



AIDS Healthcare Foundation
Audited Consolidated Financial Statements
As of and For the Years Ended December 31, 2022 and 2021
with Independent Auditor's Report



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Independent Auditor's Report

**Board of Directors
AIDS Healthcare Foundation**

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of AIDS Healthcare Foundation (the Foundation), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (Government Auditing Standards), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation adopted the provisions of Accounting Standard Codification Topic 842, *Leases*, effective January 1, 2022. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.



We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023 on our consideration of the 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 solely 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 the 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 the Foundation’s internal control over financial reporting and compliance.

Glendale, California
April 28, 2023

**AIDS Healthcare Foundation
Consolidated Balance Sheets**

ASSETS	December 31	
	2022	2021
Current assets		
Cash and cash equivalents	\$ 157,152,788	\$ 207,605,900
Pharmacy revenue receivable, net of allowance for doubtful accounts of \$10,237,372 and \$9,347,911 at December 31, 2022 and 2021, respectively	110,823,942	94,526,769
Premium revenue receivable	5,318,444	21,148,694
Grant revenue receivable, net of allowance for doubtful accounts of \$763,141 and \$917,843 at December 31, 2022 and 2021, respectively	24,548,618	16,291,433
Accounts receivable - other, net of allowance for doubtful accounts of \$34,713,169 and \$25,126,286 at December 31, 2022 and 2021, respectively	15,727,052	41,519,470
Inventories	62,876,170	68,954,812
Short-term investments	134,424,497	6,436,869
Prepaid expenses and other current assets	26,815,749	27,219,164
Total current assets	537,687,260	483,703,111
Noncurrent assets		
Property and equipment, net	467,500,249	357,050,793
Long-term investments	176,718,848	139,447,839
Operating lease, right-of-use asset	53,630,410	-
Intangibles, deposits and other assets	28,885,271	29,296,870
Property held for sale, net	5,803,810	14,340,889
Interest rate swap	5,218,495	-
Assets limited as to use	3,846,314	3,846,314
Total assets	\$ 1,279,290,657	\$ 1,027,685,816
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 100,806,926	\$ 87,299,945
Accrued expenses	44,917,267	26,432,327
Claims payable	12,695,837	13,945,299
Unearned premiums	16,165,202	3,985,201
Current portion of operating lease liability	14,468,840	-
Current portion of long-term debt	2,790,000	2,520,000
Total current liabilities	191,844,072	134,182,772
Noncurrent liabilities		
Operating lease liability	41,414,486	-
Long-term debt, net of current portion	53,137,635	55,607,737
Deferred rent	-	2,495,115
Interest rate swap	-	2,312,990
Total liabilities	286,396,193	194,598,614
Net assets		
Without donor restrictions	992,541,201	832,749,108
With donor restrictions	353,263	338,094
Total net assets	992,894,464	833,087,202
Total liabilities and net assets	\$ 1,279,290,657	\$ 1,027,685,816

See notes to consolidated financial statements.

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

	Years ended December 31	
	2022	2021
Operating revenues		
Unrestricted revenues, gains, and other support		
Pharmacy revenue, net	\$ 1,886,380,712	\$ 1,684,029,002
Premiums earned, net	150,981,741	164,351,114
Grant revenue, net	83,654,264	72,041,281
Net patient service revenue	19,637,680	10,702,031
Contributions:		
Cash	5,136,814	4,163,094
In-kind, thrift store	16,684,096	16,159,519
In-kind, other	28,208,159	1,198,984
Other	27,850,821	14,286,635
Operating revenues before net assets released from restrictions for operations	2,218,534,287	1,966,931,660
Net assets released from restrictions for operations	48,847	109,142
Total operating revenues	2,218,583,134	1,967,040,802
Operating expenses		
Cost of pharmacy, pantry and thrift stores sales	1,308,601,687	1,099,188,575
Salaries and benefits	327,203,717	278,926,087
Medical services, supplies and drugs	175,704,046	186,343,178
Rent and other facilities related expenses	67,130,397	60,608,742
Professional services	33,116,777	30,144,489
Depreciation and amortization	19,938,418	19,395,725
Charitable contributions	13,938,982	13,059,125
Insurance	4,853,879	4,311,260
Provision for bad debts	4,455,346	2,582,861
Interest expense	2,126,146	2,385,951
Other expenses	84,411,054	72,312,929
Total operating expenses	2,041,480,449	1,769,258,922
Income from operations	177,102,685	197,781,880
Investment (losses) income, net	(17,310,592)	10,496,186
Increase in net assets without donor restrictions	159,792,093	208,278,066
Changes in net assets with donor restrictions		
Contributions	64,016	337,146
Net assets released from restrictions for operations	(48,847)	(109,142)
Increase in net assets with donor restrictions net assets	15,169	228,004
Increase in net assets	159,807,262	208,506,070
Net assets, beginning of year	833,087,202	624,581,132
Net assets, end of year	\$ 992,894,464	\$ 833,087,202

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Functional Expenses
Years ended December 31, 2022 and 2021

	<u>Healthcare Services</u>	<u>Housing Services</u>	<u>Thrift Stores</u>	<u>Outreach</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total</u>
2022							
Cost of pharmacy, pantry and thrift stores sales	\$ 1,307,939,485	\$ -	\$ 81,845	\$ 580,357	\$ -	\$ -	\$ 1,308,601,687
Salaries and benefits	263,949,447	4,767,472	9,477,749	29,371,178	2,688,890	16,948,981	327,203,717
Medical services, supplies and drugs	164,876,237	31,333	13,813	10,416,345	12,166	354,152	175,704,046
Rent and other facilities related expenses	44,473,480	5,623,993	2,387,682	3,386,373	220,750	11,038,119	67,130,397
Professional services	21,390,917	730,338	382,108	4,613,165	410,867	5,589,382	33,116,777
Depreciation and amortization	13,857,122	1,819,792	301,950	1,357,222	12,591	2,589,741	19,938,418
Charitable contributions	2,612,384	3,907	-	7,737,884	3,429,871	154,936	13,938,982
Insurance	2,847,655	679,284	138,813	299,265	295	888,567	4,853,879
Provision for bad debts	2,628,242	1,518,388	-	225	-	308,491	4,455,346
Interest expense	1,380,588	4,575	16,265	82,606	-	642,112	2,126,146
Other expenses	60,458,693	1,245,854	1,426,027	13,998,403	2,070,922	5,211,155	84,411,054
	<u>\$ 1,886,414,250</u>	<u>\$ 16,424,936</u>	<u>\$ 14,226,252</u>	<u>\$ 71,843,023</u>	<u>\$ 8,846,352</u>	<u>\$ 43,725,636</u>	<u>\$ 2,041,480,449</u>
	<u>Healthcare Services</u>	<u>Housing Services</u>	<u>Thrift Stores</u>	<u>Outreach</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total</u>
2021							
Cost of pharmacy and thrift stores sales	\$ 1,099,153,369	\$ -	\$ 35,206	\$ -	\$ -	\$ -	\$ 1,099,188,575
Salaries and benefits	226,374,267	1,782,220	7,971,092	24,829,027	2,415,550	15,553,931	278,926,087
Medical services, supplies and drugs	177,654,767	266	8,794	8,417,590	6,181	255,580	186,343,178
Rent and other facilities related expenses	42,327,968	2,647,428	2,227,072	3,371,699	128,543	9,906,032	60,608,742
Professional services	21,262,428	469,428	310,571	4,753,052	225,344	3,123,666	30,144,489
Depreciation and amortization	14,315,463	1,227,026	305,844	1,274,204	7,953	2,265,235	19,395,725
Charitable contributions	1,626,348	-	-	8,827,942	2,516,206	88,629	13,059,125
Insurance	2,756,194	379,151	234,921	265,582	631	674,781	4,311,260
Provision for bad debts	1,912,072	250,901	29,600	12,394	-	377,894	2,582,861
Interest expense	1,558,503	-	18,507	94,025	-	714,916	2,385,951
Other expenses	52,511,531	481,636	1,326,051	13,525,307	1,533,786	2,934,618	72,312,929
	<u>\$ 1,641,452,910</u>	<u>\$ 7,238,056</u>	<u>\$ 12,467,658</u>	<u>\$ 65,370,822</u>	<u>\$ 6,834,194</u>	<u>\$ 35,895,282</u>	<u>\$ 1,769,258,922</u>

See notes to consolidated financial statements.

AIDS Healthcare Foundation
Consolidated Statements of Cash Flows

	Years ended December 31	
	2022	2021
Cash flows provided by operating activities		
Change in net assets	\$ 159,807,262	\$ 208,506,070
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	17,502,593	16,967,417
Loss (gain) on investment	23,226,409	(8,601,250)
Loss (gain) on sale of property and equipment	(6,317,643)	76,222
Amortization of debt issuance costs	57,441	129,233
Amortization of intangible assets	2,435,825	2,352,087
Provision for bad debts	4,455,347	2,582,861
Unrealized gain on interest rate swap	(7,531,485)	(2,870,687)
Contributed in-kind assets	(27,540,046)	(1,198,984)
Changes in operating assets and liabilities:		
Accounts receivable - other	6,901,522	(50,426,464)
Premium revenue receivable	15,830,250	(1,442,111)
Grant revenue receivable	(8,257,185)	4,608,116
Inventories	6,643,397	15,692,569
Prepaid expenses, deposits, and other current assets	(1,571,306)	(3,805,659)
Accounts payable	13,506,981	5,378,305
Unearned premiums	12,180,001	3,834,379
Accrued expenses	17,344,015	(2,945,824)
Operating right-of-use leases	2,252,915	-
Claims payable	(1,249,462)	(656,777)
Deferred rent	(2,495,115)	(236,593)
Net cash provided by operating activities	227,181,716	187,942,910
Cash flows used in investing activities		
Purchases of property and equipment	(104,451,200)	(102,495,681)
Proceeds from sale of property and equipment	15,595,106	327,344
Purchases of investments	(224,813,611)	(90,248,594)
Proceeds from sale of investments	38,292,421	14,518,925
Net cash used in investing activities	(275,377,284)	(177,898,006)
Cash flows used in financing activities		
Principal payments on long-term debt	(2,257,544)	(15,637,618)
Cash used in financing activities	(2,257,544)	(15,637,618)
Net change in cash, cash equivalents and restricted cash	(50,453,112)	(5,592,714)
Cash, cash equivalents and restricted cash, beginning of year	211,452,214	217,044,928
Cash, cash equivalents and restricted cash, end of year	\$ 160,999,102	\$ 211,452,214
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	\$ 2,126,146	\$ 2,385,951

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 statements of cash flows.

	Years ended December 31	
	2022	2021
Cash and cash equivalents	\$ 157,152,788	\$ 207,605,900
Restricted cash included in assets limited as to use	3,846,314	3,846,314
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ 160,999,102	\$ 211,452,214

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 69 outpatient healthcare centers and 62 pharmacies that are located in 17 states including California, Florida, Texas, Washington, New York, Pennsylvania, Georgia, Nevada, Louisiana, South Carolina, Mississippi, Maryland, Illinois, Virginia, Alabama, New Jersey and Ohio as well as Washington, DC and Puerto Rico. The Foundation operates 23 Out of the Closet Thrift Stores in 8 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 16 properties in California, Florida, Texas and New York to provide 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 Immunotherapeutic Institute (formerly AHF Pharmacy Network), AIDS Healthcare Foundation Texas, Inc., MVP Medical Practice PC (formerly AJS Brooklyn Medical Practice, P.C.), AHF China LLC., Coalition to Preserve LA, 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), Thursday’s Child, Inc., and Broward House Inc.. 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 (U.S. 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 that are 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 an increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified 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 U.S. 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 consolidated 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 also include deposits as required by Florida Office of Insurance Regulation (FLOIR), the Florida Agency for Healthcare Administration (FL AHCA), the California Department of Managed Health Care (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 assets, 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, 2022 and 2021 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, 2022, and 2021, 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, 2022, and 2021, net intangible assets amounted to \$20,379,088 and \$20,835,113, 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 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.

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 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.

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

Pharmacy Revenue (Continued)

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.

Premiums

The Foundation has agreements with publicly funded payers including Medi-Cal and Medicare to provide medical services 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 provided 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 Medi-Cal Plan, California Department of Health Care Services 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. For other types of grants, revenue is recognized when the service has been performed.

Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated balance sheets. For the years ended December 31, 2022 and 2021, the Foundation received no cost-reimbursable grant awards that were not recognized as revenue.

No advance payments were received that were required to be recorded in the consolidated balance sheets as a refundable advance as of December 31, 2022 and 2021.

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

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.

Patient service revenues are recognized as performance obligations are satisfied. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided. Inpatient rounding 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. 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 outpatient and inpatient rounding 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.

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 the 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. Other contributions of non-cash financial assets are measured at fair value at the date of donation (see Note 22).

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

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 are primarily allocated using the time and effort method (salaries, benefits, and other expenses), usage (supplies), and 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, 2022 and 2021, 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 2018 through 2022 are subject to examination by regulatory agencies. Tax returns are subject to examination generally for three and four years after they were filed for federal and state, respectively.

Charity Care

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

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

Transactions in Foreign Currencies

The Foundation operates in 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 \$1,048,361 and \$993,230 for the years ended December 31, 2022 and 2021, 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 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

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

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.
- Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
- Level 3: Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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

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

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations related to their leasing arrangements. Topic 842 requires lessees to recognize lease assets representing the right to use an underlying asset (ROU asset) and lease liabilities representing the obligation to make lease payments over the lease term, measured on a discounted basis, and requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Topic 842 retains a distinction between finance leases and operating leases using classification criteria that is substantially similar to the previous lease guidance. The Foundation adopted Topic 842 on January 1, 2022, using the optional transition method of the modified retrospective approach, which requires the Foundation to apply Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with Topic 840.

To reduce the burden of adoption and ongoing compliance, Topic 842 includes several practical expedients and policy elections. The Foundation elected the “package of practical expedients”, which permitted the Foundation to retain legacy lease classifications and initial direct costs treatment at transition. The Foundation also did not reassess whether any existing contracts as of January 1, 2022 are or contain leases and therefore continued its initial determination under the legacy guidance. The Foundation did not elect the “hindsight” practical expedient, and therefore will measure the ROU assets and lease liabilities using the remaining lease terms upon the adoption of Topic 842 on January 1, 2022.

The Foundation made an accounting policy election available under Topic 842 to not recognize ROU assets and lease liabilities for short-term leases (leases with a term of 12 months or less). For all other leases, the initial measurement is based on the present value of future lease payments over the remaining lease term as of the commencement date (or January 1, 2022 for existing leases upon the adoption of Topic 842). Lease payments may include future escalations based on an index or other rate (such as the consumer price index), which the Foundation initially measures using the index or rate at lease commencement. Subsequent changes or other periodic market-rate adjustments to base rent are recorded as variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease liability only when it is probable they will be incurred. The Foundation further adjusts the ROU asset for both lease payments made at or before the commencement date and lease incentives received.

To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

The Foundation has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for all asset classes. The non-lease components represent additional services transferred to the Foundation, which are typically variable in nature and recorded in variable lease expense in the period incurred.

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

Recently Adopted Accounting Pronouncements (Continued)

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Foundation's operating leases of approximately \$47.7 million and \$50.1 million, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact the Foundation's consolidated net income from operations or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets (see Note 19).

As of December 31, 2022 the Foundation recorded approximately \$53.6 million and \$55.9 million of ROU assets and lease liabilities, respectively, related to the Foundation's operating leases.

Deferred Rent

Prior to implementation of Topic 842, the Foundation reported deferred rent for lease agreements that provide for escalating rent payments or free-rent occupancy periods and recorded deferred rent of \$2,495,115 on the December 31, 2021 consolidated balance sheet. Upon implementation of Topic 842, deferred rent is not reported.

In September 2020, FASB issued 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 adopted this ASU on January 1, 2022 and enhanced the disclosures as necessary (see Note 22).

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 are as follows:

	2022	2021
Gross patient service revenue	\$ 77,337,582	\$ 56,835,289
Contractual discounts and provision for bad debts	<u>(57,699,902)</u>	<u>(46,133,258)</u>
Net patient service revenue	\$ <u>19,637,680</u>	\$ <u>10,702,031</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 11% and 12% of consolidated net patient service revenue in 2022 and 2021, 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 8% and 17% of consolidated net patient service revenue in 2022 and 2021, 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 81% and 71% of consolidated net patient service revenue in 2022 and 2021, 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 (PHC)

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). DHCS compensates the Foundation on a per member per month (PMPM) capitated basis. Acute inpatient services for members of the plan were the fiscal responsibility of DHCS.

Membership contracts with DHCS are on a monthly basis subject to cancellation by DHCS or the member based on loss of Medi-Cal benefits, death, relocation, dissatisfaction with the program 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 premium rates are determined annually by DHCS.

NOTE 3 PREMIUMS (CONTINUED)

Positive Healthcare (PHC) (Continued)

The contract with DHCS as a Primary Care Case Management (PCCM) entity 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 specific changes in services, which includes hospital inpatient and removal of 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.

Positive Healthcare - Florida Medicaid HMO

In May 2010, AHF MCO of Florida, Inc. (AHF MCO) contracted with the 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 FL 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.

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 was 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

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.

NOTE 3 PREMIUMS (CONTINUED)

Positive Healthcare Partners (Continued)

Florida Medicare HMO

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 and Duval counties. The Foundation established a Florida HMO to provide these services known as Positive Healthcare Partners.

Georgia Medicare HMO

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. As of December 31, 2021, the Georgia Medicare HMO was discontinued. The Foundation continues to pay claims on a run-off basis. The Foundation does not expect the discontinuance to have a material financial impact.

These HMOs have a comprehensive network of contracted providers and offer 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 are as follows:

	2022	2021
Positive Healthcare Partners - Medicare (Florida)	\$ 92,971,191	\$ 98,735,048
Positive Healthcare Partners - Medicare (California)	46,688,029	44,428,640
Positive Healthcare - Medicaid (California/Florida)	11,322,520	19,972,927
Positive Healthcare Partners - Medicare (Georgia)	-	1,214,499
Net premiums earned	\$ 150,981,741	\$ 164,351,114

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
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NOTE 4 GRANT REVENUE

The Foundation earns grant revenue from cost-reimbursable federal grants and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses.

The distribution of net grant revenue by state for the years ended December 31, are as follows:

	2022	2021
Florida	26.9%	19.1%
New York	25.6%	28.9%
Texas	15.9%	17.7%
California	13.1%	14.0%
Georgia	9.7%	9.5%
Other states	8.8%	10.8%
Total	100.0%	100.0%

NOTE 5 AVAILABILITY AND LIQUIDITY

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

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 157,152,788	\$ 207,605,900
Pharmacy revenue receivable, net	110,823,942	94,526,769
Premium revenue receivable	5,318,444	21,148,694
Grant revenue receivable, net	24,548,618	16,291,433
Accounts receivable - other, net	15,727,052	41,519,470
Investments	311,143,345	145,884,708
Restricted cash included in assets limited as to use	3,846,314	3,846,314
Total financial assets	628,560,503	530,823,288
Less amounts not available to be used within one year:		
Long-term investments	(176,718,848)	(139,447,839)
Restricted cash included in assets limited as to use	(3,846,314)	(3,846,314)
Net assets with donor restrictions	353,263	338,094
Less net assets with donor restrictions to be met in less than a year	(353,263)	(338,094)
Financial assets available to meet general expenditures over the next twelve months	\$ 447,995,341	\$ 387,529,135

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 had a \$30 million line of credit which was cancelled as of December 31, 2021 (see Note 12).

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2022 and 2021

NOTE 6 INVENTORIES

At December 31, inventories consist of:

	<u>2022</u>	<u>2021</u>
Pharmacy drugs	\$ 59,119,957	\$ 65,268,403
Thrift store inventory	2,018,072	1,910,055
Condoms	1,124,108	1,147,496
Test kits inventory	571,197	628,858
Food inventory	42,836	-
Total inventories	\$ 62,876,170	\$ 68,954,812

NOTE 7 ASSETS LIMITED AS TO USE

At December 31, the composition of assets limited as to use is as follows:

	<u>2022</u>	<u>2021</u>
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	358,561	358,561
Total assets limited as to use	\$ 3,846,314	\$ 3,846,314

NOTE 8 INVESTMENTS

At December 31, investments consist of:

	<u>2022</u>	<u>2021</u>
Fixed income	\$ 181,064,211	\$ 36,116,632
Public equity	117,828,679	98,908,758
Venture capital	5,457,917	5,562,285
Hedge funds	3,889,912	3,024,694
Private equity	2,902,626	2,272,339
	<u>311,143,345</u>	<u>145,884,708</u>
Less short-term portion	<u>(134,424,497)</u>	<u>(6,436,869)</u>
Long-term investments	\$ 176,718,848	\$ 139,447,839

The Foundation classifies those investments that it intends to hold for more than a year to be long-term investments.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2022 and 2021

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, 2022:

	Fair Value Measurements at December 31, 2022 Using			
	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	Fixed income	\$ 25,632,654	\$ 155,431,557	\$ -
Public equity	116,923,774	904,905	-	117,828,679
Venture capital	-	98,786	5,359,131	5,457,917
Hedge funds	-	3,889,912	-	3,889,912
Private equity	-	11,302	2,891,324	2,902,626
Total	\$ 142,556,428	\$ 160,336,462	\$ 8,250,455	\$ 311,143,345

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2021:

	Fair Value Measurements at December 31, 2021 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	\$ 27,646,478	\$ 8,470,154	\$ -
Public equity	97,850,004	1,058,754	-	98,908,758
Venture capital	-	-	5,562,285	5,562,285
Hedge funds	-	3,024,694	-	3,024,694
Private equity	-	14,511	2,257,828	2,272,339
Total	\$ 125,496,482	\$ 12,568,113	\$ 7,820,113	\$ 145,884,708

The Foundation utilizes an external investment advisor to oversee the valuation process of the Foundation's Level 2 and 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
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NOTE 9 PROPERTY AND EQUIPMENT

At December 31, property and equipment is comprised of:

	2022	2021
Land	\$ 141,239,603	\$ 129,473,443
Buildings	234,067,528	172,266,054
Leasehold improvements	31,278,077	29,307,864
General equipment	29,197,312	28,518,820
Computer equipment	32,230,418	29,832,376
Computer software	28,999,336	28,024,434
Vehicles	14,217,579	12,399,859
Furniture and fixtures	15,298,663	12,476,088
Low value assets	2,952,817	2,809,939
Assets under construction	82,181,109	34,190,136
Total	611,662,442	479,299,013
Accumulated depreciation and amortization	(144,162,193)	(122,248,220)
Property and equipment, net	\$ 467,500,249	\$ 357,050,793

Provision for depreciation and amortization of property and equipment amounted to \$17,502,593 and \$16,967,417 in 2022 and 2021, respectively.

NOTE 10 PROPERTY HELD FOR SALE

The Foundation classified one of its properties as held for sale as of December 31, 2022 and two properties as of December 31, 2021 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.

The Foundation does not depreciate or amortize these assets while they are classified as held for sale. As of December 31, 2022 and 2021, property held for sale totaled \$5,803,810 and \$14,340,889, respectively.

One of the two properties held for sale in 2021 having a net book value of approximately \$8.5 million was sold in March 2022 for a gain on sale of approximately \$6.3 million. The sale of the remaining property is expected to close within one year.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2022 and 2021

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, 2022 and 2021 is as follows:

	2022	2021
Claims payable at beginning of year	\$ 13,945,299	\$ 14,602,076
Incurred hospital and medical services claims:		
Current year	172,733,579	184,289,308
Prior years	(5,496,702)	(7,783,664)
Total incurred	167,236,877	176,505,644
Paid hospital and medical services claims:		
Current year	(159,653,986)	(170,087,800)
Prior years	(8,832,353)	(7,074,621)
Total paid	(168,486,339)	(177,162,421)
Claims payable at end of year	\$ 12,695,837	\$ 13,945,299

As of December 31, 2022 and 2021, the liability for unpaid claims and claims adjustment expenses was \$12,695,837 and \$13,945,299, respectively. The estimated ultimate claims and claims adjustment expenses incurred related to prior years decreased by approximately \$5.5 million. 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 12 LINE OF CREDIT

The Foundation had a line of credit agreement with a bank, renewed on December 1, 2019, that provided 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 expired and the line of credit was simultaneously canceled effective December 31, 2021. There was no outstanding balance on the line of credit as of December 31, 2021. The Foundation maintains nominal standby letters of credit related to certain of its lease contracts.

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
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NOTE 12 LINE OF CREDIT (CONTINUED)

The Foundation in connection with its Broward House affiliation has available a \$816,000 revolving line of credit with a financial institution for temporary working capital needs, maturing on demand. Borrowing against this line of credit bears interest at the corresponding variable liquidity access line index plus 3.50% (7.641% at December 31, 2022). This line of credit is secured by certain investments held by Broward House with a fair value of approximately \$1.7 million as of December 31, 2022. At December 31, 2022, there was an outstanding balance on the line of credit of approximately \$294 thousand which is included in accrued expenses in the consolidated balance sheets.

NOTE 13 LONG-TERM DEBT

At December 31, long-term debt consists of:

	2022	2021
Wells Fargo and City National Syndicated Series 2019 A-F Loans totaling \$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.	\$ 56,476,000	\$ 58,996,000
Broward House mortgage payable	262,457	-
Subtotal	56,738,457	58,996,000
Less debt issuance costs	(810,822)	(868,263)
Total long-term debt, net of debt issuance costs	55,927,635	58,127,737
Less current portion	(2,790,000)	(2,520,000)
Long-term debt, net of current portion	\$ 53,137,635	\$ 55,607,737

NOTE 13 LONG-TERM DEBT (CONTINUED)

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

<u>Year ending December 31</u>	<u>Amount</u>
2023	\$ 2,790,000
2024	2,661,367
2025	2,719,187
2026	2,813,145
2027	2,878,578
Thereafter	42,876,180
Total	\$ <u>56,738,457</u>

Interest on long-term debt charged as expense amounted to \$1,527,649 and \$1,039,320 for the years ended December 31, 2022 and 2021, 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

From 2014 to 2017, the Foundation entered into agreements with Wells Fargo and the Public Finance Authority (PFA). 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. In 2017, 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.

Broward House Mortgage Payable

Debt obligations funded by local city, county and state agencies in connection with several properties owned by Broward House, an affiliation of the Foundation. Each year, the respective debt obligations are forgivable at a rate of 5% of the principal balance providing the buildings are used for the purpose prescribed. The debt is noninterest bearing and collateralized by the underlying property.

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 to 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, 2022 are as follows:

	Amended Series 2018A Loan	Series 2019A&B Loan
Outstanding notional amount	\$ 19,001,217	\$ 36,988,783
Fixed interest rate	2.132%	1.84%
Floating rate option	80.375% of USD-Libor-BBA	80.375% of USD-Libor-BBA
Floating rate day count fraction	Actual/360	Actual/360
Trade date	12/20/2018	1/8/2020
Effective date	12/20/2018	1/1/2020
Termination date	12/1/2028	1/1/2040

At December 31, 2022, the fair value of the swap asset amounted to \$5,218,495. At December 31, 2021, the fair value of the swap liability amounted to \$2,312,990. The fair values were the quoted market prices at December 31 of each year. The decrease in the swap liability and corresponding \$7,531,485 unrealized gains resulted from the relatively higher LIBOR interest rate on December 31, 2022. 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).

Effective May 1, 2023, the floating USD-Libor will be replaced by the SOFR equivalent. The Foundation expects this change will have an immaterial financial impact.

NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Housing	\$ 45,000	\$ 263,094
Program support	278,263	45,000
Other	30,000	30,000
Total	\$ 353,263	\$ 338,094

NOTE 16 BUSINESS AND ASSET ACQUISITIONS

In November 2021, the Foundation entered into an Affiliation Agreement with Thursday's Child, Inc, a New York 501(c)(3) organization. The organization's mission is to develop, coordinate and provide services to people living and affected by HIV and AIDS. The Foundation recognized inherent contribution amounting to approximately \$0.5 million for net assets acquired without consideration.

In March 2022, the Foundation entered into an Affiliation Agreement with Broward House, Inc., a Florida 501(c)(3) organization. The organization's mission is to develop, coordinate, and provide services for people living with and affected by HIV/AIDS, serving approximately 900 patients/clients in Broward County, Florida. The Foundation acquired assets with fair value amounting to approximately \$28.9 million, which consisted primarily of property and equipment with fair value of approximately \$24.2 million and assumed liabilities amounting to approximately \$1.1 million for no consideration. The Foundation recognized inherent contribution amounting to approximately \$27.6 million (see Note 22).

In April 2022, the Foundation executed an Asset Purchase Agreement with a medical practice engaged in the business of providing medical services to the LGBTQ community in Georgia. The services include preventative care and specialty medical services to people living with HIV/AIDS. Per the agreement, the Foundation acquired all of the trade names and other proprietary rights and agreements that are used in the business, along with the property and equipment of the medical practice.

In January 2023, the Foundation entered into an Affiliation Agreement with Sunshine Social Services, Inc. dba SunServe, a Florida 501(c)(3) organization. The organization's mission is to provide critical life assistance and professional mental health services with an emphasis on economically disadvantaged people in greater South Florida, serving approximately 4,000 community members in South Florida.

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.

NOTE 17 EMPLOYEE RETIREMENT PLAN (CONTINUED)

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, 2022 and 2021 amounted to \$7,611,208 and \$6,860,530, respectively.

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:

	2022	2021
Private Insurance	55.36%	47.34%
Other Grants	25.71%	33.26%
Medi-Cal/Medicaid	11.31%	3.86%
AIDS Drug Assistance Program	3.87%	3.08%
Department of Health and Human Services	2.62%	3.55%
Centers for Medicare and Medicaid Services	0.78%	8.58%
Medicare (Fee for Service)	0.35%	0.33%
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 19 LEASES

The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

NOTE 19 LEASES (CONTINUED)

The Foundation leases real estate and equipment under operating lease agreements that have initial terms ranging from 1 to 20 years. Most leases include one or more options to exercise renewal terms that can extend the lease term, generally at the Foundation's sole discretion. Some leases may contain rights to terminate whereby those termination options are held by either the Foundation, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms only when it is reasonably certain that the Foundation will exercise that option. The Foundation's leases generally do not contain any material residual value guarantees or restrictive covenants.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

	Amount
Operating lease cost	\$ 18,526,550
Short-term lease cost	5,125,439
Variable lease cost	2,825,130
Sublease income, gross	(76,915)
Total	\$ 26,400,204

Rent expense under operating lease agreements was \$26,602,342 for the year ended December 31, 2021 under Topic 840.

Supplemental cash flow and other information related to leases is as follows for the year ended December 31 2022:

Cash paid for amounts included in measurement of lease liabilities:

Operating cash outflows - payments on operating leases \$ 18,809,594

Right-of-use assets obtained in exchange for new lease obligations:

Operating leases \$ 24,341,982

Weighted-average remaining lease term - operating leases: 6.31 years

Weighted-average discount rate - operating leases: 1.71%

AIDS Healthcare Foundation
Notes to the Consolidated Financial Statements
Years ended December 31, 2022 and 2021

NOTE 19 LEASES (CONTINUED)

The future undiscounted cash flows for each of the next five years and thereafter, and reconciliation to the lease liabilities recognized on the consolidated balance sheets were as follows as of December 31, 2022:

Year ending December 31	Amount
2023	\$ 15,278,079
2024	11,256,563
2025	8,797,328
2026	6,126,859
2027	3,894,762
Thereafter	13,759,802
Total lease payments	\$ 59,113,393
Less: Imputed interest	(3,230,067)
Total present value of lease liabilities	\$ <u>55,883,326</u>

A summary of the future minimum lease commitments, as determined under Topic 840, for all non-cancelable operating lease agreements were as follows as of December 31, 2021:

Year ending December 31	Amount
2022	\$ 14,327,326
2023	9,334,633
2024	6,945,762
2025	4,664,351
2026	2,459,288
Thereafter	2,222,900
Total	\$ <u>39,954,260</u>

NOTE 20 COMMITMENTS AND CONTINGENCIES

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 limit. 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 impact on the Foundation's financial position.

NOTE 20 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, government 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 21 CHARITY CARE

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, 2022 and 2021 amounted to \$87,421,211 and \$81,963,304, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2022 and 2021 amounted to \$689,022 and \$641,499, respectively.

NOTE 22 IN-KIND CONTRIBUTIONS

In-kind contributions for the years ended December 31 are as follows:

	2022	2021
In-kind, thrift stores:		
Donated clothes and other goods	\$ 16,684,096	\$ 16,159,519
In-kind, other:		
Inherent contributions (see Note 16)	27,643,404	534,649
Prescription drugs	381,960	395,839
Food, medical and other supplies	182,795	268,496
	28,208,159	1,198,984
Total	\$ 44,892,255	\$ 17,358,503

The Foundation recognized contributed nonfinancial assets within revenue, including contributed clothes and other goods, pharmaceutical drugs, food, medical and other program supplies. Unless otherwise noted, the contributed nonfinancial assets did not have donor-imposed restrictions.

The donated clothes and other goods at the Foundation's thrift stores are immediately sold and valued according to the actual cash proceeds from their disposition.

The donated pharmaceutical drugs were restricted by donors to use outside the United States and utilized in international health services. In valuing the contributed pharmaceuticals drugs, the Foundation used the average manufacturer prices that approximate wholesale prices in the United States at the time of the donation.

Donated food, medical and other supplies were utilized in the Foundation's programs. In valuing the donated food, medical and other supplies, the Foundation estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

As discussed in Note 16, the Foundation recognizes inherent contributions for business acquisitions entered into without consideration.

NOTE 23 SUBSEQUENT EVENTS

The Foundation has evaluated events subsequent to December 31, 2022 to assess the need for the potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through April 28, 2023, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements except as discussed in Notes 14 and 16.



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 (the Foundation), which comprise the consolidated balance sheet as of December 31, 2022, 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 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing 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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 or significant deficiencies may exist that have not been identified.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 consolidated financial statements. 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.

Glendale, California
April 28, 2023



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