its performance obligations.

2. Revenues generated from prescription drugs sold by mail service are recognized when the prescription drug is delivered to the customer. At the time of delivery, the Foundation has performed substantially all of its performance obligations under its client contracts and does not experience a significant level of returns or reshipments.

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 $220,594 and $16,304 for the years ended December 31, 2019 and 2018, respectively.

Patient service revenues are recognized as performance obligations are satisfied. Inpatient services are performance obligations satisfied over time and revenue is recognized based on actual charges incurred in relation to total expected or actual charges. The performance obligations for these contracts are generally completed when the patients are discharged. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided. The Foundation uses the portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient and outpatient revenue. Based on historical trends, the Foundation believes that the revenue recognized by utilizing the portfolio approach approximates that revenue that would have been recognized if an individual contract approach is used.

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

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.

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.

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

A portion of the Foundation's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in accordance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated balance sheet. For the year ended December 31, 2019, the Foundation received no cost-reimbursable grant awards that were not recognized as revenue. For other types of grants, revenue is recognized when the service has been performed.

No advance payments were received that were required to be recorded in the consolidated balance sheet as a refundable advance as of December 31, 2019.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the

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

Contributions (Continued)
statement of operations and changes in net assets as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Functional Expenses
The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program services, fundraising and administration.

Such allocations are determined by management on an equitable basis. The expenses were mainly allocated using the time and effort method (salaries, benefits, and other expenses), usage (supplies), full time equivalents (rent and other facilities related expenses).

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, 2019 and 2018, 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 2015 through 2019 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)

Deferred Rent

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Foundation recognizes rent expense on a straight-line basis over the non-cancelable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Foundation takes possession or controls the physical use of the property. As of December 31, 2019 and 2018, deferred rent (non-current) of $2,929,047 and $2,892,710 are recorded on the consolidated balance sheets.

Transactions in Foreign Currencies

The Foundation operates in 45 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 $728,804 and $2,131,804 for the years ended December 31, 2019 and 2018, 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 long-term debts. 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 13). 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.

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

Fair Value Measurements (Continued)

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.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

New Accounting Pronouncements

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, 2020.

In August 2018, FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement,* based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The new standard will be effective for fiscal years beginning after December 15, 2019.

In August 2018, FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 helps entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The new standard will be effective for fiscal years beginning after December 15, 2020.

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 patient charges and the related contractual payment amount for the years ended December 31 is reflected below:

		2019		2018
Gross patient service revenue	**$**	**34,815,994**	$	30,342,308
Contractual discounts and provision for bad debts		**(25,806,560)**		(22,081,464)
Net patient service revenue	**$**	**9,009,434**	$	8,260,844

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 15% and 18% of consolidated net patient service revenue in 2019 and 2018, 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 15% and 17% of consolidated net patient service revenue in 2019 and 2018, respectively. 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 70% and 65% of consolidated net patient service revenue in 2019 and 2018, 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)

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 in the net savings between the costs of providing services on an inpatient fee-for-service basis compared to the Foundation's plan experience.

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 program ended on June 30, 2019.

In July 2019, the Foundation entered a new contract with DHCS to provide capitated HIV healthcare to Medi-Cal beneficiaries. The contract is similar to the terminated contract with additional services, which includes hospital inpatient and additional prescription coverage.

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 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.

NOTE 3 PREMIUMS (CONTINUED)

Florida Medicaid HMO (Continued)
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.

As of February 2019, the Florida Medicaid HMO has been discontinued. The Foundation will continue to pay claims on a run-off basis. The Foundation does not expect the discontinuance to have a material financial impact.

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 a Florida HMO to provide these services known as Positive Healthcare Partners. In April 2017, the Foundation received an HMO 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 began 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.

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 PREMIUMS (CONTINUED)

Project AIDS Care (PAC)
The Foundation is contracted with the State of Florida Agency of Health Care Administration to provide services related to Project AIDS Care (PAC) Waiver Program. The program ended December 31, 2017. The amount recorded in 2018 were residual amounts due to the Foundation.

The net premiums earned under the above programs for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Positive Healthcare Partners - Medicare (Florida)	**$ 94,639,164**	$ 88,469,321
Positive Healthcare Partners - Medicare (California)	**42,369,680**	42,797,668
Positive Healthcare - Medi-Cal (California)	**11,688,252**	12,137,898
Positive Healthcare - Medicaid (Florida)	**7,351,350**	50,652,919
Positive Healthcare Partners - Medicare (Georgia)	**960,314**	248,082
Project AIDS Care (Florida)	**-**	51,373
Net premiums earned	**$ 157,008,760**	$ 194,357,261

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 12% and 13% of consolidated grant revenues in 2019 and 2018, respectively. For outpatient services, 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 2019.

Other Counties
Other significant grant revenue sources were generated from affiliates, ACQC and AID Atlanta. For the years ended December 31, 2019 and 2018, ACQC grant revenue accounted for 22% and 23%, respectively while AID Atlanta accounted for 11% and 13%, respectively, of consolidated grant revenues.

NOTE 5 AVAILABILITY AND LIQUIDITY

At December 31, the following represents the Foundation's financial assets:

Financial assets	2019	2018
Cash and cash equivalents	$ 148,111,850	$ 82,871,672
Pharmacy revenue receivable	71,961,553	61,344,162
Premium revenue receivable	8,318,026	8,057,158
Grant revenue receivable	14,548,985	11,278,675
Accounts receivable	6,111,166	5,924,348
Investments	77,743,525	78,490,188
Restricted cash included in assets limited as to use	6,828,111	6,828,111
Total financial assets	333,623,216	254,794,314
Less amounts not available to be used within one year:		
Long-term investments	(60,813,423)	(68,510,128)
Restricted cash included in assets limited as to use	(6,828,111)	(6,828,111)
Net assets with donor restrictions	368,794	357,556
Less net assets with donor restrictions to be met in less than a year	(368,794)	(357,556)
Financial assets available to meet general expenditures over the next twelve months	$ 265,981,682	$ 179,456,075

As part of the Foundation's liquidity plan, the Foundation invests excess cash in short and long-term investments, including money market accounts, fixed income and equity securities. The Foundation has a $30 million line of credit available to meet cash flow needs.

NOTE 6 INVENTORIES

At December 31, inventories consist of:

	2019	2018
Pharmacy drugs	$ 39,503,421	$ 31,027,103
Test kits inventory	791,768	1,686,231
Thrift store inventory	1,400,015	1,239,092
Condoms	1,178,409	1,028,004
Total inventories	$ 42,873,613	$ 34,980,430

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:

		2019		2018
Restricted deposits:				
Cash deposit held as collateral for Georgia Medicare HMO contract	**$**	**3,000,000**	$	3,000,000
Cash deposit held by the State of Georgia for Georgia Medicare HMO contract		**1,000,000**		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**	$	6,828,111

NOTE 8 INVESTMENTS

At December 31, investments consist of:

		2019		2018
Fixed income	**$**	**54,099,709**	$	51,488,856
Public equity		**12,073,075**		16,216,143
Private equity		**5,790,968**		6,190,891
Hedge funds		**3,271,670**		514,331
Venture capital		**2,508,103**		2,537,527
Asset allocation		**-**		1,542,440
		77,743,525		78,490,188
Less short-term portion		**(16,930,102)**		(9,980,060)
Long-term investments	**$**	**60,813,423**	$	68,510,128

NOTE 8 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, 2019:

	Fair Value Measurements at December 31, 2019 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Fixed income	$ 22,689,078	$ 31,410,631	$ -	$ 54,099,709
Public equity	11,103,704	969,371	-	12,073,075
Private equity	-	185,995	5,604,973	5,790,968
Hedge funds	-	3,271,670	-	3,271,670
Venture capital	-	-	2,508,103	2,508,103
Total	$ 33,792,782	$ 35,837,667	$ 8,113,076	$ 77,743,525

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2018:

	Fair Value Measurements at December 31, 2018 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income	$ 22,050,207	$ 29,438,649	$ -	$ 51,488,856
Public equity	16,216,143	-	-	16,216,143
Private equity	-	3,533,708	2,657,183	6,190,891
Hedge funds	-	514,331	-	514,331
Venture capital	-	-	2,537,527	2,537,527
Asset allocation	1,542,440	-	-	1,542,440
Total	$ 39,808,790	$ 33,486,688	$ 5,194,710	$ 78,490,188

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.

NOTE 8 INVESTMENTS (CONTINUED)

A reconciliation of investments in which significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018 were used in determining fair value is as follows:

	2019	2018
Level 3 investments, beginning of year	**$ 5,194,710**	$ 3,921,474
Increase in unrealized appreciation on investments	**175,173**	250,696
Purchases	**2,743,193**	1,036,577
Dispositions	**-**	(14,037)
Level 3 investments, end of year	**$ 8,113,076**	$ 5,194,710

NOTE 9 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

	2019	2018
Land	**$ 106,755,405**	$ 72,626,845
Buildings	**118,104,566**	78,073,790
Leasehold improvements	**29,274,210**	25,084,428
Furniture and fixtures	**9,915,166**	8,421,856
General equipment	**24,328,514**	22,793,220
Vehicles	**10,528,961**	9,440,474
Computer software	**23,167,753**	19,627,549
Computer equipment	**24,489,692**	19,953,348
Low value assets	**2,002,803**	1,510,638
Assets under construction	**8,465,376**	9,770,709
Total	**357,032,446**	267,302,857
Accumulated depreciation and amortization	**(92,519,084)**	(74,324,823)
Property and equipment, net	**$ 264,513,362**	$ 192,978,034

Provision for depreciation and amortization of property and equipment amounted to $16,651,959 and $13,415,299 in 2019 and 2018, respectively.

Real Estate Properties at Fair Value

During 2019 and 2018, the Foundation had several land and buildings (properties) appraised to determine the properties' current fair value. Eighteen properties with a book value of $49,067,797 as of December 31, 2019, have not been appraised including 15 in the United States and three in Kenya and Uganda.

NOTE 9 PROPERTY AND EQUIPMENT (CONTINUED)

Real Estate Properties at Fair Value (Continued)

The schedule below summarizes the comparison of the net book value of the properties at December 31, 2019 with the appraised fair values:

Location	State	Appraisal Date	Net Book Value	Fair Value
4905 Hollywood Blvd	CA	9/16/2019	$ 32,707,120	$ 32,750,000
Baltimore - 501 S. Los Angeles St	CA	3/29/2019	22,540,089	21,500,000
King Edward- 121 E. 5th St	CA	7/31/2018	16,391,573	11,150,000
Madison - 423 & 427 East 7th St	CA	7/31/2018	9,868,254	13,250,000
6520 West Sunset Boulevard & 1443 Hudson	CA	8/14/2019	8,401,973	8,400,000
6500 Sunset Blvd	CA	7/31/2018	5,863,259	8,000,000
PHD - 1710 N. La Brea Ave/1725 El Cerrito Ave	CA	7/31/2018	5,814,066	7,475,000
SOS - 6516 Sunset Blvd	CA	7/31/2018	4,865,773	4,610,000
Linn House - 1001 Martel Ave	CA	7/31/2018	3,683,442	11,600,000
Carl Bean - 2146 W. Adams	CA	7/31/2018	2,847,535	7,900,000
Atwater - 3160 Glendale Ave	CA	8/1/2018	2,372,284	3,450,000
Condo - 6735 Yucca St #411	CA	8/1/2018	654,977	795,000
700&750 SE 3rd Av	FL	9/5/2018	11,051,656	11,400,000
2400 Biscayne	FL	9/14/2018	7,155,768	9,100,000
2601 34th St.	FL	9/18/2018	3,792,038	3,100,000
409/411/501/505 SE 8th Ave	FL	9/5/2018	3,699,910	7,000,000
1349 N. Mills Ave	FL	9/5/2018	2,437,186	2,300,000
1785 Sunrise Blvd.	FL	9/14/2018	2,208,649	2,280,000
229/237 NE 24th	FL	9/15/2018	1,745,762	2,200,000
Wilon Manors - 2097 Wilton Dr	FL	9/14/2018	1,703,760	1,850,000
4300 Bayou Blvd	FL	8/31/2018	865,561	850,000
2125 Illinois/2231 McGregor	FL	8/31/2018	387,333	915,000
735 Piedmont Ave NE	GA	10/1/2018	1,904,284	1,825,000
IRIS House - 2348 Adam Clayton Blvd	NY	7/12/2019	3,471,674	3,580,000
1220 High St	OH	8/6/2018	4,108,494	3,700,000
			$ 160,542,419	$ 180,980,000

The appraised values of the real estate properties have been prepared giving consideration to the income capitalization and sales comparison approaches of estimating property value.

Under the income capitalization approach, the anticipated future benefits or income stream is capitalized and/or discounted to its present value to estimate fair value. This is accomplished by either direct capitalization or yield capitalization (discounted cash flow analysis).

NOTE 9 PROPERTY AND EQUIPMENT (CONTINUED)

Real Estate Properties at Fair Value (Continued)

Direct capitalization analysis uses a single year's net operating income divided by an appropriate capitalization rate to estimate value. Yield capitalization or discounted cash flow analysis uses several future years of net operating income, with reversion, discounted by an appropriate yield rate. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for conditions of sale, property rights, financing, market conditions, locations and physical differences. This approach is highly dependent on an active sales market with an adequate amount of comparable sales data.

Since the resulting valuation are based on estimates, the appraised values reflected in the schedule above can materially differ from the values that would be determined by negotiations held between parties in a sales transaction.

NOTE 10 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, 2019 and 2018 is as follows:

	2019	2018
Claims payable at beginning of year	**$ 22,223,621**	$ 17,618,697
Incurred hospital and medical services claims:		
Current year	**175,719,724**	204,869,888
Prior years	**(6,810,105)**	(5,599,475)
Total incurred	**168,909,619**	199,270,412
Paid hospital and medical services claims:		
Current year	**(157,207,401)**	(184,430,348)
Prior years	**(13,788,447)**	(10,235,140)
Total paid	**(170,995,848)**	(194,665,489)
Claims payable at end of year	**$ 20,137,392**	$ 22,223,621

As of December 31, 2019, and 2018, the liability for unpaid claims and claims adjustment expenses was $20,137,392 and $22,223,621, respectively. The estimated ultimate claims and claims adjustment expenses incurred decreased by approximately $6.8 million related to prior years. This favorable development 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 11 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, renewed on December 1, 2019, that provides for secured borrowings up to $30 million, at a rate per annum equal to the prime rate or LIBOR rate plus 1.875%. The agreement expires on December 31, 2021. There was no outstanding balance on the line of credit as of December 31, 2019 and 2018. The Foundation is subject to certain financial covenants relating to net assets, net income, and a specified debt ratio.

NOTE 12 LONG-TERM DEBT

At December 31, long-term debt consists of:

	2019	2018
Wells Fargo and City National Syndicated Series 2019 A-F Loans totalling $63,600,000 bearing variable interest rates per annum compounded monthly on the outstanding balance. Principal is payable on the 1st of each month commencing in February 2020, with the final installment consisting of all remaining unpaid principal due and payable in full on January 1, 2040.	**$ 63,600,000**	$ -
Wells Fargo Series 2018 A and B Loans totalling $21,930,000, bearing variable interest rates per annum compounded monthly on the outstanding balance. Principal was payable on the 1st of each month commencing in February 2019, with the final installment consisting of all remaining unpaid principal due and payable in full on January 1, 2039. The Foundation refinanced this debt as part of its December Series 2019 A-F debt issuance.	**-**	21,930,000
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.	**14,175,505**	15,115,750
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. This debt was paid in full in May 2019.	**-**	4,166,667
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 $37,706 were due on the 1st of each month commencing April 15, 2014 with a final installment paid on March 15, 2019.	**-**	112,296
	77,775,505	41,324,713
Current portion	**(3,141,886)**	(3,103,463)
Noncurrent portion	**74,633,619**	38,221,250
Less: debt issuance costs	**(1,025,350)**	(617,129)
Long-term debt	**$ 73,608,269**	$ 37,604,121

NOTE 12 LONG-TERM DEBT (CONTINUED)

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

Year ending December 31		Amount
2020	$	3,141,886
2021		3,322,527
2022		3,376,521
2023		3,675,392
2024		3,096,544
Thereafter		61,162,635
Total	**$**	**77,775,505**

Interest on long-term debt charged as expense amounted to $1,398,491 and $922,497 for the years ended December 31, 2019 and 2018, respectively.

<u>Wells Fargo Public Finance Authority (PFA) Bond</u>
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 (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 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, 2017, the Foundation and Wells Fargo amended the above loan agreement. The amended and restated agreements provide for, among other terms, the increase in allowed value of permitted acquisitions.

<u>Wells Fargo Series 2018 A and B Bonds</u>
On December 20, 2018, the Foundation entered into agreements with Wells Fargo for the issuance of Series 2018A ($19.4 million) and Series 2018B ($2.5 million) loans. The Foundation intends to use the loan proceeds for the financing and refinancing of the acquisition, construction, improvement and operation of the Foundation's low-income housing projects. The Foundation refinanced these loans as part of its December 2019 Series A-F debt issuance.

NOTE 12 LONG-TERM DEBT (CONTINUED)

Wells Fargo and City National Syndicated Series 2019 A-F Bonds
On December 30, 2019, the Foundation entered into syndicated loan agreements with Wells Fargo and City National for the issuance of Series A-F loans totaling $63.6 million, of which $21.4 million represented refinancing of its outstanding Series 2018 A and Series B bonds and $42.2 million in new debt. Under the terms of the agreement, the Foundation has the option to utilize up to $36.4 million in additional funding. The Foundation intends to use the loan proceeds for the financing and refinancing of the acquisition, construction, improvement and operation of its low-income housing projects and other property purchases used for its operating activities.

NOTE 13 INTEREST RATE SWAP AGREEMENTS

The Foundation executed interest rate swap agreements with Wells Fargo Bank to manage debt service costs on its variable rate long-term debt by achieving a synthetic fixed rate payment in the swap counterparty and receiving a variable rate payment from the swap counterparty that effectively offsets the payment on the underlying variable rate debt.

The details of the swap agreements for the year ended December 31, 2019 are as follows:

	PFA Bond	Series 2018A Loan	Series 2018B Loan
Outstanding notional amount	$ 14,175,505	$ 19,435,000	$ 2,495,000
Fixed interest rate	2.16%	2.641%	2.815%
Floating rate option	70% of USD-Libor-BBA	80.375% of USD-Libor-BBA	USD-Libor-BBA
Floating rate day count fraction	Actual/360	Actual/360	Actual/360
Trade date	3/17/2014	12/20/2018	12/20/2018
Effective date	3/17/2014	12/20/2018	12/20/2018
Termination date	3/17/2021	12/1/2028	12/1/2021

At December 31, 2019 and 2018, the fair value of the swap liability was $1,049,033 and $354,345, 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.

On January 8, 2020, the Foundation executed a swap agreement having a notional amount of $41.8 million, with a maturity in January 2040. This agreement was entered into to effectively fix the interest rate on its newly issued Series 2019 A-F loans (See Note 12).

NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS

At December 31, net assets with donor restrictions that are available for future periods are as follows:

		2019		2018
Housing	**$**	**24,443**	$	9,400
Program support		**344,351**		348,156
Total	**$**	**368,794**	$	357,556

NOTE 15 BUSINESS ACQUISITIONS

In June 2019, AHF entered into an Affiliation Agreement with IRIS House: A Center for Women Living with HIV, Inc., a New York 501(c)(3) organization. Its primary mission is to provide social services for women, men and their families infected and affected by HIV/AIDS. Inherent contribution of $4,556,023 was recognized in the consolidated statement of operations by reason of this affiliation.

In August 2019, AHF entered into an Affiliation Agreement with AIDS Interfaith Network, Inc. (AIN), a Texas 501(c)(3) organization. AIN is a multi-cultural, faith-based organization that provides direct care services and prevention programs to people affected by HIV/AIDS. Inherent contribution of $338,595 was recognized in the consolidated statement of operations by reason of this affiliation.

NOTE 16 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 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, 2019 and 2018 amounted to $4,364,901 and $3,926,977, respectively.

NOTE 17 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:

	2019	2018
Private Insurance	**58.84%**	56.76%
Other Grants	**19.77%**	19.29%
AIDS Drug Assistance Program	**7.26%**	7.73%
Centers for Medicare and Medicaid Services	**6.79%**	8.35%
Medi-Cal/Medicaid	**5.67%**	2.42%
Department of Health and Human Services	**1.31%**	5.13%
Medicare (Fee for Service)	**0.23%**	0.18%
Agency for Health Care Administration	**0.14%**	0.15%
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 18 COMMITMENTS AND CONTINGENCIES

Operating Leases
The Foundation leases certain equipment and facilities under non-cancelable operating lease agreements expiring at various dates through June 2027. Total rental expense for all operating leases was $17,986,751 and $16,197,051 in 2019 and 2018, respectively.

NOTE 18 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (Continued)

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2019 that have initial or remaining lease terms in excess of one year:

Year ending December 31		Amount
2020	$	8,526,854
2021		7,822,820
2022		6,448,625
2023		4,148,586
2024		3,007,194
Thereafter		2,806,371
Total	$	32,760,450

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, cyber security 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.

NOTE 18 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Government Regulation (Continued)
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.

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, 2019 and 2018 amounted to $79,969,896 and $74,331,704, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2019 and 2018 amounted to $395,293 and $2,296,257, respectively.

NOTE 20 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Foundation operates.

The Foundation does not have enough information on which to base the economic impact of the pandemic at this time, however the Foundation believes that the financial impact will be immaterial to its operations.

Due to the nature of COVID-19 infections, a small number of clients and employees may be at risk of complications. Of this small number of at-risk members and employees, less than 1% will be subject to critical care based on the Center for Disease Control estimates of disease projection.

The primary concern for the Foundation is for the well-being of its clients and employees. A significant portion of employees have been working partially or completely from home.

For the Managed Care clients, the Foundation has a reinsurance agreement that generally provides for reimbursement of 90% of “eligible expenses” in excess of $250,000 per member per year.

NOTE 20 SUBSEQUENT EVENTS (CONTINUED)

For the Healthcare Center clients, the Foundation has continued to operate with the majority of healthcare visits occurring either through telephone or telehealth encounters. For the Pharmacy clients, the Foundation continues to provide prescriptions to its clients through delivery via mail or delivery driver.

The Out of the Closet Thrift Stores have been closed since mid-March. The closure of these stores will not have a material financial impact on its operations.

The Foundation evaluated the impact on its investment portfolio and believes the long-term impact will also not have a material financial impact.

The Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 30, 2020, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no other subsequent matters required disclosure or adjustment to the accompanying consolidated financial statements.

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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 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, 2019, and the related consolidated statements of operations and changes in net assets, functional expenses 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 30, 2020.

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

Glendale, California
April 30, 2020

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