Audited Consolidated Financial Statements
and Supplementary Information
AIDS Healthcare Foundation
Years ended December 31, 2014 and 2013
with Report of Independent Auditors

An Independently Owned Member
MCGLADREY ALLIANCE
McGladrey

Vasquez & Company LLP
Certifed Public Accountants and Business Consultants

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and Supplementary Information
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Report of Independent Auditors

Board of Directors
AIDS Healthcare Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AIDS Healthcare Foundation, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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 consolidated financial position of AIDS Healthcare Foundation as of December 31, 2014 and 2013, 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 29, 2015 on our consideration of AIDS Healthcare Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AIDS Healthcare Foundation's internal control over financial reporting and compliance.

Vasquez + Company LLP

Los Angeles, California
April 29, 2015

		December 31		
		2014		2013
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**34,788,825**	$	6,040,545
Pharmacy revenue receivable, net of allowance for doubtful accounts of $10,900,000 and $7,448,087 at December 31, 2014 and 2013, respectively		**43,887,225**		49,092,783
Premium revenue receivable, net of allowance for doubtful accounts of $2,362,612 and $976,569 at December 31, 2014 and 2013, respectively		**11,096,871**		7,032,751
Grant revenue receivable, net of allowance		**5,837,866**		9,036,135
Accounts receivable, net of allowance for doubtful accounts of $2,728,015 and $5,021,467 at December 31, 2014 and 2013, respectively		**1,711,222**		3,161,658
Inventories		**22,510,614**		14,613,450
Investments		**32,813,104**		4,495,518
Prepaid expenses and other current assets		**15,055,931**		27,595,327
Total current assets		**167,701,658**		121,068,167
Assets limited as to use		**2,340,843**		1,311,361
Long-term premium revenue receivable, net of allowance for doubtful accounts of $4,996,403 and $3,877,621 at December 31, 2014 and 2013, respectively		**3,335,797**		3,454,578
Property and equipment, net		**77,840,438**		74,165,144
Debt issuance costs, net of accumulated amortization of $58,219 and $766,527 at December 31, 2014 and 2013, respectively		**634,630**		-
Long-term investments		**1,273,379**		6,207,313
Intangibles, deposits and other assets		**20,481,993**		21,528,978
Total assets	**$**	**273,608,738**	$	227,735,541
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**46,855,651**	$	39,370,465
Accrued expenses		**12,702,790**		9,343,479
Claims payable		**8,071,180**		7,520,292
Current portion of long-term debt		**3,427,186**		5,453,586
Total current liabilities		**71,056,807**		61,687,822
Deferred rent		**1,244,700**		971,242
Interest rate swap		**819,934**		-
Long-term debt, net of current portion		**28,630,971**		23,679,317
Total liabilities		**101,752,412**		86,338,381
Net assets				
Unrestricted		**171,615,612**		141,140,905
Temporarily restricted		**240,714**		256,255
Total net assets		**171,856,326**		141,397,160
Total liabilities and net assets	**$**	**273,608,738**	$	227,735,541

See notes to consolidated financial statements.

	Years ended December 31	
	2014	2013
Unrestricted revenues, gains, and other support		
Pharmacy revenue	**$ 696,135,524**	$ 618,431,823
Premium revenue	**144,890,884**	110,969,366
Grant revenue	**20,144,252**	24,193,317
Net patient service revenue	**3,654,720**	3,538,250
Contributions		
Cash	**979,960**	1,151,370
In-kind, thrift store	**11,289,771**	11,733,625
In-kind, other	**310,188**	379,847
Other	**2,104,429**	2,075,869
Total unrestricted revenues, gains, and other support before net assets released from restrictions for operations	**879,509,728**	772,473,467
Net assets released from restrictions for operations	**214,924**	204,515
Total unrestricted revenues, gains and other support	**879,724,652**	772,677,982
Expenses		
Salaries	**83,009,024**	74,948,522
Benefits	**29,796,812**	24,255,497
Medical services, supplies and drugs	**146,445,036**	104,011,379
Cost of pharmacy and thrift stores sales	**484,726,174**	466,342,034
Rent	**10,940,740**	9,873,042
Depreciation and amortization	**7,943,977**	8,171,780
Interest expense	**1,354,247**	1,604,019
Provision for bad debts	**16,030,316**	7,055,660
Insurance	**2,530,495**	1,740,828
Professional services	**15,232,220**	12,627,214
Charitable contributions	**3,976,079**	2,934,422
Other expenses	**47,264,825**	42,483,706
Total expenses	**849,249,945**	756,048,103
Change in unrestricted net assets	**30,474,707**	16,629,879
Temporarily restricted net assets		
Contributions	**199,383**	-
Net assets released from restrictions for operations	**(214,924)**	(204,515)
Change in temporarily restricted net assets	**(15,541)**	(204,515)
Change in net assets	**30,459,166**	16,425,364
Net assets, beginning of year	**141,397,160**	124,971,796
Net assets, end of year	**$ 171,856,326**	$ 141,397,160

See notes to consolidated financial statements.

		Years ended December 31		
		2014		2013
Cash flows from operating activities				
Change in net assets	**$**	**30,459,166**	$	16,425,364
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Goodwill recognized from the acquistion of Taskforce		**-**		(245,211)
Depreciation of property and equipment		**6,521,905**		6,375,275
Loss on sale of property and equipment		**81,315**		463,385
Amortization of debt issuance costs		**58,219**		312,000
Amortization of intangible asset		**1,340,757**		1,333,119
Provision for bad debts		**15,591,668**		7,055,660
Unrealized loss on interest rate swap		**819,934**		-
Contributed pharmacy inventory		**310,188**		379,846
Changes in operating assets and liabilities:				
Accounts receivable		**(5,737,405)**		(27,878,832)
Premium revenue receivable		**(3,945,338)**		(1,587,404)
Inventories		**(8,207,352)**		2,067,146
Prepaid expenses, deposits, and other assets		**11,882,351**		5,522,101
Accounts payable		**7,485,186**		(1,911,707)
Accrued expenses and claims payable		**3,785,202**		(311,455)
Deferred rent		**398,454**		959,659
Accrued interest payable		**-**		(27,589)
Net cash provided by operating activities		**60,844,250**		8,931,357
Cash flows from investing activities				
Additions to property and equipment		**(10,278,514)**		(33,324,298)
Assets limited as to use		**(1,029,482)**		5,318,942
Cash paid in the acquisition of practices and pharmacies		**(329,576)**		(883,887)
Investments matured, net of purchases		**(23,383,652)**		7,112,796
Net cash used in investing activities		**(35,021,224)**		(21,776,447)
Cash flows from financing activities				
Proceeds from issuance of long-term debt		**38,473,829**		-
Principal payments on long-term debt		**(35,548,575)**		(5,987,285)
Net cash provided by (used in) financing activities		**2,925,254**		(5,987,285)
Net change in cash and cash equivalents		**28,748,280**		(18,832,375)
Cash and cash equivalents, beginning of year		**6,040,545**		24,872,920
Cash and cash equivalents, end of year	**$**	**34,788,825**	$	6,040,545
Supplemental disclosures of cash flow information				
Cash paid for interest during the year	**$**	**1,354,247**	$	1,631,608
Supplemental noncash investing and financing activities				
Net liabilities assumed from acquisition of Taskforce	**$**	**-**	$	(245,211)

See notes to consolidated financial statements.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

AIDS Healthcare Foundation (the Foundation) headquartered in Los Angeles, California is a not-for-profit healthcare organization incorporated in 1987. The Foundation provides medical care for those affected by Human Immuno-deficiency Virus (HIV) or living with the Acquired Immune Deficiency Syndrome (AIDS). In addition, the Foundation participates in scientific research and patient advocacy for those in need. The Mission of the Foundation is to provide "Cutting edge medicine and advocacy regardless of the ability to pay". The Foundation has a network of 43 outpatient healthcare centers and 37 pharmacies that are located in 11 States including California, Florida, Texas, Washington, New York, Georgia, Nevada, Louisiana, South Carolina Mississippi and Ohio as well as Washington DC. The Foundation operates 22 Out of the Closet Thrift Stores in 6 States. The Foundation also operates in 36 countries including 11 in Africa, 10 in the Americas, 8 in Asia and 7 in Europe.

Principles of Consolidation

The Foundation's consolidated financial statements include the accounts of AIDS Healthcare Foundation, AHF Healthcare Centers, AHF MCO of Florida, Inc., AIDS Healthcare Foundation Disease Management of Florida, Inc., HIV Immunotherapeutics Institute (formerly AHF Pharmacy Network), AIDS Healthcare Foundation Texas, Inc., AJ Brooklyn Medical Practice, P.C., AIDS Task Force of Greater Cleveland and Women Organized to Respond to Life-threatening Diseases (WORLD). 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, amounts recognized under the Foundation's savings sharing programs and interest rate swap valuation. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Assets Limited as to Use

Assets limited as to use primarily include deposits restricted by the States of California and Florida in connection with the Foundation's Medicare and Medicaid HMO contracts.

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

Assets Limited as to Use (continued)
In 2014, assets limited as to use included deposits as required as by Florida Office of Insurance Regulation (FLOIR), the Florida Agency for Healthcare Administration (FL AHCA) and the California Department of Managed HealthCare (CA DMHC). These assets consist primarily of cash deposits and investments in money market funds which are reported at fair value based on quoted market prices.

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

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

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

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

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

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

Property and Equipment (Continued)

Buildings and fixed equipment	5 to 50 years
Furniture and movable equipment	3 to 7 years

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, 2014 and 2013 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, 2014 and 2013, goodwill of $2,300,231 and $2,000,231, 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, 2014 and 2013.

Intangible assets primarily represent the customer relationships acquired in the MOMs Pharmacies business acquisition. The intangible was measured at fair value using Level 3 inputs. The income approach was utilized in valuing the customer relationships. To apply this approach, the Foundation capitalized the future cash flows attributable to the customers based upon their expected future mortality dispersion function. The value of the customer relationships is amortized, to reflect the pattern of economic benefits consumed, on a straight-line basis over its useful life of 15 years. As of December 31, 2014 and 2013, net intangible assets amounted to $17,026,261 and $18,337,441, respectively.

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

Debt Issuance Costs

Debt issuance costs are deferred and amortized to interest expense using a method that approximates the effective-level-interest method over the term of the related debt. The debt issuance costs are related to the notes and loan agreements with Wells Fargo as further described in Note 10.

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.

Provision for bad debts from patient service revenue amounted to $702,631 and $229,180 for the years ended December 31, 2014 and 2013, 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.

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

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

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

Grant Revenue

Amounts received under government grant agreements are recognized as revenue as qualifying expenditures are incurred or when the service has been performed.

Pharmacy Revenue

The Foundation has agreements with third-party payers that provide payments to the Foundation at amounts different from its established rates. Payment arrangements include contracted calculations based upon Average Wholesale Price or Acquisition Cost. Pharmacy revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for pharmacy drugs dispensed. The allowance for doubtful accounts from pharmacy revenue amounted to $10,900,000 and $7,448,087 million for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, the Foundation had no material unrecognized tax benefits or tax penalties or interest.

The Foundation's federal and state income tax returns for the years 2010 through 2014 are subject to examination by regulatory agencies. Tax returns are subject to examination generally for three and four years after they were filed for federal and state, respectively.

Charity Care

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

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

Interest Rate Swap

On March 17 and October 8, 2014, the Foundation entered into interest rate swap agreements as a hedge against the variability in future interest payments due on certain term notes owed to Wells Fargo. The terms of the swap agreements effectively convert the variable rate interest payments due on the term notes to fixed rates through maturity (see Note 11). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 815 (ASC 815), *Accounting for Derivative Instruments and Hedging Activities*, the interest rate swap is measured at fair value and recognized as either an asset or a liability in the balance sheets. The change in fair value of the swap is recognized as a gain or loss in the period of change.

Fair Value Measurements

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

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

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

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

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

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

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:

		2014		2013
Gross patient revenue	**$**	**8,881,096**	$	8,254,496
Contractual discounts and provision for bad debts		**(5,226,376)**		(4,716,246)
Net patient service revenue	**$**	**3,654,720**	$	3,538,250

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

Medi-Cal and Medicaid
The Medi-Cal and Medicaid programs accounted for approximately 26% and 23% of consolidated net patient service revenue in 2014 and 2013, 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 12% and 23% of consolidated net patient service revenue in 2014 and 2013, respectively. Healthcare services rendered to Medicare program beneficiaries are paid at prospectively determined rates for outpatient care. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Other Third-party Payers
The Foundation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These payers accounted for approximately 61% and 54% of consolidated net patient service revenue in 2014 and 2013, 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 Care Services (DHCS) to provide capitated HIV healthcare to Medi-Cal beneficiaries. The capitated plan is known as Positive Healthcare (the Plan). Positive Healthcare has a comprehensive network of providers and offers the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, and long-term facility care to voluntary members of the plan. DHCS compensates the Foundation on a per member per month (PMPM) capitated basis. Acute inpatient services for members of the plan are the fiscal responsibility of DHCS.

NOTE 3 PREMIUM REVENUE (CONTINUED)

California Medicaid PCCM (Continued)
Membership contracts with DHCS are on a monthly basis subject to cancellation by the DHCS or the member based on loss of Medi-Cal benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare is obligated to provide services to members. As part of the contract, the Foundation and DHCS share net savings between the costs of providing services on an inpatient fee-for-service basis compared to the Foundation's plan experience. Actual savings sharing is estimated based on services rendered and is adjusted in future periods as final savings sharing amounts are determined by DHCS. Should the Foundation's plan members generate excess utilization, the Foundation bears the risk of repaying the excess cost over and above the inpatient fee-for-service equivalent. Savings sharing revenues that are not expected to be collected within one year are included in long-term accounts receivables in the accompanying consolidated balance sheets. Savings sharing settlements that occur related to prior years are netted against premium revenue in the accompanying consolidated statements of operations and changes in net assets. For the years ended December 31, 2014 and 2013, no saving sharing settlements occurred. As of December 31, 2014 and 2013, the gross premium receivables relating to the Foundation's savings sharing amounted to $8,332,199 and $7,332,199, respectively.

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 set aside and the case remanded to another administrative law judge for further proceedings to obtain additional evidence. The Foundation is also pursuing the matter in the Superior Court. As of December 31, 2014, the case is still pending in both venues.

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 (FL AHCA) to provide Medicaid managed care services as Positive Healthcare to Medicaid beneficiaries living with a diagnosis of HIV/AIDS in Broward County. In September 2012, the Foundation contracted with State of Florida AHCA to provide similar services in Dade County. In January 2014, FL AHCA entered into a new contract to provide similar HMO services to Medicaid beneficiaries.

NOTE 3 PREMIUM REVENUE (CONTINUED)

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

Enrollment in this HMO is voluntary and subject to cancellation by FL AHCA or the member based on loss of Medicare benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare is obligated to provide services to members. The cost of health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not yet reported to the Foundation as of year-end.

Positive Healthcare Partners
California Medicare HMO
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.

NOTE 3 PREMIUM REVENUE (CONTINUED)

Florida Medicare HMO (Continued)

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. 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. This program ended in August of 2014.

The Foundation recognized premium revenue under the above programs during the years ended December 31, 2014 and 2013 as follows:

	2014	2013
Positive Healthcare Partners - Medicare (California)	**$ 39,920,873**	$ 38,950,284
Positive Healthcare Partners - Medicare (Florida)	**49,351,183**	34,414,091
Positive Healthcare - Medi-Cal (California)	**13,770,151**	12,772,933
Florida Disease Management Program	**3,013,866**	7,328,542
Positive Healthcare - Medicaid (Florida)	**38,834,811**	17,503,516
	$ 144,890,884	$ 110,969,366

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 28% and 45% of consolidated grant revenues in 2014 and 2013, 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.

NOTE 5 INVENTORIES

At December 31, inventories consist of:

	2014	2013
Pharmacy drugs	**$ 19,168,739**	$ 11,060,065
Test kits inventory	**1,479,255**	967,304
Thrift store inventory	**1,319,563**	1,382,482
Condoms	**543,057**	1,203,599
	$ 22,510,614	$ 14,613,450

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:

	2014	2013
Restricted deposits:		
Money market account restricted for Florida PHC	**$ 1,264,752**	$ -
Money market mutual funds restricted for insolvency protection as required by Florida Medicaid HMO contract	**437,658**	672,928
Cash deposits held by the State of Florida for Florida Medicare HMO contract	**300,000**	300,000
Money market mutual funds restricted for California Medicare HMO contract	**338,433**	338,433
Total assets limited as to use	**$ 2,340,843**	$ 1,311,361

NOTE 7 INVESTMENTS

At December 31, investments consist of:

		2014		2013
U.S. government and corporate bonds	**$**	**34,086,483**	$	10,702,831
Less short-term portion		**32,813,104**		4,495,518
Long-term investments	**$**	**1,273,379**	$	6,207,313

The Foundation's investments are accounted for at fair value and are 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:

		2014		2013
Land	**$**	**13,578,257**	$	16,730,726
Buildings		**33,901,557**		25,784,093
Leasehold improvements		**15,626,746**		12,004,879
Furniture and fixtures		**3,767,359**		3,066,397
General equipment		**13,048,877**		8,479,390
Vehicles		**4,841,219**		4,631,730
Computer software		**8,988,881**		8,423,303
Computer equipment		**9,939,274**		7,166,734
Low value assets		**1,013,300**		860,885
Assets under construction		**6,501,475**		14,649,932
Total		**111,206,945**		101,798,069
Accumulated depreciation and amortization		**(33,366,507)**		(27,632,925)
Property and equipment, net	**$**	**77,840,438**	$	74,165,144

Provision for depreciation and amortization of property and equipment amounted to $6,521,905 and $6,375,275 in 2014 and 2013, respectively.

NOTE 9 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, expiring on March 16, 2016, that provides for secured borrowings up to $30 million in 2014 and 2013, at a rate per annum equal to the LIBOR plus 2% rate. There was no outstanding balance on the line of credit as of December 31, 2014 and 2013. 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 consists of:

	2014	2013
Wells Fargo Term A Note (Term A Note) of $21,548,750 bearing interest at 2% above LIBOR per annum or prime rate per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing April 1, 2014 with a final installment consisting of all remaining unpaid principal due and payable in full on March 17, 2021.	**$ 16,202,399**	$ -
Wells Fargo Term B Note of $2,795,000 bearing interest at 2% above LIBOR per annum or prime rate per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing April 1, 2014 with a final installment consisting of all remaining unpaid principal due and payable in full on March 17, 2021.	**2,730,623**	-
Wells Fargo Equipment Loan of $2,027,979 bearing interest at 4.39% per annum compounded annually on the outstanding balance. Monthly principal and interest payments of $37,706 are due on the 1st of each month commencing April 15, 2014 with a final installment due and payable on March 15, 2019.	**1,751,370**	-
Wells Fargo Equipment Loan of $2,102,100 bearing interest at 3.9% per annum compounded annually on the outstanding balance. Monthly principal and interest payments of $73,655 are due on the 1st of each month commencing April 15, 2014 with a final installment due and payable on September 15, 2016.	**1,492,813**	-

NOTE 10 LONG-TERM DEBT (CONTINUED)

	2014	2013
Wells Fargo Term Note (Term Note) of $10,000,000 bearing interest at 4% above LIBOR per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing December 2014 in installments of $119,048 through October 1, 2021, with a final installment consisting of all remaining unpaid principal due and payable in full on October 8, 2021.	**$ 9,880,952**	$
Wells Fargo Term Note of $26,825,000 for the purchase of MOM's assets at a fluctuating interest rate at 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. This note was paid in full in 2014.	**-**	25,023,000
Note payable to individuals 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, was due in November 2022. The note was paid in full in 2014.	**-**	2,959,130
Note payable to an individual bearing interest of 5% per annum compounded annually on the outstanding balance, with monthly principal and interest payments of $5,880 commencing on November 1, 2012. A balloon payment, consisting of the entire remaining principal and interest, was due in November 2022. The note was paid in full in 2014.	**-**	1,150,773
	32,058,157	29,132,903
Current portion	**(3,427,186)**	(5,453,586)
Noncurrent portion	**$ 28,630,971**	$ 23,679,317

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

Year ending December 31	Amount
2015	$ 3,427,186
2016	3,293,657
2017	2,698,780
2018	2,758,877
2019	2,477,456
Thereafter	17,402,201
Total	$ 32,058,157

NOTE 10 LONG-TERM DEBT (CONTINUED)

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

In October 2014, the Foundation obtained a $10,000,000 seven-year term note (Term Note) from Wells Fargo Bank. The proceeds were used for investments in affiliated African entities for property, plant and equipment and operations.

NOTE 11 INTEREST RATE SWAP AGREEMENTS

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

Under the swap agreements, the Foundation pays Wells Fargo Bank a fixed rate of 2.61% and 1.86% for Term A Note and Term Loan, respectively. The details of the swap are as follows:

	Term A Note	Term Note
Outstanding notional amount	$ 21,052,436	$ 9,880,952
Fixed interest rate	2.61%	1.86%
Floating rate option	USD-Libor-BBA	USD-Libor-BBA
Floating rate day count fraction	Actual/360	Actual/360
Trade date	3/17/2014	10/8/2014
Effective date	3/18/2015	10/8/2014
Termination date	3/17/2021	10/8/2021

As of December 31, 2014, a swap liability of $819,934 is recorded as noncurrent liability. The fair values were the quoted market prices at December 31, 2014. The swap counterparty was rated A+ by Standard & Poor’s as of December 31, 2014.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Housing	**$ 196,824**	$ 237,365
Program support	**18,890**	18,890
World Acquisition - TBD	**25,000**	-
Total	**$ 240,714**	$ 256,255

NOTE 13 BUSINESS AND ASSET ACQUISITIONS

Women Organized to Respond to Life-threatening Diseases (WORLD)
On July 1, 2014, the Foundation acquired Women Organized to Respond to Life-Threatening Diseases (WORLD), a California nonprofit corporation. The Foundation became of the sole member of the WORLD.

AIDS Taskforce of Greater Cleveland, Inc.
On May 9, 2013, the Foundation acquired AIDS Taskforce of Greater Cleveland, Inc. (Taskforce), an Ohio nonprofit corporation. The Foundation became the sole member of Taskforce.
There was no consideration transferred by the Foundation to Taskforce. The Foundation accounted for this business combination by applying the acquisition method of accounting. Goodwill amounting to $245,211 was recognized as a result of the acquisition. In determining the goodwill amount, all assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The results of the Taskforce's operations have been included in the consolidated financial statements since the acquisition date.

Others
In 2014, the Foundation purchased assets from a medical practice in Pensacola. Goodwill totaling $300,000 was recognized as a result of this acquisition.

In 2013, the Foundation acquired two pharmacies, located in Studio City, CA and Oakland Park, FL, Goodwill totaling to $482,148 was recognized as a result of these acquisitions. In addition, the Foundation also acquired two practices, located in Brooklyn, New York and Baton Rouge, LA. Goodwill totaling $369,875 was recognized as a result of these acquisitions.

Supplemental schedule of investing and financing activities

In connection with the above business and asset acquisitions, the Foundation expended cash of $329,576 in 2014 and $883,887 in 2013.

NOTE 14 EMPLOYEE RETIREMENT PLAN

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

Each year, participants may contribute up to 20% of pre-tax annual compensation as defined in the Plan, subject to certain limitations, with the contributions and earnings thereon being nontaxable until withdrawn from the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The Foundation may contribute up to $2,000 per participant depending on the number of years of service. The Foundation's matching contribution expense for the years ended December 31, 2014 and 2013 amounted to $1,169,702 and $946,823, respectively.

NOTE 15 CONCENTRATIONS OF CREDIT RISK

a) 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:

	2014	2013
Private Insurance	**46.13%**	33.68%
AIDS Drug Assistance Program	**10.31%**	9.90%
Department of Health and Human Services	**5.06%**	12.06%
Los Angeles County	**0.45%**	11.30%
Other Grants	**11.45%**	15.93%
Medi-Cal/Medicaid	**6.37%**	12.88%
Centers for Medicare and Medicaid Services	**11.14%**	2.32%
Agency for Health Care Administration	**8.93%**	1.48%
Medicare (FFS)	**0.16%**	0.45%
Total	**100.00%**	100.00%

NOTE 15 CONCENTRATIONS OF CREDIT RISK (CONTINUED)

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

NOTE 16 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Foundation leases certain equipment and facilities under non-cancelable operating lease agreements expiring at various dates through April 2035. Total rental expense for all operating leases was $10,940,740 and $9,873,042 in 2014 and 2013, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2014 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending December 31		
2015	$	7,327,285
2016		6,110,231
2017		5,637,119
2018		4,752,054
2019		3,875,491
Thereafter		18,926,061
Total	$	46,628,241

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.

NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Government Regulation

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

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

The Foundation participates in a number of federally funded grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Foundation has received a final report for contract year 2008/2009 from the LA County Auditor Controller identifying a potential disallowance of $1.7 million of claimed costs. The Foundation has responded to the report and is litigating the issue. The final 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.

NOTE 17 FUNCTIONAL EXPENSES

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

	2014	2013
Healthcare services	**$ 790,206,546**	$ 705,984,133
Thrift stores	**11,585,956**	11,359,150
Outreach	**22,692,525**	17,280,409
Fundraising	**1,947,348**	1,579,220
Administration	**22,817,570**	19,845,191
Total	**$ 849,249,945**	$ 756,048,103

NOTE 18 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, 2014 and 2013 amounted to $30,060,897 and $25,325,283, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2014 and 2013 amounted to $1,309,904 and $1,950,446, respectively.

NOTE 19 SUBSEQUENT EVENTS

On February 6, 2015, the Foundation and Wells Fargo amended the loan agreements to delete AHF MCO of Florida, Inc.'s name from the list of guarantors. In March 2015, the Foundation entered into agreements with Wells Fargo and the Public Financing Authority (PFA). Under the terms of the agreements, PFA issued the $18.7 million Public Finance Authority Revenue Bonds (AIDS Healthcare Foundation Project), Series 2015, pursuant to the terms of the Indenture of Trust dated March 1, 2015 between PFA and Wells Fargo, and loaned the proceeds of the Bonds to the Foundation. The Foundation will use the proceeds to refinance a portion of its existing debt and to pay certain costs incurred in connection with the issuance of the Bonds.

The Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 29, 2015, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no other subsequent matters required disclosure or adjustment to the accompanying consolidated financial statements.

	Healthcare services	Thrift stores	Outreach	Fundraising	Administration	Total
2014:						
Salaries	**$ 65,568,207**	**$ 4,277,742**	**$ 7,217,286**	**$ 338,262**	**$ 5,607,527**	**$ 83,009,024**
Benefits	**21,440,755**	**1,965,107**	**2,530,327**	**81,797**	**3,778,826**	**29,796,812**
Medical services, supplies and drugs	**143,019,110**	**6,188**	**3,402,601**	**277**	**16,860**	**146,445,036**
Cost of sales	**484,682,667**	**43,507**	**-**	**-**	**-**	**484,726,174**
Rent	**6,723,185**	**2,123,458**	**244,655**	**11,670**	**1,837,772**	**10,940,740**
Depreciation and amortization	**4,600,305**	**373,738**	**492,975**	**5,253**	**2,471,706**	**7,943,977**
Interest expense	**754,180**	**33,657**	**79,962**	**10,288**	**476,160**	**1,354,247**
Provision for bad debts	**15,928,283**	**1,011**	**100,711**	**311**	**-**	**16,030,316**
Insurance	**1,845,414**	**166,484**	**129,433**	**3,831**	**385,333**	**2,530,495**
Professional services	**10,321,617**	**261,388**	**1,621,925**	**445,018**	**2,582,272**	**15,232,220**
Charitable contributions	**1,273,496**	**31,645**	**2,212,599**	**299,240**	**159,099**	**3,976,079**
Other expenses	**34,049,327**	**2,302,031**	**4,660,051**	**751,401**	**5,502,015**	**47,264,825**
	$ 790,206,546	**$ 11,585,956**	**$ 22,692,525**	**$ 1,947,348**	**$ 22,817,570**	**$ 849,249,945**

	Healthcare services	Thrift stores	Outreach	Fundraising	Administration	Total
2013:						
Salaries	$ 58,882,524	$ 4,282,470	$ 6,422,027	$ 323,366	$ 5,038,135	$ 74,948,522
Benefits	18,351,803	1,913,334	2,053,749	102,053	1,834,558	24,255,497
Medical services, supplies and drugs	101,490,756	9,350	2,476,892	51	34,330	104,011,379
Cost of sales	466,298,532	41,012	-	-	2,490	466,342,034
Rent	6,055,605	2,129,666	268,711	10,063	1,408,997	9,873,042
Depreciation and amortization	4,404,593	445,133	456,091	9,327	2,856,636	8,171,780
Interest expense	254,016	3,029	111,883	927	1,234,164	1,604,019
Provision for bad debts	7,055,660	-	-	-	-	7,055,660
Insurance	1,314,193	209,163	104,614	196	112,662	1,740,828
Professional services	9,184,269	198,404	1,153,351	92,653	1,998,537	12,627,214
Charitable contributions	902,882	3,399	190,741	5,944	1,831,456	2,934,422
Other expenses	31,789,300	2,124,190	4,042,350	1,034,640	3,493,226	42,483,706
	$ 705,984,133	$ 11,359,150	$ 17,280,409	$ 1,579,220	$ 19,845,191	$ 756,048,103

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

Board of Directors
AIDS Healthcare Foundation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AIDS Healthcare Foundation, which comprise the consolidated balance sheet as of December 31, 2014, 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 29, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Vasquez + Company LLP

April 29, 2015
Los Angeles, California

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