



AIDS Healthcare Foundation
Audited Consolidated Financial Statements
and Supplementary Information
As of and For the Years Ended December 31, 2020 and 2019
with Independent Auditor's Report

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Independent Auditor's Report

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, 2020 and 2019, 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.

Auditor's 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, 2020 and 2019, 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 29, 2021 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.

Glendale, California
April 29, 2021

**AIDS Healthcare Foundation
Consolidated Balance Sheets**

	December 31	
	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 213,198,662	\$ 151,111,850
Pharmacy revenue receivable, net of allowance for doubtful accounts of \$8,927,470 and \$7,937,240 at December 31, 2020 and 2019, respectively	77,874,895	71,961,553
Premium revenue receivable	19,706,583	8,318,026
Grant revenue receivable	20,899,549	14,548,985
Accounts receivable - other, net of allowance for doubtful accounts of \$18,725,935 and \$9,437,644 at December 31, 2020 and 2019, respectively	10,327,741	6,111,166
Inventories	85,846,365	42,873,613
Short-term investments	8,948,730	16,930,102
Prepaid expenses and other current assets	22,085,582	21,494,034
Total current assets	458,888,107	333,349,329
Noncurrent assets		
Property and equipment, net	270,856,797	264,513,362
Long-term investments	52,605,059	60,813,423
Intangibles, deposits and other assets	31,648,209	21,688,117
Property held for sale, net	14,340,889	-
Assets limited as to use	3,846,266	3,828,111
Total assets	\$ 832,185,327	\$ 684,192,342
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 81,921,640	\$ 69,998,453
Accrued expenses	29,378,151	23,720,291
Claims payable	14,602,076	20,137,392
Unearned premiums	150,822	202,662
Current portion of long-term debt	15,637,618	3,141,886
Total current liabilities	141,690,307	117,200,684
Deferred rent	2,731,708	2,929,047
Interest rate swap	5,183,677	1,049,033
Long-term debt, net of current portion	57,998,503	73,608,269
Total liabilities	207,604,195	194,787,033
Net assets		
Without donor restrictions	624,471,042	489,036,515
With donor restrictions	110,090	368,794
Total net assets	624,581,132	489,405,309
Total liabilities and net assets	\$ 832,185,327	\$ 684,192,342

See notes to consolidated financial statements.

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

	Years ended December 31	
	2020	2019
Operating revenues		
Unrestricted revenues, gains, and other support		
Pharmacy revenue, net	\$ 1,500,246,949	\$ 1,254,183,119
Premiums earned, net	160,980,659	157,008,760
Grant revenue	70,561,769	58,607,291
Net patient service revenue	8,906,825	9,009,434
Contributions:		
Cash	4,715,417	3,156,054
In-kind, thrift store	9,638,454	10,266,895
In-kind, other	385,225	5,274,441
Other	10,833,793	11,911,651
Operating revenues before net assets released from restrictions for operations	1,766,269,091	1,509,417,645
Net assets released from restrictions for operations	329,730	35,810
Total operating revenues	1,766,598,821	1,509,453,455
Operating expenses		
Cost of pharmacy and thrift stores sales	965,305,852	818,988,980
Salaries and benefits	256,640,809	224,513,402
Medical services, supplies and drugs	182,294,523	172,474,501
Rent and other facilities related expenses	56,235,349	53,385,299
Professional services	29,733,959	32,404,197
Depreciation and amortization	17,754,973	18,207,717
Charitable contributions	14,949,197	8,873,792
Provision for bad debts	7,026,415	7,955,023
Insurance	3,065,816	2,498,492
Interest expense	2,728,337	1,907,137
Other expenses	99,410,792	73,786,308
Total operating expenses	1,635,146,022	1,414,994,848
Income from operations	131,452,799	94,458,607
Investment income, net	3,981,728	7,926,804
Increase in net assets without donor restrictions	135,434,527	102,385,411
Changes in net assets with donor restrictions		
Contributions	71,026	47,048
Net assets released from restrictions for operations	(329,730)	(35,810)
(Decrease) increase in net assets with donor restrictions net assets	(258,704)	11,238
Increase in net assets	135,175,823	102,396,649
Net assets, beginning of year	489,405,309	387,008,660
Net assets, end of year	\$ 624,581,132	\$ 489,405,309

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Functional Expenses
Years ended December 31, 2020 and 2019

	Healthcare Services	Housing Services	Thrift Stores	Outreach	Fundraising	Administration	Total
2020							
Cost of pharmacy and thrift stores sales	\$ 965,238,999	\$ -	\$ 66,853	\$ -	\$ -	\$ -	\$ 965,305,852
Salaries and benefits	209,080,812	1,096,414	7,875,699	21,127,653	2,347,225	15,113,006	256,640,809
Medical services, supplies and drugs	174,860,030	124	12,459	7,365,271	898	55,741	182,294,523
Rent and other facilities related expenses	39,484,937	2,271,670	2,432,814	3,568,744	111,772	8,365,412	56,235,349
Professional services	19,381,054	422,770	182,395	4,960,484	534,680	4,252,576	29,733,959
Depreciation and amortization	13,492,075	734,036	202,663	1,041,819	14,412	2,269,968	17,754,973
Charitable contributions	1,037,706	-	-	10,579,495	3,166,235	165,761	14,949,197
Provision for bad debts	6,495,984	493,566	36,575	290	-	-	7,026,415
Insurance	2,089,833	225,839	107,199	240,120	1,331	401,494	3,065,816
Interest expense	1,867,834	-	21,661	109,261	-	729,581	2,728,337
Other expenses	49,597,583	252,313	799,814	41,985,309	835,672	5,940,101	99,410,792
	<u>\$ 1,482,626,847</u>	<u>\$ 5,496,732</u>	<u>\$ 11,738,132</u>	<u>\$ 90,978,446</u>	<u>\$ 7,012,225</u>	<u>\$ 37,293,640</u>	<u>\$ 1,635,146,022</u>
	Healthcare Services	Housing Services	Thrift Stores	Outreach	Fundraising	Administration	Total
2019							
Cost of pharmacy and thrift stores sales	\$ 818,935,145	\$ -	\$ 53,835	\$ -	\$ -	\$ -	\$ 818,988,980
Salaries and benefits	182,594,435	968,924	6,672,864	18,167,015	2,025,371	14,084,793	224,513,402
Medical services, supplies and drugs	164,175,122	21	13,097	8,000,510	4,801	280,950	172,474,501
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
Professional services	19,902,934	519,367	256,415	5,584,599	529,956	5,610,926	32,404,197
Depreciation and amortization	12,686,383	835,812	117,444	841,703	16,561	3,709,814	18,207,717
Charitable contributions	1,176,967	14,415	-	5,510,685	1,784,398	387,327	8,873,792
Provision for bad debts	7,715,570	180,110	19,000	28,026	-	12,317	7,955,023
Insurance	1,545,074	117,473	77,009	213,448	1,777	543,711	2,498,492
Interest expense	1,243,773	-	14,428	73,288	-	575,648	1,907,137
Other expenses	55,366,309	77,413	963,914	12,339,021	1,785,996	3,253,655	73,786,308
	<u>\$ 1,302,765,525</u>	<u>\$ 4,754,648</u>	<u>\$ 10,684,861</u>	<u>\$ 53,899,296</u>	<u>\$ 6,294,186</u>	<u>\$ 36,596,332</u>	<u>\$ 1,414,994,848</u>

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Cash Flows

	Years ended December 31	
	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 135,175,823	\$ 102,396,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	16,062,658	16,651,959
(Gain) on investment	(1,947,712)	(5,425,431)
(Gain) loss on sale of property and equipment	3,836	(3,544,506)
Amortization of debt issuance costs	66,075	274,525
Amortization of intangible assets	1,688,479	1,555,758
Provision for bad debts	7,026,415	7,955,023
Unrealized loss on interest rate swap	4,134,644	694,688
Contributed pharmacy inventory	385,225	5,274,441
Changes in operating assets and liabilities:		
Accounts receivable	(17,156,332)	(18,759,232)
Premiums revenue receivable	(11,388,557)	(260,868)
Grant revenue receivable	(6,350,564)	(3,270,310)
Inventories	(43,357,977)	(13,167,624)
Prepaid expenses, deposits, and other current assets	(295,179)	781,378
Accounts payable	11,923,187	27,299,349
Unearned premiums	(51,840)	(9,487,497)
Accrued expenses	5,657,860	1,024,409
Claims payable	(5,535,316)	(2,086,229)
Deferred rent	(197,339)	36,337
Net cash provided by operating activities	95,843,386	107,942,819
Cash flows from investing activities		
Purchases of property and equipment	(36,809,767)	(100,478,915)
Proceeds from sale of property and equipment	58,950	15,836,134
Acquisition of intangible assets	(11,944,941)	-
Proceeds from sale of investments, net	18,137,448	6,172,094
Net cash used in investing activities	(30,558,310)	(78,470,687)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	63,600,000
Principal payments on long-term debt	(3,180,109)	(27,149,208)
Debt issuance costs	-	(682,746)
Net cash (used in) provided by financing activities	(3,180,109)	35,768,046
Net change in cash, cash equivalents and restricted cash	62,104,967	65,240,178
Cash, cash equivalents and restricted cash, beginning of year	154,939,961	89,699,783
Cash, cash equivalents and restricted cash, end of year	\$ 217,044,928	\$ 154,939,961
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	\$ 2,728,337	\$ 1,907,137

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Cash Flows (Continued)

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	
	2020	2019
Cash and cash equivalents	\$ 213,198,662	\$ 151,111,850
Restricted cash included in assets limited as to use	3,846,266	3,828,111
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ <u>217,044,928</u>	\$ <u>154,939,961</u>

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 68 outpatient healthcare centers and 63 pharmacies that are located in 14 States including California, Florida, Texas, Washington, New York, Pennsylvania, Georgia, Nevada, Louisiana, South Carolina, Mississippi, Maryland, Illinois and Ohio as well as Washington, DC and Puerto Rico. The Foundation operates 22 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. The Foundation owns 7 properties in California 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 consolidated statements 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, 2020 and 2019 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, 2020, and 2019, 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.

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

Goodwill and Intangible Assets (Continued)

Intangible assets primarily represent the customer relationships acquired in the MOMs and Hillcrest Pharmacies business acquisitions. The intangibles were 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, 2020, and 2019, net intangible assets amounted to \$23,341,161 and \$13,074,699, respectively. In 2020, the Foundation acquired Hillcrest Pharmacies, expanding its customer base in San Diego, California.

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 13.

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

In 2019, the Foundation 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 Foundation 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.

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

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 \$8,927,470 and \$7,937,240 at December 31, 2020 and 2019, respectively.

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.

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

Net Patient Service Revenue (Continued)

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 the revenue that would have been recognized if an individual contract approach had been used.

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.

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

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 sheets. For the years ended December 31, 2020 and 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 sheets as a refundable advance as of December 31, 2020 and 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 consolidated statements 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 consolidated 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).

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

Federal and State Income Taxes

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

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, 2020 and 2019, 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 2016 through 2020 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.

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, 2020 and 2019, deferred rent (non-current) of \$2,731,708 and \$2,929,047, respectively, 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 \$1,645,046 and \$728,804 for the years ended December 31, 2020 and 2019, 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.

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

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 14). 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 consolidated 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.

Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

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

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, 2021.

In September 2020, Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU addresses presentation and disclosure requirements for not-for-profit entities for contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. The Foundation has not yet adopted this ASU and does not expect a significant impact on the Foundation's consolidated financial statements upon adoption in subsequent years.

In January 2020, Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force)*. This ASU clarifies certain interactions between ASC 321, ASC 323 and ASC 815. The Foundation has not yet adopted this ASU and does not expect a significant impact on the Foundation's consolidated financial statements upon adoption in subsequent years.

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:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue	\$ 44,633,674	\$ 34,815,994
Contractual discounts and provision for bad debts	<u>(35,726,849)</u>	<u>(25,806,560)</u>
Net patient service revenue	<u>\$ 8,906,825</u>	<u>\$ 9,009,434</u>

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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 25% and 15% of consolidated net patient service revenue in 2020 and 2019, 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 14% and 15% of consolidated net patient service revenue in 2020 and 2019, 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 61% and 70% of consolidated net patient service revenue in 2020 and 2019, 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.

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.

NOTE 3 PREMIUMS (CONTINUED)

Positive Healthcare

California Medicaid Primary Care Case Management (PCCM) (Continued)

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 contract 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.

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.

NOTE 3 PREMIUMS (CONTINUED)

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, Dade, Monroe and Duval 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.

The net premiums earned under the above programs for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Positive Healthcare Partners - Medicare (Florida)	\$ 98,342,978	\$ 94,639,164
Positive Healthcare Partners - Medicare (California)	44,492,481	42,369,680
Positive Healthcare - Medicaid (California/Florida)	16,881,873	19,039,602
Positive Healthcare Partners - Medicare (Georgia)	1,263,327	960,314
Net premiums earned	\$ <u>160,980,659</u>	\$ <u>157,008,760</u>

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% of consolidated grant revenues in both 2020 and 2019. 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 2020.

Other Counties

Other significant grant revenue sources were generated from affiliates, ACQC, AID Atlanta and IRIS House. For the years ended December 31, 2020 and 2019, ACQC grant revenue accounted for 20% and 22%, respectively while AID Atlanta accounted for 9% and 11%, respectively and IRIS House accounted for 10% and 5%, respectively, of consolidated grant revenues.

NOTE 5 AVAILABILITY AND LIQUIDITY

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

Financial assets:	2020	2019
Cash and cash equivalents	\$ 213,198,662	\$ 151,111,850
Pharmacy revenue receivable, net	77,874,895	71,961,553
Premium revenue receivable	19,706,583	8,318,026
Grant revenue receivable	20,899,549	14,548,985
Accounts receivable - other, net	10,327,741	6,111,166
Investments	61,553,789	77,743,525
Restricted cash included in assets limited as to use	3,846,266	3,828,111
Total financial assets	407,407,485	333,623,216
Less amounts not available to be used within one year:		
Long-term investments	(52,605,059)	(60,813,423)
Restricted cash included in assets limited as to use	(3,846,266)	(3,828,111)
Net assets with donor restrictions	110,090	368,794
Less net assets with donor restrictions to be met in less than a year	(110,090)	(368,794)
Financial assets available to meet general expenditures over the next twelve months \$	350,956,160	\$ 268,981,682

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.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

NOTE 6 INVENTORIES

At December 31, inventories consist of:

	2020	2019
Pharmacy drugs	\$ 82,500,851	\$ 39,503,421
Condoms	1,359,410	1,178,409
Thrift store inventory	1,191,439	1,400,015
Test kits inventory	794,665	791,768
Total inventories	\$ 85,846,365	\$ 42,873,613

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:

	2020	2019
Restricted deposits:		
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	358,513	340,358
Total assets limited as to use	\$ 3,846,266	\$ 3,828,111

NOTE 8 INVESTMENTS

At December 31, investments consist of:

	2020	2019
Fixed income	\$ 38,621,227	\$ 54,099,709
Public equity	14,097,690	12,073,075
Private equity	2,759,398	5,790,968
Hedge funds	2,649,885	3,271,670
Venture capital	3,425,589	2,508,103
	61,553,789	77,743,525
Less short-term portion	(8,948,730)	(16,930,102)
Long-term investments	\$ 52,605,059	\$ 60,813,423

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

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, 2020:

	Fair Value Measurements at December 31, 2020 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	\$ 22,722,483	\$ 15,898,744	\$ -	\$ 38,621,227
Public equity	13,124,022	973,668	-	14,097,690
Private equity	-	135,602	2,623,796	2,759,398
Hedge funds	-	2,649,885	-	2,649,885
Venture capital	-	-	3,425,589	3,425,589
Total	\$ 35,846,505	\$ 19,657,899	\$ 6,049,385	\$ 61,553,789

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 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.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

NOTE 8 INVESTMENTS (CONTINUED)

A reconciliation of investments in which significant unobservable inputs (Level 3) for the years ended December 31, 2020 and 2019 were used in determining fair value is as follows:

	<u>2020</u>	<u>2019</u>
Level 3 investments, beginning of year	\$ 8,113,076	\$ 5,194,710
Increase in unrealized appreciation on investments	156,130	175,173
Purchases	1,320,081	2,743,193
Dispositions	(3,539,902)	-
Level 3 investments, end of year	\$ <u>6,049,385</u>	\$ <u>8,113,076</u>

NOTE 9 PROPERTY AND EQUIPMENT

At December 31, property and equipment is comprised of:

	<u>2020</u>	<u>2019</u>
Land	\$ 102,668,878	\$ 106,755,405
Buildings	119,268,655	118,104,566
Leasehold improvements	31,965,274	29,274,210
General equipment	26,830,118	24,328,514
Computer equipment	28,627,771	24,489,692
Computer software	26,703,568	23,167,753
Vehicles	11,387,847	10,528,961
Furniture and fixtures	11,385,660	9,915,166
Low value assets	2,318,476	2,002,803
Assets under construction	17,075,911	8,465,376
Total	<u>378,232,158</u>	<u>357,032,446</u>
Accumulated depreciation and amortization	<u>(107,375,361)</u>	<u>(92,519,084)</u>
Property and equipment, net	\$ <u>270,856,797</u>	\$ <u>264,513,362</u>

Provision for depreciation and amortization of property and equipment amounted to \$16,062,658 and \$16,651,959 in 2020 and 2019, respectively.

NOTE 10 PROPERTY HELD FOR SALE

The Foundation classified two of its properties as held for sale as management believes that the assets' carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The Foundation reports its assets classified as held for sale at the lower of their carrying amount or fair value less cost incurred to sell.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

NOTE 10 PROPERTY HELD FOR SALE (CONTINUED)

The Foundation does not depreciate or amortize these assets while they are classified as held for sale. As of December 31, 2020, property held for sale totals \$14,340,889 and is separately presented in the consolidated balance sheets.

The property sales are expected to close in November 2021 and January 2022.

NOTE 11 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, 2020 and 2019 is as follows:

	2020	2019
Claims payable at beginning of year	\$ 20,137,392	\$ 22,223,621
Incurred hospital and medical services claims:		
Current year	174,396,580	175,719,724
Prior years	(7,676,525)	(6,810,105)
Total incurred	166,720,055	168,909,619
Paid hospital and medical services claims:		
Current year	(161,645,312)	(157,207,401)
Prior years	(10,610,059)	(13,788,447)
Total paid	(172,255,371)	(170,995,848)
Claims payable at end of year	\$ 14,602,076	\$ 20,137,392

As of December 31, 2020, and 2019, the liability for unpaid claims and claims adjustment expenses was \$14,602,076 and \$20,137,392, respectively. The estimated ultimate claims and claims adjustment expenses incurred decreased by approximately \$7.7 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.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

NOTE 12 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, 2020 and 2019. The Foundation is subject to certain financial covenants relating to net assets, net income, and a specified debt ratio.

NOTE 13 LONG-TERM DEBT

At December 31, long-term debt consists of:

	2020	2019
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.	\$ 61,444,000	\$ 63,600,000

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. In March 2021, the Foundation paid the remaining outstanding principal balance of \$13.0 million, exercising its option in accordance with the terms of the agreement not to extend the debt to 2034.

	13,189,618	14,175,505
	74,633,618	77,775,505
Current portion	(15,637,618)	(3,141,886)
Noncurrent portion	58,996,000	74,633,619
Less: debt issuance costs	(997,497)	(1,025,350)
Long-term debt	\$ 57,998,503	\$ 73,608,269

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

Year ending December 31	Amount
2021	\$ 15,637,618
2022	2,520,000
2023	2,812,000
2024	2,180,000
2025	2,688,000
Thereafter	48,796,000
Total	\$ 74,633,618

NOTE 13 LONG-TERM DEBT (CONTINUED)

Interest on long-term debt charged as expense amounted to \$1,516,624 and \$1,398,491 for the years ended December 31, 2020 and 2019, respectively.

Wells Fargo and City National Syndicated Series 2019 A-F Loans

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.

Wells Fargo Public Finance Authority (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 (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

In March 2021, the Foundation paid the remaining outstanding principal balance of \$13.0 million on the PFA Bonds, exercising its option in accordance with the terms of the agreement not to extend the debt. No prepayment penalties were incurred as a result of the extinguishment of the debt.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

NOTE 14 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, 2020 are as follows:

	PFA Bond	Series 2018B Loan	Amended Series 2018A Loan	Series 2019A&B Loan
Outstanding notional amount	\$ 13,189,618	\$ 1,143,723	\$ 19,435,000	\$ 40,203,000
Fixed interest rate	2.16%	2.815%	2.132%	1.84%
Floating rate option	70% of USD- Libor-BBA	80.375% of USD-Libor-BBA	80.375% of USD- Libor-BBA	80.375% of USD- Libor-BBA
Floating rate day count fraction	Actual/360	Actual/360	Actual/360	Actual/360
Trade date	3/17/2014	12/20/2018	12/20/2018	1/8/2020
Effective date	3/17/2014	12/20/2018	12/20/2018	1/1/2020
Termination date	3/17/2021	12/1/2021	12/1/2028	1/1/2040

At December 31, 2020 and 2019, the fair value of the swap liability amounted to \$5,183,677 and \$1,049,033, respectively. The fair values were the quoted market prices at December 31 of each year. The increase in the swap liability and corresponding \$4.1 million unrealized loss resulted from the relatively low LIBOR interest rate on December 31, 2020. 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 Series 2019 A-F loans (See Note 13).

NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Housing	\$ 516	\$ 24,443
Program support	109,574	344,351
Total	\$ 110,090	\$ 368,794

NOTE 16 BUSINESS AND ASSET ACQUISITIONS

In November 2020, the Foundation acquired certain assets of Hillcrest Pharmacy, a three-location, HIV-focused specialty pharmacy servicing San Diego communities, for \$12.0 million. This acquisition serves to strengthen the Foundation's footprint and ability to deliver HIV care and services to the multicultural populations in the Southern California region. Intangibles totaling \$11.9 million was recognized as a result of this acquisition.

In August 2019, the Foundation 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 statements of operations and changes in net assets by reason of this affiliation.

In June 2019, the Foundation 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 statements of operations and changes in net assets by reason of this affiliation.

NOTE 17 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 30 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 \$6,000 annually per participant depending on the number of years of service. The Foundation's matching contribution expense for the years ended December 31, 2020 and 2019 amounted to \$5,660,757 and \$4,364,901, respectively.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2020 and 2019

NOTE 18 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:

	2020	2019
Private Insurance	50.44%	58.84%
Other Grants	22.94%	19.77%
Centers for Medicare and Medicaid Services	11.70%	6.79%
AIDS Drug Assistance Program	5.94%	7.26%
Medi-Cal/Medicaid	4.87%	5.66%
Department of Health and Human Services	3.53%	1.31%
Medicare (Fee for Service)	0.38%	0.23%
Los Angeles County	0.13%	-
Agency for Health Care Administration	0.07%	0.14%
Total	99.99%	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 19 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 \$18,169,573 and \$17,986,751 in 2020 and 2019, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2020 that have initial or remaining lease terms in excess of one year:

Year ending December 31	Amount
2021	\$ 11,060,196
2022	9,771,312
2023	7,165,745
2024	5,571,476
2025	3,800,154
Thereafter	1,516,836
Total	\$ 38,885,719

NOTE 19 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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 20 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, 2020 and 2019 amounted to \$74,809,411 and \$79,969,896, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2020 and 2019 amounted to \$712,901 and \$395,293, respectively.

NOTE 21 IMPACT OF CORONAVIRUS ON THE ORGANIZATION'S OPERATIONS

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. Management believes that the financial impact, if any, will not materially affect its results of operations.

NOTE 22 SUBSEQUENT EVENTS

In March 2021, the Foundation paid the remaining outstanding principal balance of \$13.0 million on the PFA Bonds, exercising its option in accordance with the terms of the agreement not to extend the debt. No prepayment penalties were incurred as a result of the extinguishment of the debt (See Note 13).

In April 2021, the Foundation purchased a property in Los Angeles for \$30 million to be used for low income affordable housing.

Management has evaluated subsequent events through April 29, 2021, the date which the consolidated financial statements were available to be issued and concluded that no other material subsequent events require disclosure or adjustment to the consolidated financial statements.

**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

**Board of Directors
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, 2020, 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 29, 2021.

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.

A handwritten signature in black ink that reads "Vaguez & Company LLP". The signature is written in a cursive, flowing style.

Glendale, California
April 29, 2021



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