

**Audited Consolidated Financial Statements  
and Supplementary Information  
AIDS Healthcare Foundation  
*Years ended December 31, 2012 and 2011  
with Report of Independent Auditors***

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## **Report of Independent Auditors**

### **Board of Directors AIDS Healthcare Foundation**

We have audited the accompanying consolidated financial statements of AIDS Healthcare Foundation, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIDS Healthcare Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Supplementary Information***

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

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013 on our consideration of AIDS Healthcare Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* when considering AIDS Healthcare Foundation's internal control over financial reporting and compliance.

*Vargay + Company LLP*

**Los Angeles, California  
April 30, 2013**

**AIDS Healthcare Foundation  
Consolidated Balance Sheets**

ASSETS	December 31	
	2012	2011
<b>Current assets</b>		
Cash and cash equivalents	\$ 24,872,920	\$ 34,912,212
Assets limited as to use	4,760,240	114,440
Pharmacy revenue receivable, net of allowance for doubtful accounts of \$12,370,207 and \$3,573,038 at December 31, 2012 and 2011, respectively	34,762,842	16,951,913
Premium revenue receivable, net of allowance for doubtful accounts of \$976,569 at December 31, 2012 and 2011	6,001,977	2,517,395
Grant revenue receivable, net of allowance for doubtful accounts of \$125,783 and \$0 at December 31, 2012 and 2011, respectively	3,776,521	4,117,602
Accounts receivable, net of allowance for doubtful accounts of \$3,476,547 and \$1,702,758 at December 31, 2012 and 2011, respectively	1,928,041	1,171,338
Contributions receivable, due within one year	23,963	263,913
Inventories	17,036,738	11,773,320
Investments	2,016,100	12,096,125
Prepaid expenses and other current assets	33,484,055	3,320,046
<b>Total current assets</b>	<b>128,663,397</b>	<b>87,238,304</b>
Assets limited as to use, net of current portion	1,870,063	1,667,558
Contributions receivable, net of current portion	-	13,719
Long-term premium revenue receivable, net of allowance for doubtful accounts of \$3,434,252 at December 31, 2012 and 2011	2,897,948	1,897,948
Property and equipment, net	47,672,008	29,603,564
Debt issuance costs, net of accumulated amortization of \$454,527 and \$417,399 at December 31, 2012 and 2011, respectively	312,000	349,128
Investments	15,799,527	13,001,688
Intangibles, deposits and other assets	21,374,271	1,501,774
<b>Total assets</b>	<b>\$ 218,589,214</b>	<b>\$ 135,273,683</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 41,282,172	\$ 20,713,726
Accrued expenses	12,932,005	8,969,939
Accrued interest payable	27,589	30,220
Claims payable	4,243,881	5,222,060
Current portion of long-term debt	2,381,436	509,167
<b>Total current liabilities</b>	<b>60,867,083</b>	<b>35,445,112</b>
Deferred rent	11,583	-
Long-term debt, net of current portion	32,738,752	4,135,833
<b>Total liabilities</b>	<b>93,617,418</b>	<b>39,580,945</b>
<b>Net assets</b>		
Unrestricted	124,511,026	94,878,846
Temporarily restricted	460,770	813,892
<b>Total net assets</b>	<b>124,971,796</b>	<b>95,692,738</b>
<b>Total liabilities and net assets</b>	<b>\$ 218,589,214</b>	<b>\$ 135,273,683</b>

See notes to consolidated financial statements.

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

	<b>Years ended December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Unrestricted revenues, gains, and other support</b>		
Pharmacy revenue	\$ 372,107,391	\$ 208,451,049
Premium revenue	105,808,791	85,535,634
Grant revenue	18,959,159	16,571,274
Net patient service revenue	3,220,872	2,393,207
Contributions		
Cash	1,088,487	905,766
Inherent contribution from a business acquisition	538,714	-
In-kind, thrift store	11,178,507	11,277,085
In-kind, other	-	493,275
Other	1,469,935	438,286
<b>Total unrestricted revenues, gains, and other support before net assets released from restrictions for operations</b>	<b>514,371,856</b>	<b>326,065,576</b>
Net assets released from restrictions for operations	715,476	2,698,418
<b>Total unrestricted revenues, gains and other support</b>	<b>515,087,332</b>	<b>328,763,994</b>
<b>Expenses</b>		
Salaries and benefits	77,870,150	61,307,743
Medical services, supplies and drugs	328,121,918	181,233,262
Cost of sales, thrift stores	71,845	90,563
Rent	8,070,226	6,289,217
Depreciation and amortization	5,253,889	2,209,516
Interest expense	585,406	318,268
Provision for bad debts	11,973,909	2,339,318
Insurance	1,396,969	1,306,400
Professional services	12,877,131	7,800,195
Charitable contributions	1,681,538	1,131,304
Other expenses	37,552,172	24,153,143
<b>Total expenses</b>	<b>485,455,153</b>	<b>288,178,929</b>
<b>Change in unrestricted net assets</b>	<b>29,632,179</b>	<b>40,585,065</b>
<b>Temporarily restricted net assets</b>		
Contributions	362,355	2,630,338
Net assets released from restrictions for operations	(715,476)	(2,698,418)
<b>Change in temporarily restricted net assets</b>	<b>(353,121)</b>	<b>(68,080)</b>
<b>Change in net assets</b>	<b>29,279,058</b>	<b>40,516,985</b>
Net assets, beginning of year	95,692,738	55,175,753
Net assets, end of year	<b>\$ 124,971,796</b>	<b>\$ 95,692,738</b>

See notes to consolidated financial statements.

**AIDS Healthcare Foundation  
Consolidated Statements of Cash Flows**

	<b>Years ended December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 29,279,058	\$ 40,516,985
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution received in the acquisition of ICAN	(538,714)	-
Depreciation of property and equipment	4,518,668	2,172,389
Amortization of debt issuance costs	37,128	37,127
Amortization of intangible asset	440,808	-
Provision for bad debts	11,973,921	2,339,318
Contributed pharmacy inventory	123,076	(494,228)
Changes in operating assets and liabilities:		
Accounts receivable	(29,087,114)	(11,089,550)
Premium revenue receivable	(4,484,582)	245,173
Inventories	(457,225)	(3,552,475)
Prepaid expenses, deposits, and other assets	(30,373,747)	12,246,505
Contributions receivable	253,669	85,368
Accounts payable	20,563,544	3,440,435
Accrued expenses and claims payable	2,667,457	3,867,625
Deferred rent	11,583	-
Accrued interest payable	(2,631)	(3,266)
<b>Net cash provided by operating activities</b>	<b>4,924,899</b>	<b>49,811,406</b>
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(17,146,479)	(10,639,679)
Assets limited as to use	(4,848,305)	(282,330)
Cash received in the acquisition of ICAN	260,719	-
Investments	7,282,186	(20,921,350)
<b>Net cash used in investing activities</b>	<b>(14,451,879)</b>	<b>(31,843,359)</b>
<b>Cash flows from financing activities</b>		
Principal payments on long-term debt	(512,312)	(1,664,511)
<b>Net cash used in financing activities</b>	<b>(512,312)</b>	<b>(1,664,511)</b>
<b>Net change in cash and cash equivalents</b>	<b>(10,039,292)</b>	<b>16,303,536</b>
Cash and cash equivalents, beginning of year	34,912,212	18,608,676
Cash and cash equivalents, end of year	\$ 24,872,920	\$ 34,912,212
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest during the year	\$ 588,037	\$ 321,534
<b>Supplemental noncash investing and financing activities</b>		
The Foundation funded MOMs Pharmacies acquisition by borrowing from a bank:		
Fair value of net assets acquired	\$ 26,825,000	\$ -
Proceeds from Term Note	(26,825,000)	-
Purchase of land and building funded by issuance of two promissory notes		
Building and land acquired	4,162,500	-
Proceeds from notes payable	(4,162,500)	-

See notes to consolidated financial statements.

**NOTE 1      DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

AIDS Healthcare Foundation (the Foundation) located in Los Angeles, California is a not-for-profit healthcare organization incorporated in 1987. The Foundation provides medical care for those affected by Human Immuno-deficiency Virus (HIV) or living with the Acquired Immune Deficiency Syndrome (AIDS). In addition, the Foundation participates in scientific research and patient advocacy for those in need. The Foundation has a network of 27 outpatient healthcare centers and 31 pharmacies that are located mainly in Los Angeles County, San Bernardino County, Oakland, San Francisco, Washington DC and throughout Florida. The Foundation previously had operated a residential skilled nursing facility located in Los Angeles. The Foundation also operates 31 healthcare centers in Africa, 19 healthcare centers in Asia and 3 healthcare centers in Latin/Central America and 1 in Europe. In addition, the Foundation operates 23 thrift stores, the profits of which assist the Foundation's commitment to provide HIV and AIDS-related healthcare services without regard to a person's financial resources.

**Principles of Consolidation**

The Foundation's consolidated financial statements include the accounts of AIDS Healthcare Foundation, AHF Healthcare Centers, AHF MCO of Florida, Inc. and AIDS Healthcare Foundation Disease Management of Florida, Inc., and an inactive not-for-profit organization, AHF Pharmacy Network. All significant inter-organization balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimation include: retroactive adjustments on premium revenues, valuation allowances on receivables, useful lives for property and equipment, estimates for claims incurred but not reported, and amounts recognized under the Foundation's savings sharing programs. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less.

**Assets Limited as to Use**

Assets limited as to use primarily include assets held by trustees for the payment of principal, interest, and insurance on outstanding California Health Facilities Financing Authority 2005 Refunding Series A Bonds, other deposits restricted by the States of California and Florida in connection with the Foundation's Medicare and Medicaid HMO contracts and a deposit restricted by Wells Fargo in connection with the Foundation's Term Note.

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

**Assets Limited as to Use (continued)**

These assets consist primarily of investments in money market funds which are reported at fair value based on quoted market prices and cash deposits. Amounts required to meet related current liabilities of the Foundation have been reclassified as current assets in the accompanying consolidated balance sheets at December 31, 2012 and 2011.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or for a specific purpose. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions for operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

**Contributions**

Contributions include unconditional transfers of cash or other assets. Contributions, whether temporarily restricted or unrestricted, are recognized as revenue when they are received. Unconditional promises to give are recorded at fair value at the date the promise is received.

**Inventories**

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

Pharmacy drug inventory is stated at the lower of cost or market. Pharmacy drug inventory costs have been determined on the first-in, first-out (FIFO) method. Test kits inventory consists of HIV test kits purchased for use in domestic and global programs. The test kits inventory is stated at the lower of cost or market. The test kits inventory has been determined on the FIFO method. Condoms inventory consist of bulk condoms purchased for distribution in domestic and global operations. The condoms inventory has been determined on the FIFO method.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost or, if donated, at the estimated fair value at the date of donation. The provision for depreciation and amortization is computed using the straight-line method over the estimated useful life of each class of depreciable asset, except for leasehold improvements, for which amortization is provided over the shorter of the estimated useful life or remaining lease term.

Buildings and fixed equipment	5 to 50 years
Furniture and movable equipment	5 to 7 years

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

**Property and Equipment (continued)**

Maintenance, repairs, and investments in minor equipment are charged to operations. Expenditures that will materially increase the value of properties or extend useful lives are capitalized.

**Impairment of Long-lived Assets**

The Foundation reviews the carrying amount of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The measurement of possible impairment is based primarily on the undiscounted future operating cash flows without interest charges generated through the use of these assets during their remaining estimated useful life. The assessed recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved. Based upon its most recent analysis, the Foundation believes that no events occurred during the years ended December 31, 2012 and 2011 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 over fair value of assets of businesses acquired. As of December 31, 2012 and 2011, goodwill of \$1,107,530 and \$907,530, respectively, is recorded in the Foundation's consolidated balance sheets within intangibles, deposits and other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. Generally accepted accounting principles provides an entity 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. No impairments were identified for the years ended December 31, 2012 and 2011.

Intangible assets represent the customer relationships acquired in the MOMs Pharmacies business acquisition. 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

**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.

**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 prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments that are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Foundation has not received or paid any significant settlements related to any cost report audits that have occurred.

In July 2011, FASB issued ASU 2011-07, Health Care Entities (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which is intended to increase transparency about a health care entity's net patient revenue and related allowance for doubtful accounts. This update requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts), under certain circumstances. Additionally, these health care entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This ASU did not have a material impact on the consolidated financial statements. Provision for bad debts from patient service revenue amounted to \$216,597 and \$27,405 for the years ended December 31, 2012 and 2011, respectively.

**Premium Revenue**

The Foundation has agreements with third-party payers to provide medical services and/or disease management to subscribing participants. Under these agreements, the Foundation receives monthly capitation payments based on the number of each payer's participants, regardless of services actually performed by the Foundation. Such agreements also include savings sharing agreements, the revenue of which is included in premium revenue.

Premiums are billed monthly and are recognized as revenue over the period in which the Foundation is obligated to provide services to its members. Premiums collected in advance are recorded as unearned premiums liability until earned. The premium is a predetermined amount on a per member per month basis. 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.

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

**Premium Revenue (continued)**

For the Medicaid Plans, the Medicaid agency for each State determines the amount based on the county in which the member resides and other factors. Member census is subject to audit and retroactive adjustment and such adjustments when determinable are included in current operations. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

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

**Grant Revenue**

Amounts received under government grant agreements are recognized as revenue as qualifying expenditures are incurred.

**Pharmacy Revenue**

The Foundation has agreements with third-party payers that provide payments to the Foundation at amounts different from its established rates. Payment arrangements include contracted calculations based upon Average Wholesale Price or Acquisition Cost. Pharmacy revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for pharmacy drugs dispensed. Provision for doubtful accounts from pharmacy revenue amounted to \$11.8 million and \$2.1 million for the years ended December 31, 2012 and 2011, respectively.

**Federal and State Income Taxes**

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

Generally accepted accounting principles 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, 2012 and 2011, the Foundation had no material unrecognized tax benefits or tax penalties or interest.

**Charity Care**

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

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

**Fair Value Measurements**

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

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

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

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

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

**NOTE 2      NET PATIENT SERVICE REVENUE**

The Foundation has agreements with third party payers that provide for payments to the Foundation at amounts that vary from its established rates. The difference between charges and the related payment amount during the years ended December 31 is reflected below:

	<b>2012</b>	2011
Gross patient revenue	\$ <b>11,169,900</b>	\$ 9,267,010
Contractual discounts and provision for bad debts	<b>(7,949,028)</b>	(6,873,803)
Net patient service revenue	<b>\$ 3,220,872</b>	\$ 2,393,207

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

**NOTE 2      NET PATIENT SERVICE REVENUE (CONTINUED)**

**Medi-Cal and Medicaid**

The Medi-Cal and Medicaid programs accounted for approximately 21% and 22% of consolidated net patient service revenue in 2012 and 2011, 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 24% of consolidated net patient service revenue in 2012 and in 2011. 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 55% and 54% of consolidated net patient service revenue in 2012 and 2011, respectively. The basis for payment to the Foundation under these agreements includes, among others, discounts from established charges, and prospectively determined daily rates.

**NOTE 3      PREMIUM REVENUE**

**Positive Healthcare  
California Medicaid PCCM**

In April 1995, the Foundation contracted with the California Department of Health Services (DHCS) to provide capitated HIV healthcare to Medi-Cal beneficiaries. The capitated plan is known as Positive Healthcare. Positive Healthcare has a comprehensive network of providers and offers the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, and long-term facility care to voluntary members of the plan. DHCS compensates the Foundation on a per member per month (PMPM) capitated basis. Acute inpatient services for members of the plan are the fiscal responsibility of DHCS.

**NOTE 3      PREMIUM REVENUE (CONTINUED)**

**Positive Healthcare (continued)**  
**California Medicaid PCCM (continued)**

Membership contracts with DHCS are on a monthly basis subject to cancellation by the DHCS or member based on loss of Medi-Cal benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare is obligated to provide services to members. As part of the contract, the Foundation and DHCS share net savings between the costs of providing services on an inpatient fee-for-service basis versus the Foundation's plan experience. Actual savings sharing is estimated based on services rendered and is adjusted in future periods as final savings sharing amounts are determined by DHCS. Should the Foundation's plan members generate excess utilization, the Foundation bears the risk of repaying the excess cost over and above the inpatient fee-for-service equivalent. Savings sharing revenues that are not expected to be collected within one year are included in long-term accounts receivables in the accompanying consolidated balance sheets. Savings sharing settlements that occur related to prior years are netted against premium revenue in the accompanying consolidated statements of operations and changes in net assets. For the years ended December 31, 2012 and 2011, there were no saving sharing settlements that occurred.

The Foundation has a savings sharing and rate dispute with DHCS. In December 2012, the Foundation received a proposed decision with respect to the 2009 and 2010 capitation rates and the 2007 and 2008 savings sharing calculation from the DHCS, Office of Administrative Hearings and Appeals which supported the Foundation's position with respect to the capitation rates. In March 2013, the decision was subsequently rejected and remanded to another administrative law judge for further proceedings to obtain additional evidence. The Foundation is also pursuing the matter in the Superior Court.

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, the Foundation contracted with State of Florida Agency for Health Care Administration (AHCA) to provide Medicaid managed care services to Medicaid beneficiaries living with a diagnosis of HIV/AIDS in Broward County. In September 2012, the Foundation contracted with State of Florida AHCA to provide similar services in Dade County. The Foundation established an HMO to provide these services known as Positive Healthcare. 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. 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 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.

**NOTE 3      PREMIUM REVENUE (CONTINUED)**

**Florida Medicaid HMO (continued)**

The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of year end.

**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 an HMO to provide these services known as Positive Healthcare Partners. Positive Healthcare Partners has a comprehensive network of contracted providers and offers the full range of traditional Medicare Part A, B, and D benefits, including the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, hospitalization, rehabilitation services, behavioral health and skilled nursing facility care to voluntary members of the plan. CMS compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's risk scoring as outlined in Medicare Advantage Risk Adjustment Policies.

Enrollment in this HMO is voluntary and subject to cancellation by CMS or the member based on loss of Medicare benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare Partners is obligated to provide services to members.

The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of year-end.

**Florida Medicare HMO**

In January 2008, the Foundation contracted with the Centers for Medicare and Medicaid Services (CMS) to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Broward and Dade Counties. The Foundation established an HMO to provide these services known as Positive Healthcare Partners. Positive Healthcare Partners has a comprehensive network of contracted providers and offers the full range of traditional Medicare Part A, B, and D benefits, including the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, hospitalization, rehabilitation services, behavioral health and skilled nursing facility care to voluntary members of the plan. CMS compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's risk scoring as outlined in Medicare Advantage Risk Adjustment Policies. Enrollment in this HMO is voluntary and subject to cancellation by CMS or the member based on loss of Medicare benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare Partners is obligated to provide services to members.

**NOTE 3      PREMIUM REVENUE (CONTINUED)**

**Florida Medicare HMO (continued)**

The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of yearend.

**Florida Disease Management Program**

In March 1999, the Foundation contracted with the State of Florida Agency for Health Care Administration (AHCA) to provide disease management services to MediPass recipients who have been determined by AHCA standards as having HIV/AIDS. AHCA currently compensates the Foundation with an administrative fee. Enrollment of recipients for disease management services is on a monthly basis subject to cancellation/loss of benefits by an enrollee or upon mandatory AHCA disenrollment or "for cause" disenrollment approved by AHCA. Premiums are due monthly and are recognized as revenue during the period in which the Foundation is obligated to provide services to enrollees.

The Foundation recognized premium revenue under the above programs during the years ended December 31, 2012 and 2011 as follows:

	<b>2012</b>	<b>2011</b>
Positive Healthcare Partners - Medicare (California) \$	<b>44,194,836</b>	\$ 39,584,708
Positive Healthcare Partners - Medicare (Florida)	<b>31,207,586</b>	22,865,677
Positive Healthcare - Medi-Cal (California)	<b>16,409,852</b>	11,593,925
Florida Disease Management Program	<b>7,293,693</b>	6,915,696
Positive Healthcare - Medicaid (Florida)	<b>6,702,824</b>	4,575,628
	<b>\$ 105,808,791</b>	\$ 85,535,634

**NOTE 4      GRANT REVENUE**

**Los Angeles County**

Los Angeles County (the County) reimburses the Foundation for services provided to eligible beneficiaries that reside within the County. The County program accounted for approximately 66% and 60% of consolidated grant revenues in 2012 and 2011, respectively. For outpatient services rendered by the Foundation, the County reimburses the Foundation for all allowable expenses, up to the contract maximum. The Foundation is reimbursed at a contracted rate with final settlement determined after submission of annual cost reports by the Foundation and audits thereof by the County of Los Angeles. The Foundation's County cost reports have been reviewed and settled with the County of Los Angeles through February 2012.

**AIDS Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**Years ended December 31, 2012 and 2011**

**NOTE 5      INVENTORIES**

At December 31, inventories consist of:

	<b>2012</b>	2011
Pharmacy drugs	\$ <b>14,768,343</b>	\$ 9,595,914
Thrift store inventory	<b>1,299,443</b>	1,332,965
Test kits inventory	<b>656,638</b>	641,386
Condoms	<b>312,314</b>	203,055
	<b>\$ 17,036,738</b>	\$ 11,773,320

**NOTE 6      ASSETS LIMITED AS TO USE**

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

	<b>2012</b>	2011
Held by trustee under bond repayment agreement:		
Money market funds	\$ <b>810,483</b>	\$ 809,683
Restricted deposits:		
Money market mutual funds restricted for insolvency protection as required by Florida Medicaid HMO contract	<b>436,675</b>	334,280
Cash deposits held by the State of Florida for Florida Medicare HMO contract	<b>400,000</b>	300,000
Money market mutual funds restricted for California Medicare HMO contract	<b>338,145</b>	338,035
Cash deposits held by Wells Fargo for Term Note	<b>4,645,000</b>	-
Total assets limited as to use	<b>6,630,303</b>	1,781,998
Current portion	<b>4,760,240</b>	114,440
Total long-term assets limited as to use	<b>\$ 1,870,063</b>	\$ 1,667,558

**AIDS Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**Years ended December 31, 2012 and 2011**

**NOTE 7 INVESTMENTS**

At December 31, investments consist of:

	<u>2012</u>	<u>2011</u>
U.S. government and corporate bonds	\$ 13,531,973	\$ 25,097,813
Fixed deposit at Chartered Standard Bank, Uganda	4,283,654	-
	<u>17,815,627</u>	<u>25,097,813</u>
Less short-term portion	2,016,100	12,096,125
	<u>\$ 15,799,527</u>	<u>\$ 13,001,688</u>

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

**NOTE 8 PROPERTY AND EQUIPMENT**

At December 31, property and equipment is composed of:

	<u>2012</u>	<u>2011</u>
Land	\$ 12,882,668	\$ 8,029,951
Buildings	20,446,410	14,400,986
Leasehold improvements	10,945,483	7,465,504
Furniture and fixtures	2,744,080	2,348,792
General equipment	7,414,370	4,522,357
Vehicles	3,754,847	2,722,247
Computer software	5,841,210	3,930,659
Computer equipment	5,715,650	4,757,657
Low value assets	984,673	144,464
Total	<u>70,729,391</u>	<u>48,322,617</u>
Accumulated depreciation and amortization	<u>(23,057,383)</u>	<u>(18,719,053)</u>
Property and equipment, net	<u>\$ 47,672,008</u>	<u>\$ 29,603,564</u>

Provision for depreciation and amortization for property and equipment amounted to \$4,518,668 and \$2,172,389 in 2012 and 2011, respectively. Certain property and equipment with net book value of \$6.3 million at December 31, 2012 collateralize the Revenue Bonds, land and building with net book value of \$5.5 million collateralize the notes payable and the rest of the property and equipment collateralized the Term Loan, as discussed in note 10.

**AIDS Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**Years ended December 31, 2012 and 2011**

**NOTE 9      LINE OF CREDIT**

The Foundation has a line of credit agreement with a bank, expiring on September 1, 2014, that provides for secured borrowings up to \$30 million in 2012 and 2011, at a rate per annum equal to the prime rate. There was no outstanding balance on the line of credit as of December 31, 2012 and 2011. The Foundation is subject to certain financial covenants relating to net assets, net income, and a specified debt ratio.

**NOTE 10      LONG-TERM DEBT**

At December 31, long-term debt consist of:

	<b>2012</b>	2011
California Health Facilities Financing Authority 2005 Insured Health Facility Series A Revenue Bonds (Bonds) bearing interest at various rates ranging from 3.0% to 4.2%; sinking-fund payments due semiannually, through final mandatory principal payments due annually, with interest maturity on April 1, 2022.	<b>\$ 4,140,000</b>	\$ 4,645,000
Wells Fargo Term Loan of \$26,825,000 for the purchase of MOMs' assets at a fluctuating interest rate per annum of prime rate or a fixed interest rate per annum of 2.5% above LIBOR. Principal is payable on the 1st of each month commencing September 1, 2013 in installments of \$450,500 through July 1, 2017, with a final installment consisting of all remaining unpaid principal due and payable in full on August 1, 2017.	<b>26,825,000</b>	-
Note Payable to Phillip Nardulli and Elisa Nardulli bearing interest of 5% per annum compounded annually on the outstanding balance, with monthly principal and interest payments of \$15,120 commencing on November 1, 2012. A balloon payment, consisting of the entire remaining principal and interest, is due in November 2022.	<b>2,991,735</b>	-
Note Payable to Arthur John Nardulli bearing interest of 5% per annum compounded annually on the outstanding balance, with monthly principal and interest payments of \$5,880 commencing on November 1, 2012. A balloon payment, consisting of the entire remaining principal and interest, is due in November 2022.	<b>1,163,453</b>	-
	<b>35,120,188</b>	4,645,000
Current portion	<b>(2,381,436)</b>	(509,167)
Noncurrent portion	<b>\$ 32,738,752</b>	\$ 4,135,833

**AIDS Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**Years ended December 31, 2012 and 2011**

**NOTE 10      LONG-TERM DEBT (CONTINUED)**

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

Year ending December 31	Amount
2013	\$ 2,381,436
2014	6,011,086
2015	6,030,187
2016	6,056,912
2017	9,411,936
Thereafter	5,228,631
Total \$	35,120,188

The Foundation is subject to certain financial covenants related to the bonds, including a current ratio of 1.5 to 1, a days cash on hand requirement equal to 20 days of operating expenses (as defined) and a debt service coverage ratio. Certain real property and fixtures are pledged in connection with the bonds. At December 31, 2012 and 2011, the Foundation was in compliance with the covenants.

During the year ended December 31, 2005, the Foundation refinanced its California Health Facilities Financing Authority 1992 Series C and 1994 Series B Revenue Bonds. The costs related to the issuance of the new California Health Facilities Financing Authority 2005 Series A Revenue Bonds are being amortized over the life of the new bonds. The unamortized debt issuance costs related to the California Health Facilities Financing Authority 1992 Series C and 1994 Series B Revenue Bonds in the original amount of \$379,994 will continue to be amortized along with the debt issue costs relating to the new bonds totaling \$383,878 through April 1, 2022. Amortization of debt issue costs amounted to \$37,128 and \$37,127 for the years ended December 31, 2012 and 2011, respectively.

In August 2012, the Foundation obtained a \$26,825,000 five-year term loan from Wells Fargo Bank. The proceeds were used to acquire Mom's Pharmacies. The term loan is collateralized by accounts receivables and other rights to payments, general intangibles, inventory and equipment, but excluding certain real property and fixtures pledged in connection with the bonds. The Foundation is subject to certain financial covenants related to the term loan, including a current ratio of 1.75 to 1, total funded debt to EBITDA, as defined in the agreement, of not greater than 2 to 1, and a fixed charge coverage ratio of not less than 1.75 to 1. At December 31, 2012, the Foundation was in compliance with the covenants.

In September 2012, the Foundation issued two ten-year promissory notes amounting to \$2,991,735 and \$1,165,000 for the acquisition of a building and a parking lot in Hollywood, respectively. The notes are collateralized by deeds of trust on the building and parking lot.

**AIDS Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**Years ended December 31, 2012 and 2011**

**NOTE 11      TEMPORARILY RESTRICTED NET ASSETS**

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

	<b>2012</b>	2011
Housing	\$ <b>277,906</b>	\$ 318,448
Rental facilities	<b>13,764</b>	178,395
Program support	<b>169,100</b>	317,049
Total	<b>\$ 460,770</b>	\$ 813,892

**NOTE 12:      BUSINESS ACQUISITIONS**

MOMs Pharmacies

On August 20, 2012, the Foundation acquired certain assets of MOMs Pharmacies. The acquisition was to expand the Company's specialized pharmacy services to HIV/AIDS clients and to maximize the Company's potential to provide the best care possible to those communities impacted by the disease. Cash paid for the transaction was \$26.825 million. The Foundation accounted for this transaction as an asset purchase under Accounting Standards Codification (ASC) 958-805, *Business Combinations*, with the allocation of the purchase price to the related assets acquired and liabilities assumed based upon their respective fair values. The Foundation's results of operations and cash flows include the MOMs Pharmacies beginning on August 21, 2012.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

<b>Assets acquired:</b>	
Inventories	\$ 6,000,000
Prepayments and other current assets	150,990
Property and equipment	960,246
Intangible assets	19,836,369
Other assets	52,395
	27,000,000
 <b>Liabilities assumed:</b>	
Accounts payable and accrued expenses	175,000
Amount borrowed from Wells Fargo	\$ 26,825,000

Intangible assets acquired represents customer relationships with a determinable life of 15 years.

**NOTE 12: BUSINESS ACQUISITIONS (CONTINUED)**

Island Coast AIDS Network, Inc. (ICAN)

On September 16, 2012, the Foundation acquired ICAN, a Florida not-for-profit corporation that provides HIV/AIDS healthcare prevention, disease management and education services.

The Foundation acquired ICAN by means of an inherent contribution where no consideration was transferred by the Foundation. The Foundation accounted for this business combination by applying the acquisition methods, and accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The results of ICAN's operations have been included in the consolidated financial statements since the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

<b>Assets acquired:</b>	
Cash	\$ 260,719
Accounts receivable	26,595
Inventories	16,033
Prepayments	48,940
Property and equipment	317,887
Other assets	14,873
	685,047
 <b>Liabilities assumed:</b>	
Accounts payable and accrued expenses	146,333
Net assets acquired	\$ 538,714

Other

In July 2012, the Foundation also acquired a pharmacy located in Columbus, Ohio for \$308,080. Goodwill amounting to \$200,000 was recognized as a result of the acquisition.

**NOTE 13 EMPLOYEE RETIREMENT PLAN**

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

**AIDS Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**Years ended December 31, 2012 and 2011**

**NOTE 13      EMPLOYEE RETIREMENT PLAN (CONTINUED)**

Each year, participants may contribute up to 20% of pre-tax annual compensation as defined in the Plan, subject to certain limitations, with the contributions and earnings thereon being nontaxable until withdrawn from the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The Foundation may contribute up to \$2,000 per participant depending on the number of years of service. The Foundation's matching contribution expense for the years ended December 31, 2012 and 2011 amounted to \$796,897 and \$694,094, respectively.

**NOTE 14      CONCENTRATIONS OF CREDIT RISK**

The Foundation grants credit without collateral to its patients, most of whom are residents of Los Angeles County and are insured under third-party agreements. At December 31, the mix of receivables from patients and third-party payers was as follows:

	<b>2012</b>	2011
Private Insurance	<b>51%</b>	34%
AIDS Drug Assistance Program	<b>11%</b>	20%
Department of Health and Human Services	<b>10%</b>	7%
Los Angeles County	<b>5%</b>	11%
Other Grants	<b>4%</b>	7%
Medi-Cal/Medicaid	<b>13%</b>	14%
Centers for Medicare and Medicaid Services	<b>0%</b>	1%
Agency for Health Care Administration	<b>3%</b>	4%
Medicare (FFS)	<b>3%</b>	2%
Total	<b>100%</b>	100%

The Foundation maintains its cash accounts at banks and financial institutions located in the United States and other countries. Bank accounts in the United States are insured by the Federal Deposit Insurance Corporation (FDIC). On July 21, 2010, the Dodd-Frank financial regulatory reform legislation was signed into law making all noninterest-bearing transaction accounts fully insured without limit effective December 31, 2010 until January 1, 2013. In addition, the regulatory reform made the standard maximum deposit insurance amount of \$250,000 permanent. The Foundation has cash balances on deposit with financial institutions in the United States at December 31, 2012 and 2011 that exceeded the balance insured by the FDIC by approximately \$29.2 million and \$35.1 million, respectively.

Bank accounts in other countries are subject to rules and regulations in the respective countries and amounts insured vary accordingly. The Foundation has cash balances on deposit with the financial institutions in various countries at December 31, 2012 and 2011 that exceeded the balance insured by approximately \$2.3 million and \$1.0 million, respectively.

**NOTE 15      COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Foundation leases certain equipment and facilities under noncancelable operating lease agreements expiring at various dates through September 2015. Total rental expense for all operating leases was \$8,070,226 and \$6,289,217 in 2012 and 2011, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2012 that have initial or remaining lease terms in excess of one year:

Year ending December 31	Amount
2013	\$ 6,604,323
2014	5,407,116
2015	4,815,064
2016	3,966,989
2017	3,750,360
Thereafter	16,996,573
Total \$	41,540,425

**Insurance**

The Foundation maintains claims-made medical malpractice insurance for up to \$1,000,000 per occurrence and general liability insurance for up to \$1,000,000 per occurrence and \$3,000,000 annual aggregate. The Foundation also maintains such other insurance policies, as management has deemed prudent and necessary, including property, directors' and officers' liability, employment practices liability, flood insurance, errors and omissions, and crime.

**Litigation**

The Foundation is involved in litigation arising from the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material effect on the Foundation's financial position.

**Government Regulation**

The Foundation is subject to extensive regulation by numerous governmental authorities, including federal, state, and local jurisdictions. Although the Foundation believes that it is currently in compliance with applicable laws, regulations, and rules, some of such laws are broadly written and subject to interpretation by courts or administrative authorities. Specifically in the health care industry, government agencies have recently focused considerable attention and resources to the detection and prosecution of fraudulent activities under Medicare and Medicaid program regulations.

**NOTE 15      COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Government Regulation (continued)**

While the Foundation believes that it is in compliance with applicable regulations, there can be no assurance that a third party, governmental agency, or private party will not contend that certain aspects of the Foundation's operations or procedures are subject to, or are not in compliance with such laws, regulations, or rules or that the state or federal regulatory agencies or courts would interpret such laws, regulations, and rules in the Foundation's favor. The sanctions for failure to comply with such laws, regulations, or rules could include exclusion from the Medicare and Medicaid programs, significant fines, and criminal penalties.

The Foundation participates in a number of federally funded grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined at this time, although the Foundation expects such amounts, if any, would not be material to its financial position.

The Patient Protection and Affordable Care Act ("PPACA") was enacted on March 23, 2010. PPACA is intended to provide quality affordable health care for Americans, improve the role of public programs, improve the quality and efficiency of health care, and prevent chronic disease and improve public health. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. As of December 31, 2012, the Foundation is unable to fully predict the impact of PPACA on its operations and financial results.

**NOTE 16      FUNCTIONAL EXPENSES**

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

	<b>2012</b>	<b>2011</b>
Healthcare services	<b>\$ 436,809,004</b>	\$ 260,339,626
Fundraising	<b>2,513,821</b>	1,422,935
Thrift stores	<b>9,969,122</b>	10,443,882
Outreach	<b>11,873,624</b>	8,350,683
Administration	<b>24,289,582</b>	7,621,803
Total	<b>\$ 485,455,153</b>	\$ 288,178,929

**NOTE 17      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 year ended December 31, 2012 and 2011 amounted to \$24,233,701 and \$17,703,302, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2012 and 2011 amounted to \$1,651,677 and \$4,487,103, respectively.

**NOTE 18      SUBSEQUENT EVENTS**

The Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 30, 2013 the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no subsequent matters required disclosure or adjustment to the accompanying consolidated financial statements.

**AIDS Healthcare Foundation**  
**Consolidated Schedules of Functional Expenses**  
**Years ended December 31, 2012 and 2011**

	Healthcare services	Fundraising	Thrift stores	Outreach	Administration	Total
2012:						
Salaries and benefits	\$ 53,067,303	\$ 484,364	\$ 5,530,943	\$ 6,038,360	\$ 12,749,180	\$ 77,870,150
Medical services, supplies and drugs	325,992,959	127	508	2,128,324	-	328,121,918
Cost of sales	-	-	71,845	-	-	71,845
Rent	3,084,612	23,646	1,460,272	90,535	3,411,161	8,070,226
Depreciation and amortization	3,222,376	18,054	221,687	260,354	1,531,418	5,253,889
Interest expense	258,508	2,847	11,368	7,689	304,994	585,406
Provision for bad debts	11,845,627	-	2,499	125,783	-	11,973,909
Insurance	861,324	3,427	152,840	45,245	334,133	1,396,969
Professional services	9,259,250	374,990	300,228	847,146	2,095,517	12,877,131
Charitable contributions	1,346,383	126,975	75,084	56,547	76,549	1,681,538
Other expenses	27,870,662	1,479,391	2,141,848	2,273,641	3,786,630	37,552,172
	<u>\$ 436,809,004</u>	<u>\$ 2,513,821</u>	<u>\$ 9,969,122</u>	<u>\$ 11,873,624</u>	<u>\$ 24,289,582</u>	<u>\$ 485,455,153</u>
2011:						
Salaries and benefits	\$ 47,812,738	\$ 458,372	\$ 5,632,257	\$ 4,984,933	\$ 2,419,443	\$ 61,307,743
Medical services, supplies and drugs	180,318,293	61	250	912,324	2,334	181,233,262
Cost of sales	-	-	90,563	-	-	90,563
Rent	3,533,093	18,929	2,123,196	184,933	429,066	6,289,217
Depreciation and amortization	1,570,022	10,595	259,022	156,101	213,776	2,209,516
Interest expense	191,719	1,332	66,198	6,840	52,179	318,268
Provision for bad debts	2,339,318	-	-	-	-	2,339,318
Insurance	1,009,630	8,430	204,565	48,811	34,964	1,306,400
Professional services	5,768,827	441,846	151,229	414,173	1,024,120	7,800,195
Charitable contributions	557,516	134,579	35,714	59,374	344,121	1,131,304
Other expenses	17,238,470	348,791	1,880,888	1,583,194	3,101,800	24,153,143
	<u>\$ 260,339,626</u>	<u>\$ 1,422,935</u>	<u>\$ 10,443,882</u>	<u>\$ 8,350,683</u>	<u>\$ 7,621,803</u>	<u>\$ 288,178,929</u>

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

**Board of Directors  
AIDS Healthcare Foundation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AIDS Healthcare Foundation, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 30, 2013.

***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.

*Vargus + Company LLP*

**April 30, 2013**  
**Los Angeles, California**



**Single Audit Report  
AIDS Healthcare Foundation  
Year ended December 31, 2012  
with Report of Independent Auditors**

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**Report of Independent Auditors on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

**The Board of Directors  
AIDS Healthcare Foundation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AIDS Healthcare Foundation (Foundation), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 30, 2013.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the 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 opinions 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 may exist that have not been identified.

### ***Compliance and Other Matters***

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

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

*Vargus + Company LLP*

**Los Angeles, California**  
**April 30, 2013**

**Report of Independent Auditors on Compliance For Each Major Federal Program, on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

**The Board of Directors  
AIDS Healthcare Foundation**

***Report on Compliance for Each Major Federal Program***

We have audited AIDS Healthcare Foundation's (Foundation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended December 31, 2012. The Foundation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

## ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-01. Our opinion on each major federal program is not modified with respect to this matter.

The Foundation's response to the noncompliance findings identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The Foundation's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## ***Report on Internal Control Over Compliance***

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the consolidated financial statements of AIDS Healthcare Foundation as of and for the year ended December 31, 2012, and have issued our report thereon dated April 30, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Vargay + Company LLP*

**Los Angeles, California**

**August 30, 2013** except for the Schedule of Expenditures of Federal Awards, as to which the date is April 30, 2013

**AIDS Healthcare Foundation**  
**Schedule of Expenditures of Federal Awards**  
**Year ended December 31, 2012**

	Catalog of Federal Domestic Assistance	Agency or pass- through number	Grant Period	Grand Award Amount	Federal Expenditures
<b>MAJOR PROGRAMS:</b>					
<b>U.S. Department of Health and Human Services:</b>					
Pass-through the County of Los Angeles Department of Health Services:					
HIV/AIDS Medical Outpatient Services	93.914	H209006	03/01/2011 - 02/29/2012	\$ 7,011,158	\$ 783,647
HIV/AIDS Medical Outpatient Services	93.914	H209006	03/01/2012 - 02/28/2013	7,000,788	6,593,517
Therapeutic Monitoring Program	93.914	H209006	03/01/2011 - 02/29/2012	6,416	1,849
Therapeutic Monitoring Program	94.914	H209006	03/01/2012 - 02/28/2013	6,416	5,598
HIV/AIDS Medical Specialty	93.914	H209006	03/01/2011 - 02/29/2012	60,900	-
HIV/AIDS Medical Specialty	93.914	H209006	03/01/2012 - 02/28/2013	60,900	60,900
Community HIV/AIDS Intervention Network Services	93.914	H209007	03/01/2011 - 02/29/2012	654,655	7,465
Community HIV/AIDS Intervention Network Services	93.914	H209007	03/01/2012 - 08/31/2012	523,724	499,850
Community HIV/AIDS Intervention Network Services	93.914	PH-002226	09/01/2012 - 02/28/2013	734,722	529,051
Case Management, Medical	93.914	H209006	03/01/2011 - 02/29/2012	81,352	12,516
Case Management, Medical	93.914	H209006	03/01/2012 - 10/31/2012	81,352	54,508
Benefits Specialist Services	93.914	H209006	03/01/2011 - 02/29/2012	100,000	15,084
Benefits Specialist Services	93.914	H209006	03/01/2012 - 02/28/2013	100,000	82,015
Early Intervention Program	93.914	H209006	03/01/2011 - 02/29/2012	180,000	26,115
Early Intervention Program	93.914	H209006	03/01/2012 - 02/28/2013	180,000	160,337
MCM-Minority AIDS Initiative	93.914	H209006	03/01/2011 - 02/29/2012	530,000	90,408
MCM-Minority AIDS Initiative	93.914	H209006	03/01/2012 - 10/31/2013	530,000	350,365
MCM-Medical Case Management	93.914	H209006	11/20/2012 - 02/28/2013	286,257	90,257
Mental Health, Psychiatric Services	93.914	H209006	03/01/2011 - 02/29/2012	102,725	15,065
Mental Health, Psychiatric Services	93.914	H209006	03/01/2012 - 02/28/2013	102,725	87,741
Mental Health Services	93.914	H210814	03/01/2011 - 02/29/2012	124,245	15,768
Mental Health Services	93.914	H210814	03/01/2012 - 02/28/2013	124,245	98,901
Mental Health Services	93.914	MH210027	07/01/2012 - 12/31/2012	72,090	218
				<u>18,654,670</u>	<u>9,581,175</u>
Pass-through the San Bernardino County Department of Public Health:					
HIV Emergency Relief Project and Formula Funding:					
Upland Healthcare Center	93.914	11-101-A-1	03/01/2011 - 02/29/2012	395,504	53,214
Upland Healthcare Center	93.914	11-101-A-3	03/01/2012 - 02/28/2013	390,590	284,204
Upland Medical Case Management	93.914	11-101-A-1	03/01/2011 - 02/29/2012	133,598	21,926
Upland Medical Case Management	93.914	11-101-A-3	03/01/2012 - 02/28/2013	134,868	115,534
Upland Early Intervention Services	93.914	11-101-A-1	03/01/2011 - 02/29/2012	18,514	1,970
Upland Early Intervention Services	93.914	11-101-A-3	03/01/2012 - 02/28/2013	9,285	9,286
				<u>1,082,358</u>	<u>486,134</u>
Pass-through the Miami-Dade County Office of Strategic Business Management:					
Miami Prescription Drugs	93.914	R-1095-10	03/01/2011 - 02/29/2012	494,540	46,764
Miami Prescription Drugs	93.914	R-914-11	03/01/2012 - 02/28/2013	434,540	253,540
				<u>929,080</u>	<u>300,304</u>
Pass-through the Alameda County Office of AIDS Administration:					
HIV Emergency Relief Project and Formula Funding:					
Oakland Healthcare Center	93.914	900281	03/01/2011 - 02/29/2012	125,000	-
Oakland Healthcare Center	93.914	900281	03/01/2012 - 02/28/2013	125,000	115,445
Oakland Public Health	93.914	900281	03/01/2011 - 02/29/2012	40,000	2,663
Oakland Public Health	93.914	900281	03/01/2012 - 02/28/2013	40,000	32,636
Oakland Public Health	93.914	900281	03/01/2011 - 02/29/2012	33,841	4,859
Oakland Public Health	93.914	900281	03/01/2012 - 02/28/2013	18,000	14,514
Oakland Public Health	93.914	900281	07/01/2011 - 06/30/2012	40,000	18,736
Oakland Public Health	93.914	900281	07/01/2012 - 06/30/2013	85,000	34,041
Substance Abuse Counseling-Catholic Charities of East Bay	93.914	900139	03/01/2011 - 02/29/2012	46,800	11,077
Substance Abuse Counseling-Catholic Charities of East Bay	93.914	900139	03/01/2012 - 02/28/2013	52,000	44,665
				<u>605,641</u>	<u>278,635</u>
Pass-through the City of Jacksonville:					
Jacksonville Healthcare	93.914	RCBH1F6GA RCB009-10	03/01/2011 - 02/29/2012	445,152	107,333
Jacksonville Healthcare	93.914	RCBH1F6GA RCB009-11	03/01/2012 - 02/28/2013	468,813	427,931
Jacksonville Case Management	93.914	RCBH1F6GA RCB009-10	03/01/2011 - 02/29/2012	184,132	38,312
Jacksonville Case Management	93.914	RCBH1F6GA RCB009-11	03/01/2012 - 02/28/2013	207,550	109,780
Jacksonville Pharmacy	93.914	RCBH1F6GA RCB009-10	03/01/2011 - 02/29/2012	312,740	76,340
Jacksonville Pharmacy	93.914	RCBH1F6GA RCB009-11	03/01/2012 - 02/28/2013	331,569	320,379
				<u>1,949,956</u>	<u>1,080,075</u>

**AIDS Healthcare Foundation**  
**Schedule of Expenditures of Federal Awards**  
**Year ended December 31, 2012**

	Catalog of Federal Domestic Assistance	Agency or pass- through number	Grant Period	Grand Award Amount	Federal Expenditures
<b>MAJOR PROGRAMS:</b>					
<b><u>U.S. Department of Health and Human Services (continued):</u></b>					
Pass-through Broward County Board of Commissioners:					
Broward Prescription Drugs	93.914	11-CP-HCS-8515-RW	10/01/2011 - 02/29/2012	\$ 75,000	\$ 9,406
Broward Prescription Drugs	93.914	11-CP-HCS-8515-RW	03/01/2012 - 02/28/2013	65,467	48,870
Broward Healthcare	93.914	11-CP-HCS-8515-RW	10/01/2011 - 02/29/2012	526,609	418,396
Broward Healthcare	93.914	11-CP-HCS-8515-RW	03/01/2012 - 02/28/2013	1,238,361	1,022,936
Broward Case Management	93.914	11-CP-HCS-8515-RW	10/01/2011 - 02/29/2012	35,000	713
Broward Case Management	93.914	11-CP-HCS-8515-RW	03/01/2012 - 02/28/2013	22,774	18,955
Broward Early Intervention Services	93.914	11-CP-HCS-8515-RW	10/01/2011 - 02/29/2012	64,064	48,465
Broward Early Intervention Services	93.914	11-CP-HCS-8515-RW	03/01/2012 - 02/28/2013	65,467	44,833
				<u>2,092,742</u>	<u>1,612,575</u>
Pass-through Orange County of Board of Commissioners:					
Orange Healthcare	93.914	Y11-1147-DG	10/01/2011 - 09/30/2012	45,000	6,438
Orange Healthcare	93.914	Y11-1147-DG	10/01/2012 - 09/30/2013	16,500	6,296
Orange Case Management	93.914	Y11-1147-DG	10/01/2011 - 09/30/2012	80,000	42,894
Orange Case Management	93.914	Y11-1147-DG	10/01/2012 - 09/30/2013	72,750	19,628
Orange Laboratories	93.914	Y11-1147-DG	10/01/2011 - 09/30/2012	22,000	7,531
Orange Laboratories	93.914	Y11-1147-DG	10/01/2012 - 09/30/2013	16,300	7,846
				<u>252,550</u>	<u>90,633</u>
Pass-through the Government of District of Columbia:					
HIV/AIDS Medical Outpatient Services	93.914	11U015	03/01/2011 - 03/31/2012	127,020	20,111
HIV/AIDS Medical Outpatient Services	93.914	12V015	03/01/2012 - 03/31/2013	150,830	122,568
Case Management, Medical	93.914	11U015	03/01/2011 - 03/31/2012	90,000	16,862
Case Management, Medical	93.914	12V015	03/01/2012 - 03/31/2013	90,000	69,222
Early Intervention Services	93.914	11U015	03/01/2011 - 03/31/2012	105,187	15,698
Early Intervention Services	93.914	12V015	03/01/2012 - 03/31/2013	105,187	77,870
Program Support	93.914	11U015	03/01/2011 - 03/31/2012	6,920	1,244
Program Support	93.914	12V015	03/01/2012 - 03/31/2013	6,920	5,670
Administration/Indirect Cost	93.914	11U015	03/01/2011 - 03/31/2012	38,446	3,833
Administration/Indirect Cost	93.914	12V015	03/01/2012 - 03/31/2013	38,446	27,532
Case Management, Medical-Part B	93.914	12V400	03/01/2012 - 03/31/2013	132,956	31,507
				<u>891,912</u>	<u>392,117</u>
<b><u>National Institute of Health:</u></b>					
Pass-through Family Health International (FHI):					
HPTN 065: TLC Plus Study	93.914	907/0080.0092	6/01/2011 - 5/31/2012	24,776	12,388
				<u>24,776</u>	<u>12,388</u>
	<b>Total 93.914</b>			<u>26,483,686</u>	<u>13,834,036</u>
Pass-through Centers for Disease Control and Prevention :					
HIV/AIDS Counseling, Testing, and Referral Services	93.939	5U65PS002466-02	07/01/2011 - 06/30/2012	287,911	112,987
HIV/AIDS Counseling, Testing, and Referral Services	93.939	5U65PS002466-03	07/01/2012 - 06/30/2013	283,841	132,837
MSM Testing Initiative	93.939	200-2011-41819	04/01/2012 - 12/31/2012	800,000	636,375
				<u>1,371,752</u>	<u>882,199</u>
	<b>Total 93.939</b>			<u>1,371,752</u>	<u>882,199</u>
	<b>Total Major Programs</b>			<u>27,855,438</u>	<u>14,716,235</u>
<b>NON-MAJOR PROGRAMS:</b>					
<b><u>U.S. Department of Health and Human Services:</u></b>					
Pass-through the State of Florida Department of Health					
Jacksonville Pharmacy Co-Pay	93.917	PO# A3F7FF	07/01/2011 - 06/30/2012	35,000	23,730
Jacksonville Pharmacy Co-Pay	93.917		07/01/2012 - 06/30/2013		13,920
				<u>35,000</u>	<u>37,650</u>
Pass-through the State of Florida:					
Northpoint Ryan White HIV/AIDS Outpatient Medical	93.917	A42C6E	07/01/2011 - 06/30/2012	5,000	2,188
Northpoint Ryan White HIV/AIDS Outpatient Medical	93.917	PR6514177	07/01/2012 - 06/30/2013	5,000	-
Miami Ryan White HIV/AIDS Outpatient Medical	93.917	A2898D	07/01/2011 - 06/30/2012	5,000	4,375
Miami Ryan White HIV/AIDS Outpatient Medical	93.917	PR651417755	07/01/2012 - 06/30/2013	5,000	-
Kinder Ryan White HIV/AIDS Outpatient Medical	93.917	PR6514251	07/01/2012 - 06/30/2013	5,000	-
Pensacola Ryan White HIV/AIDS Outpatient Medical	93.917	A272CB	07/01/2011 - 06/30/2012	5,000	-
Pensacola Ryan White HIV/AIDS Outpatient Medical	93.917	PR6514229	07/01/2012 - 06/30/2013	5,000	-
Tampa Ryan White HIV/AIDS Outpatient Medical	93.917	A2DD80	07/01/2011 - 06/30/2012	5,000	4,063
Tampa Ryan White HIV/AIDS Outpatient Medical	93.917	PR6514083	07/01/2012 - 06/30/2013	5,000	-
Wohlfleiler Ryan White HIV/AIDS Outpatient Medical	93.917	A49261	09/01/2011 - 06/30/2012	5,000	4,063
Wohlfleiler Ryan White HIV/AIDS Outpatient Medical	93.917	PR6514210	07/01/2012 - 06/30/2013	5,000	-
				<u>55,000</u>	<u>14,688</u>
	<b>Total 93.917</b>			<u>90,000</u>	<u>52,338</u>

**AIDS Healthcare Foundation**  
**Schedule of Expenditures of Federal Awards**  
**Year ended December 31, 2012**

	Catalog of Federal Domestic Assistance	Agency or pass- through number	Grant Period	Grand Award Amount	Federal Expenditures
<b>NON-MAJOR PROGRAMS:</b>					
<b><u>U.S. Department of Health and Human Services continued):</u></b>					
Pass-through the County of Los Angeles Department of Health Services:					
HIV/AIDS Counseling, Testing, and Referral Services	93.940	PH000804-2	01/01/2012 - 12/31/2012	\$ 632,812	\$ 564,425
HIV/AIDS Counseling, Testing, and Referral Services	93.940	PH000804	01/01/2012 - 12/31/2012	45,000	44,333
HIV/AIDS Counseling, Testing, and Referral Services	93.940	PH000822-1	01/01/2012 - 12/31/2012	492,188	474,651
				<u>1,170,000</u>	<u>1,083,409</u>
Pass-through State of Florida					
Florida Mobile and Stationary Testing	93.940	CODEF	09/30/2011 - 12/31/2012	312,450	247,205
HIV/AIDS Counseling, Testing, and Referral Services	93.940	BW265	07/01/2011 - 06/30/2013	350,000	168,398
				<u>662,450</u>	<u>415,603</u>
	<b>Total 93.940</b>			<u>1,832,450</u>	<u>1,499,012</u>
Pass-through State of Florida					
Miami Prescription Drugs	93.526	DEW12	10/01/2012 - 09/30/2013	80,000	19,125
				<u>80,000</u>	<u>19,125</u>
	<b>Total 93.526</b>			<u>80,000</u>	<u>19,125</u>
Pass-through the County of Los Angeles Department of Health Services:					
Sexually Transmitted Disease - Men's Wellness Center	93.977	H701797	07/01/2011 - 06/30/2012	206,500	94,638
Sexually Transmitted Disease - Men's Wellness Center	93.977	H701797	07/01/2012 - 06/30/2013	206,500	97,475
Sexually Transmitted Disease - Syphilis Elimination	93.977	H701797	01/01/2012 - 06/30/2012	30,000	16,428
Sexually Transmitted Disease - Syphilis Elimination	93.977	H701797	07/01/2012 - 06/30/2013	30,000	15,484
				<u>473,000</u>	<u>224,025</u>
	<b>Total 93.977</b>			<u>473,000</u>	<u>224,025</u>
<b><u>U.S. Agency for International Development:</u></b>					
Pass-through JSI:					
JSI - Uganda Cares	98.001	36521-04	01/01/2012 - 12/31/2012	228,589	208,607
				<u>228,589</u>	<u>208,607</u>
Pass-through Guyana:					
Guyana	98.001	GSPPG-AHF-0902	04/01/2011 - 03/31/2012	121,476	25,242
Guyana	98.001	GSPPG-AHF-0902	04/01/2012 - 11/30/2012	54,976	47,765
				<u>176,452</u>	<u>73,007</u>
	<b>Total 98.001</b>			<u>405,041</u>	<u>281,614</u>
Pass-through The RAND Corporation:					
Effects of Microcredit on Economic & Social Outcomes of HIV Clients in Uganda	93.865	9920110002	02/1/2011 - 02/28/2012	11,880	2,300
Effects of Microcredit on Economic & Social Outcomes of HIV Clients in Uganda	93.865	9920110002	03/1/2012 - 11/23/2012	10,058	3,975
				<u>21,938</u>	<u>6,274</u>
	<b>Total 93.865</b>			<u>21,938</u>	<u>6,274</u>
Pass-through Massachusetts General Hospital:					
Linkage to Care After HIV Testing Research	93.855	3R01A1058736-07S2	01/1/2012 - 12/31/2012	34,371	24,989
				<u>34,371</u>	<u>24,989</u>
	<b>Total 93.855</b>			<u>34,371</u>	<u>24,989</u>
<b><u>U.S. Department of Housing and Urban Development:</u></b>					
Pass-through the City of Los Angeles Department of Health Division:					
HIV Counseling and Testing	14.218	C-113440	04/01/2011 - 03/31/2012	43,255	19,330
HIV Counseling and Testing	14.218	C-119082	04/01/2012 - 03/31/2013	43,225	30,629
				<u>86,480</u>	<u>49,959</u>
	<b>Total 14.218</b>			<u>86,480</u>	<u>49,959</u>
	<b>Total Non-major Programs</b>			<u>3,023,280</u>	<u>2,157,336</u>
	<b>Total Federal Programs</b>			<u>\$ 30,878,718</u>	<u>\$ 16,873,572</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards and the Report of Independent Auditors on Compliance for Each Major Federal Program, on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.

**NOTE 1 GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of AIDS Healthcare Foundation (the Foundation). The Foundation's reporting entity is defined in note 1 to the Notes to Consolidated Financial Statements of the Foundation. All federal awards received directly from federal agencies as well as federal awards passed through other governmental units or nonprofit agencies are included in the schedule.

**NOTE 2 BASIS OF ACCOUNTING**

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting.

**NOTE 3 RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree, in all material respects, with the amounts reported in the related federal and state financial reports.

**Section I – Summary of Auditors’ Results**

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**Financial Statements**

Type of auditors’ report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Internal control over its major programs:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	Yes

**Identification of Major Programs:**

<u>CFDA Number(s):</u>	<u>Name of Federal Program or Cluster:</u>
93.914	HIV Emergency Relief Project Grants
93.939	HIV/AIDS Counseling, Testing, and Referral Services

Dollar threshold used to distinguish between Type A and Type B programs:	\$506,207
Auditee qualified as a low-risk auditee?	No

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**Section II – Financial Statement Findings**

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No matters were reported.

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**Section III – Federal Award Findings**

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**Federal Program Information**

<i>Federal Catalog Number:</i>	93.914
<i>Federal Program Name:</i>	HIV Emergency Relief Project Grants
<i>Federal Agency:</i>	U.S. Department of Health and Human Services
<i>Pass-through Entities:</i>	County of Los Angeles Department of Health Services

**Finding No. 2012 – 01: Matching, Level of Effort and Earmarking – Level of Service Requirements**

**Criteria or Specific Requirement**

- (a) Community HIV/AIDS Intervention Network Services:  
Under Table 2 of Attachment 1 of Contract No. PH-002226 with the County of Los Angeles Department of Human Services (LAC DHS), contractor shall provide Medical Sub-Specialty (MSS) services to a minimum of 1,387 of unduplicated clients and 3,328 medical visits during the contract period.
  
- (b) MCM-Minority AIDS Initiative:  
Under Exhibit BBB Section 6 of Contract No. H-209006, Amendment No. 17 with LAC DHS, contractor shall provide a minimum of 12,280 hours of medical case management services, including conducting intakes, assessments, developing service plans and following up with clients and contractor shall provide linked referrals to a minimum of 60% of services referred by the case manager.
  
- (c) Early Intervention Program:  
Under Exhibit CCC Section 8 of Contract No. H-209006, Amendment No. 17 with LAC DHS, contractor shall render basic HIV/AIDS Minority AIDS Initiative (MAI) – Early Intervention Program (EIP) services to a minimum of 108 unduplicated clients, including 18 new EIP clients, conduct a minimum of 108 hours of health assessments to a minimum of 108 clients, conduct minimum of 54 hours of transmission risk reduction assessments, conduct a minimum of 54 hours of mental health psychosocial support assessments to a minimum of 108 clients, conduct a minimum of 54 hours of health education assessments to a minimum of 108 clients, conduct a minimum of 54 hours of case management assessments to a minimum of 108 clients and conduct a minimum of 52 hours of outreach services to a minimum of 52 clients.

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**Section III – Federal Award Findings**

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**Finding No. 2012 – 01: Matching, Level of Effort and Earmarking – Level of Service Requirements (continued)**

***Condition***

The Foundation did not meet the following level of service requirements:

- (a) Community HIV/AIDS Intervention Network Services:
  - 1. Actual medical visits totaled 2,663, which is 665 short of the 3,328 medical visits required.
  
- (b) MCM-Minority AIDS Initiative:
  - 1. Actual hours of medical case management services totaled 3,049, which is 9,231 medical visits short of the contract requirement.
  - 2. There was no linked referral service for the medical case management.
  
- (c) Early Intervention Program:
  - 1. Actual unduplicated clients provided with basic MAI-EIP services totaled 81, which is 27 clients short of the contract requirement.
  - 2. There was no transmission risk reduction services provided.
  - 3. Actual mental health psychosocial support assessments clients totaled 22, which is 86 clients short of the contract requirement.
  - 4. Actual case management assessments clients totaled 47, which is 61 clients short of the contract requirement.
  - 5. Actual outreach services clients totaled 10, which is 42 clients short of the contract requirement.

***Questioned Costs***

Not applicable

***Cause and Effect***

These constitute noncompliance with the federal requirements which may be grounds for unnecessary sanctions.

***Recommendation***

We recommend that the Foundation strengthen its policies and procedures to ensure that appropriate individuals involved in the program are properly monitoring, reviewing the Foundation's compliance with the necessary program compliance requirements and ensuring various program goals and objectives are met.

***Views of Responsible Officials and Planned Corrective Action***

The Foundation continues to work with the Grantor to clarify whether the levels described as minimums are required to be met or are merely goals to strive to achieve. Contract negotiation service goals are provided based on previous year trends and therefore are estimated goals for the upcoming program year based on award amounts. During the program year, monthly performance reports are provided to the Grantor to ensure compliance with contract requirements.



**Federal Program Information**

<i>Federal Catalog Number:</i>	93.914
<i>Federal Program Name:</i>	HIV Emergency Relief Project Grants
<i>Federal Agency:</i>	U.S. Department of Health and Human Services
<i>Pass-through Entities:</i>	County of Los Angeles Department of Health Services and San Bernardino County Department of Public Health

**Finding No. 2011 – 1: Matching, Level of Effort and Earmarking – Level of Service Requirements**

***Criteria or Specific Requirement***

- (a) Under Exhibit BBB Section 6 of Contract No. H-209006, Amendment No. 17 with the County of Los Angeles Department of Human Services, contractor shall ensure that each Full Time Equivalent medical case manager shall maintain a minimum caseload of 43 clients, contractor shall provide medical case management services to a minimum of 316 active clients, provide a minimum of 12,280 hours of medical case management services, and provide linked referrals to a minimum of 60% of service referred by the case managers.
- (b) Under Exhibit AAA Section 2 of Contract No. H-209006, Amendment No. 17 with LAC DHS, contractor shall provide HIV/AIDS ambulatory/outpatient medical services to a minimum of 5,134 unduplicated clients and a minimum of 25,670 medical visits.
- (c) Under Attachment A of Contract No. 11-101 A-1 with San Bernardino County Department of Public Health, for Outpatient/Ambulatory Health Services, contractor shall provide minimum of 205 clients and 1,788 units of service; for Medical Case Management, contractor shall provide minimum of 105 clients and 1,154 units of service; for Early Intervention Services, contractor shall provide minimum of 451 clients and 2,181 units of service.

***Condition***

The Foundation did not meet the following level of service requirements:

- (a) Under Exhibit BBB Section 6 of Contract No. H-209006, Amendment No. 17:
  - 1. Actual hours of medical case management services totaled 4,704, which is 7,576 hours short of the 12,280 hours required.
  - 2. There was no linked referral service for the medical case management during the contract period.
- (b) Under Exhibit AAA Section 2 of Contract No. H-209006, Amendment No. 17:
  - 1. Actual medical visits totaled 25,012, which is 658 medical visits short of the contract requirement.

**Section III – Federal Award Findings (Continued)**

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**Finding No. 2011 – 1: Matching, Level of Effort and Earmarking – Level of Service Requirements (Continued)**

- (c) Under Attachment A of Contract No. 11-101 A-1:
1. For medical case management, the Foundation provided 785 units of service, which are 369 units of service short of the contract requirement.
  2. For early intervention services, the Foundation provided services to 115 clients, which is 336 short of the 451 client contract requirements and 191 units of services, which is 1,990 short of the 2,181 units of service contract requirement.

***Questioned Costs***

Not applicable

***Cause and Effect***

This constitutes noncompliance with the federal requirements which may be grounds for unnecessary sanctions.

***Recommendation***

We recommend that the Foundation strengthen its policies and procedures to ensure that appropriate individuals involved in the program are properly monitoring, reviewing the Foundation's compliance with the necessary program compliance requirements and ensuring various program objective are met.

***Views of Responsible Officials and Planned Corrective Action***

The Foundation continues to work with the Grantor to clarify whether the levels described as minimums are required to be met or are merely goals to strive to achieve. Contract negotiation service goals are provided based on previous year trends and therefore are estimated goals for the upcoming program year based on award amounts. During the program year, monthly performance reports are provided to the Grantor to ensure compliance with contract requirements.

**Section III – Federal Award Findings (Continued)**

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**Federal Program Information**

<i>Federal Catalog Number:</i>	93.914
<i>Federal Program Name:</i>	HIV Emergency Relief Project Grants
<i>Federal Agency:</i>	U.S. Department of Health and Human Services
<i>Pass-through Entities:</i>	County of Los Angeles Department of Health Services and San Bernardino County Department of Public Health

**Finding No. 2011 – 2: Eligibility – Income Calculation**

**Criteria or Specific Requirement**

In order to receive services through HIV/AIDS Medical Case Management, Ambulatory/Outpatient Medical and HIV/AIDS Early Intervention Services, individuals requesting services must meet the following eligibility criteria:

- a) Individuals requesting services will be required to provide appropriate documentation which confirms their HIV positive status.
- b) Under the Minority AIDS Initiative Program, individuals must be considered a minority to be eligible.
- c) Individual receiving services will be financially screened to determine if they meet the income guidelines and determine whether a co-payment is required. Proof of income is required.
- d) Individuals must be residing within Los Angeles or San Bernardino County. Proof of residency/address is required.

**Condition**

During our review of the Foundation's eligibility – income calculation requirements, we noted the following:

- a) Under the Minority AIDS Initiative Program, 1 out of 10 client/patient files selected for testing was not a minority.
- b) Out of 60 client/patient files tested, we noted six (6) instances where the client/patient's income calculations were incorrect.

**Questioned Costs**

Not applicable

**Cause and Effect**

Errors in the income calculation would lead to errors in the determination of the required co-payment. For the six (6) exceptions noted above, effect on the required co-payment was minimal.

**Recommendation**

The Foundation should ensure that staff and/or Benefits Counselors are adequately trained to distinguish between weekly, bi-weekly, semi-monthly and monthly payroll stubs. In addition, eligibility screening and income calculation performed by staff should be reviewed by a supervisor or another qualified staff on a regularly basis.

***Views of Responsible Officials and Planned Corrective Action***

AIDS Healthcare Foundation established a standard template to be used by Benefit Counselors in order to calculate income eligibility correctly. Training sessions were conducted to educate Benefit Counselors to be able to distinguish and understand the various types of payroll information submitted by clients. These measures were put in place to increase compliance and accuracy in arriving at the proper co-payment levels based on eligibility requirements. In addition, Healthcare Center staff was trained on administrative operation. The chart review occurs on a weekly basis and is used as a learning tool with the Benefit Counselor. There is also a chart audit which occurs quarterly and, while also used as a learning tool, is more closely tracked and used in Quality Management