AIDS Healthcare Foundation
Audited Consolidated Financial Statements and Supplementary Information
As of and For the Years Ended December 31, 2016 and 2015
with Report of Independent Auditors

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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, 2016 and 2015, 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 (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIDS Healthcare Foundation as of December 31, 2016 and 2015, 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 audits were conducted for the purpose of forming an opinion on the 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 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 28, 2017 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 28, 2017

	December 31	
	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	**$ 63,135,801**	$ 31,774,657
Pharmacy revenue receivable, net of allowance for doubtful accounts of $8,527,025 and $9,377,674 at December 31, 2016 and 2015, respectively	**52,254,952**	50,544,553
Premium revenue receivable, net of allowance for doubtful accounts of $2,362,612 at December 31, 2016 and 2015	**8,748,237**	21,945,926
Grant revenue receivable	**9,165,526**	9,277,619
Accounts receivable, net of allowance for doubtful accounts of $5,402,146 and $5,665,824 at December 31, 2016 and 2015, respectively	**3,386,658**	6,374,468
Inventories	**26,498,770**	27,129,241
Investments	**24,347,195**	29,454,583
Prepaid expenses and other current assets	**29,063,929**	15,947,826
Total current assets	**216,601,068**	192,448,873
Noncurrent assets		
Assets limited as to use	**2,828,111**	3,266,206
Long-term premium revenue receivable, net of allowance for doubtful accounts of $4,996,403 at December 31, 2016 and 2015, respectively	**4,535,797**	3,935,797
Property and equipment, net	**107,833,909**	93,742,512
Long-term investments	**51,600,333**	29,588,231
Intangibles, deposits and other assets	**21,692,388**	22,583,990
Total assets	**$ 405,091,606**	$ 345,565,609
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	**$ 69,964,804**	$ 60,109,519
Accrued expenses	**17,031,122**	13,178,825
Claims payable	**21,795,554**	13,235,187
Current portion of long-term debt	**2,672,560**	3,320,412
Total current liabilities	**111,464,040**	89,843,943
Noncurrent liabilities		
Deferred rent	**2,575,894**	2,237,755
Interest rate swap	**482,478**	788,395
Long-term debt, net of current portion	**22,139,441**	24,822,105
Total liabilities	**136,661,853**	117,692,198
Net assets		
Unrestricted	**268,021,554**	227,025,609
Temporarily restricted	**408,199**	847,802
Total net assets	**268,429,753**	227,873,411
Total liabilities and net assets	**$ 405,091,606**	$ 345,565,609

See notes to consolidated financial statements.

	Years ended December 31 2016	2015
Unrestricted revenues, gains, and other support		
Pharmacy revenue	**$ 924,139,313**	$ 801,942,847
Premium revenue	**174,736,391**	171,583,237
Grant revenue	**42,890,612**	41,327,612
Net patient service revenue	**5,554,488**	6,504,397
Contributions		
Cash	**1,559,991**	1,149,322
In-kind, thrift store	**10,252,903**	10,812,154
In-kind, other	**208,674**	10,263
Other	**3,793,792**	5,777,086
Total unrestricted revenues, gains, and other support before net assets released from restrictions for operations	**1,163,136,164**	1,039,106,918
Net assets released from restrictions for operations	**439,603**	43,668
Total unrestricted revenues, gains and other support	**1,163,575,767**	1,039,150,586
Expenses		
Salaries	**114,478,994**	100,405,637
Benefits	**41,082,849**	33,411,410
Medical services, supplies and drugs	**196,440,991**	185,540,896
Cost of pharmacy and thrift stores sales	**597,944,807**	535,323,877
Rent and other facilities related expenses	**35,806,372**	30,292,956
Depreciation and amortization	**11,400,757**	10,033,349
Interest expense	**1,423,736**	1,692,230
Provision for bad debts	**16,990,611**	12,538,717
Insurance	**2,053,141**	1,968,799
Professional services	**24,987,048**	20,745,543
Charitable contributions	**6,504,929**	4,380,490
Other expenses	**73,465,587**	47,406,685
Total expenses	**1,122,579,822**	983,740,589
Change in unrestricted net assets	**40,995,945**	55,409,997
Temporarily restricted net assets		
Contributions	**-**	650,756
Net assets released from restrictions for operations	**(439,603)**	(43,668)
Change in temporarily restricted net assets	**(439,603)**	607,088
Change in net assets	**40,556,342**	56,017,085
Net assets, beginning of year	**227,873,411**	171,856,326
Net assets, end of year	**$ 268,429,753**	$ 227,873,411

See notes to consolidated financial statements.

	Years ended December 31	
	2016	2015
Cash flows from operating activities		
Change in net assets	**$ 40,556,342**	$ 56,017,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Goodwill recognized from acquisition	**(662,893)**	(3,157,377)
Depreciation of property and equipment	**9,962,456**	8,132,883
Loss on sale of property and equipment	**97,543**	559,708
Amortization of debt issuance costs	**146,212**	137,335
Amortization of intangible assets	**1,340,758**	1,340,758
Provision for bad debts	**16,990,611**	12,538,717
Unrealized loss on interest rate swap	**(305,917)**	(31,539)
Contributed pharmacy inventory	**208,674**	10,263
Changes in operating assets and liabilities:		
Accounts receivable	**(15,601,107)**	(27,299,044)
Premium revenue receivable	**12,597,689**	(11,449,055)
Inventories	**421,797**	(4,628,890)
Prepaid expenses, deposits, and other current assets	**(12,902,366)**	(1,177,273)
Accounts payable	**9,855,285**	13,253,868
Accrued expenses and claims payable	**12,412,664**	5,640,042
Deferred rent	**338,139**	993,055
Net cash provided by operating activities	**75,455,887**	50,880,536
Cash flows from investing activities		
Additions to property and equipment	**(24,151,396)**	(24,594,665)
Assets limited as to use	**438,095**	(925,363)
Investments matured, net of purchases	**(16,904,714)**	(24,956,331)
Net cash used in investing activities	**(40,618,015)**	(50,476,359)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**-**	19,188,972
Principal payments on long-term debt	**(3,476,728)**	(22,319,661)
Debt issuance costs	**-**	(287,656)
Net cash used in financing activities	**(3,476,728)**	(3,418,345)
Net change in cash and cash equivalents	**31,361,144**	(3,014,168)
Cash and cash equivalents, beginning of year	**31,774,657**	34,788,825
Cash and cash equivalents, end of year	**$ 63,135,801**	$ 31,774,657
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	**$ 1,423,736**	$ 1,692,230

See notes to consolidated financial statements.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

AIDS Healthcare Foundation (the Foundation) headquartered in Los Angeles, California is a not-for-profit healthcare organization incorporated in 1987. The Foundation provides medical care for those affected by Human Immuno-deficiency Virus (HIV) or living with the Acquired Immune Deficiency Syndrome (AIDS). In addition, the Foundation participates in patient advocacy and scientific research for those in need. The Mission of the Foundation is to provide “Cutting edge medicine and advocacy regardless of the ability to pay”. The Foundation has a network of 47 outpatient healthcare centers and 43 pharmacies that are located in 15 States including California, Florida, Texas, Washington, New York, Georgia, Nevada, Louisiana, South Carolina, Mississippi, Maryland, Illinois, Indiana and Ohio as well as Washington DC. The Foundation operates 20 Out of the Closet Thrift Stores in 7 States. The Foundation also operates in 38 countries including 11 in Africa, 12 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, Women Organized to Respond to Life-threatening Diseases (WORLD), AIDS Center of Queens County, Inc. (ACQC), South Side Help Center, Inc. (SSHC) and AID Atlanta, Incorporated. 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 2016, assets limited as to use included deposits as required 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 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 pharmacy drugs, test kits, condoms and thrift store merchandise. Thrift store inventory consists primarily of donated goods held for resale. Contributions of thrift store inventory are recorded in the period received at estimated fair value.

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

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	3 to 15 years
Software	3 to 10 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, 2016 and 2015 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, 2016 and 2015, goodwill of $6,150,078 and $5,487,185, 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 provide 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, 2016 and 2015.

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, 2016 and 2015, net intangible assets amounted to $14,315,167 and $15,655,925, 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 individually contracted rates determined between the Foundation and the third-party payers as well as charges determined by publicly funded payers including Medi-Cal, Medicaid and Medicare. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments that are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Provision for bad debts from patient service revenue amounted to $128,152 and $980,631 for the years ended December 31, 2016 and 2015, 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 (a component of accrued expenses) until earned. The premium is a predetermined amount on a per member per month (PMPM) basis. For the Medicare Plans, the Center for Medicare and Medicaid Services (CMS) determines the amount based on the county in which the member resides and other factors.

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

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

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

Grant Revenue
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 $8,527,025 and $9,377,674 at December 31, 2016 and 2015, 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, 2016 and 2015, 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 2012 through 2016 are subject to examination by regulatory agencies. Tax returns are subject to examination generally for three and four years after they were filed for federal and state, respectively.

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

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

Transactions in Foreign Currencies
The Foundation operates in 38 countries and accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars at the appropriate exchange rates when each transaction is executed. The net loss from foreign currency transactions amounted to $318,113 and $543,835 for the years ended December 31, 2016 and 2015, respectively and is included in other expenses in the accompanying consolidated statements of operations and changes in net assets. The U.S. dollar is considered to be the functional and reporting currency of the Foundation.

Interest Rate Swap
The Foundation entered into interest rate swap agreements as a hedge against the variability in future interest payments due on certain term notes and its Public Finance Authority Revenue Bonds. 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.

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

Fair Value Measurements (continued)
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 2015 consolidated financial statements have been reclassified to conform to the 2016 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:

		2016		2015
Gross patient revenue	**$**	**20,213,506**	$	17,840,902
Contractual discounts and provision for bad debts		**(14,659,018)**		(11,336,505)
Net patient service revenue	**$**	**5,554,488**	$	6,504,397

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 12% and 22% of consolidated net patient service revenue in 2016 and 2015, 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 11% and 12% of consolidated net patient service revenue in 2016 and 2015, 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.

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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 77% and 66% of consolidated net patient service revenue in 2016 and 2015, 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.

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, 2016 and 2015, no saving sharing settlements occurred. As of December 31, 2016 and 2015, the gross premium receivables relating to the Foundation's savings sharing amounted to $9,532,200 and $8,932,200, respectively.

NOTE 3 PREMIUM REVENUE (CONTINUED)

California Medicaid PCCM (Continued)

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 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, 2016, the case is 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.

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.

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)

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. 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.

NOTE 3 PREMIUM REVENUE (CONTINUED)

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 also contracted to provide disease management services to Sunshine Health in 2015 and 2016. The contract ended in June 2016. The Foundation also contracts with AHCA to provide services related to Project AIDS Care (PAC) Waiver Program.

The Foundation recognized premium revenue under the above programs during the years ended December 31, 2016 and 2015 as follows:

	2016	2015
Positive Healthcare Partners - Medicare (Florida)	**$ 74,174,657**	$ 66,541,050
Positive Healthcare - Medicaid (Florida)	**47,814,864**	44,794,081
Positive Healthcare Partners - Medicare (California)	**41,996,684**	46,785,305
Positive Healthcare - Medi-Cal (California)	**10,221,162**	12,717,192
Disease Management (Florida)	**529,024**	745,609
	$ 174,736,391	$ 171,583,237

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 13% and 17% of consolidated grant revenues in 2016 and 2015, 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 2016.

Other Counties

Other significant grant revenue sources were generated from affiliates, ACQC and AID Atlanta. During the year ended December 31, 2016 and 2015, ACQC grant revenue accounted for 30% and 25%, respectively while AID Atlanta accounted for 18% and 16%, respectively, of consolidated grant revenues.

NOTE 5 INVENTORIES

At December 31, inventories consist of:

		2016		2015
Pharmacy drugs	$	**23,546,759**	$	23,280,271
Test kits inventory		**1,377,324**		2,091,553
Thrift store inventory		**1,252,136**		1,227,456
Condoms		**322,551**		529,961
	$	**26,498,770**	$	27,129,241

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:

		2016		2015
Restricted deposits:				
Money market account restricted for Florida PHC	$	**2,187,753**	$	2,187,752
Money market mutual funds restricted for insolvency protection as required by Florida Medicaid HMO contract		**-**		438,096
Cash deposits held by the State of Florida for Florida Medicare HMO contract		**300,000**		300,000
Money market mutual funds restricted for California Medicare HMO contract		**340,358**		340,358
Total assets limited as to use	$	**2,828,111**	$	3,266,206

NOTE 7 INVESTMENTS

At December 31, investments consist of:

		2016		2015
Cash, deposits and money market	$	**14,126,317**	$	8,164,162
Public equity		**14,338,085**		10,506,257
Fixed income		**40,960,763**		34,467,741
Hedge funds		**1,857,734**		1,907,063
Private equity		**2,347,435**		2,289,991
Asset allocation		**1,766,244**		1,707,600
Venture capital		**550,950**		-
		75,947,528		59,042,814
Less short-term portion		**24,347,195**		29,454,583
Long-term investments	$	**51,600,333**	$	29,588,231

NOTE 7 INVESTMENTS (CONTINUED)

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2016:

	Fair Value Measurements at December 31, 2016 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash, deposits and money market	$ 14,126,317	$ -	$ -	$ 14,126,317
Public equity				
Domestic	12,148,806	-	-	12,148,806
International	2,189,279	-	-	2,189,279
Fixed income	40,960,763			40,960,763
Hedge funds	230,927	1,384,724	242,083	1,857,734
Private equity	-	-	2,347,435	2,347,435
Asset allocation	1,766,244	-	-	1,766,244
Venture capital	-	-	550,950	550,950
Total	$ 71,422,336	$ 1,384,724	$ 3,140,468	$ 75,947,528

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2015:

	Fair Value Measurements at December 31, 2015 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash, deposits and money market	$ 8,164,162	$ -	$ -	$ 8,164,162
Public equity				
Domestic	8,557,724	-	-	8,557,724
International	1,948,533	-	-	1,948,533
Fixed income	34,467,741	-	-	34,467,741
Hedge funds	227,182	1,416,452	263,429	1,907,063
Private equity	-	-	2,289,991	2,289,991
Asset allocation	1,707,600	-	-	1,707,600
Total	$ 55,072,942	$ 1,416,452	$ 2,553,420	$ 59,042,814

The Level 3 investments consist of investments in hedge funds and certain private equity funds.

The Foundation utilizes an external investment advisor to oversee the valuation process of the Foundation's Level 3 investments. The advisor is responsible for approving the valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies. These valuations are required to be supported by market data, third-party pricing sources, industry accepted pricing models, counterparty prices, or other methods the advisor deems to be appropriate, including the use of internal proprietary pricing models.

NOTE 7 INVESTMENTS (CONTINUED)

A reconciliation of investments in which significant unobservable inputs (Level 3) for the year ended December 31, 2016 were used in determining fair value is as follows:

		2016		2015
Level 3 investments, beginning of year	**$**	**2,553,420**	$	-
Increase (decrease) in unrealized appreciation on investments		**36,098**		(59,580)
Purchases		**550,950**		2,613,000
Level 3 investments, end of year	**$**	**3,140,468**	$	2,553,420
Increase (decrease) in unrealized appreciation on investments for the year relating to Level 3 investments held at December 31	**$**	**36,098**	$	(59,580)

NOTE 8 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

		2016		2015
Land	**$**	**25,492,056**	$	20,643,269
Buildings		**40,407,157**		38,098,936
Leasehold improvements		**20,747,515**		16,473,118
Furniture and fixtures		**6,432,396**		5,699,678
General equipment		**15,139,822**		13,787,683
Vehicles		**6,897,500**		5,996,146
Computer software		**15,988,931**		10,346,315
Computer equipment		**14,908,888**		12,334,444
Low value assets		**1,210,253**		1,113,303
Assets under construction		**10,503,099**		9,534,997
Total		**157,727,617**		134,027,889
Accumulated depreciation and amortization		**(49,893,708)**		(40,285,377)
Property and equipment, net	**$**	**107,833,909**	$	93,742,512

Provision for depreciation and amortization of property and equipment amounted to $9,962,456 and $8,132,883 in 2016 and 2015, respectively.

NOTE 9 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, expiring on March 16, 2019, that provides for secured borrowings up to $30 million in 2016 and 2015, at a rate per annum equal to the LIBOR plus 2%. There was no outstanding balance on the line of credit as of December 31, 2016 and 2015. 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:

	2016	2015
Wells Fargo Public Financing Authority Bond of $18,746,162 bearing interest at 3.46% per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing April 2015 with the final installment consisting of all remaining unpaid principal due and payable in full on March 1, 2034.	**$ 17,342,539**	$ 18,158,246
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.	**967,722**	1,368,130
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.	**-**	652,251
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.	**7,023,810**	8,452,381

NOTE 10 LONG-TERM DEBT (CONTINUED)

		2016		2015
Melrose Credit Union of $329,000 bearing interest at 5.5% per annum compounded annually on the outstanding balance. Principal and interest is payable on the 1st of each month commencing February 2013 in installments of $5,375, with a final installment consisting of all remaining unpaid principal due and payable in full on January 22, 2019.	**$**	**116,668**	$	182,520
Hebrew Benevolent Congregation of $75,000 bearing interest at 6.0% per annum compounded monthly on the outstanding balance. Principal and interest is payable on the 1st of each month commencing October 2014 in installments of $1,243, with a final installment consisting of all remaining unpaid principal due and payable in full on June, 2020. The loan was paid in full in 2016.		**-**		75,000
eClinicalWorks of $186,950 bearing no interest. Principal is payable on the 1st of each month commencing June 2014 in installments of $7,790, with a final installment consisting of all remaining unpaid principal due and payable in full on May 1, 2016.		**-**		38,940
		25,450,739		28,927,468
Current portion		**(2,672,560)**		(3,320,412)
Noncurrent portion		**22,778,179**		25,607,056
Less: debt issuance costs		**638,738**		784,951
Long-term debt	**$**	**22,139,441**	$	24,822,105

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

Year ending December 31		Amount
2017	$	2,672,560
2018		2,616,152
2019		2,334,899
2020		2,268,245
2021		2,126,076
Thereafter		12,794,069
Total	$	24,812,001

NOTE 10 LONG-TERM DEBT (CONTINUED)

In March 2014, the Foundation extinguished all its outstanding debt as of December 31, 2013 by obtaining new loan agreements with Wells Fargo. The new loans have maturity dates ranging from two and half 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.

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 Finance Authority (PFA). Under the terms of the agreements, PFA issued the $18.7 million Public Finance Authority Revenue Bonds (AIDS Healthcare Foundation Project), Series 2015, pursuant to the terms of the Indenture of Trust dated March 1, 2015 between PFA and Wells Fargo, and loaned the proceeds of the Bonds to the Foundation. The Foundation used the proceeds to refinance a portion of its existing debt and to pay certain costs incurred in connection with the issuance of the Bonds.

On March 14, 2016, the Foundation and Wells Fargo amended the loan agreement and the line of credit. The amended and restated agreements provide for, among other terms, the increase in allowed value of permitted acquisitions, provision of a borrowing base certificate, and extension of the line of credit to March 16, 2019.

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.

In March 2015, the Foundation refinanced the Term A Note and secured a Public Financing Bond with Wells Fargo Bank.

NOTE 11 INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Under the swap agreements, the Foundation pays Wells Fargo Bank a fixed rate of 3.46% and 1.86% for the Public Finance Authority Revenue Bonds and Term Loan, respectively. The details of the swap for the year ended December 31, 2016 are as follows:

	Public Finance Bond	Term Note
Outstanding notional amount	$ 17,342,539	$ 7,023,810
Fixed interest rate	3.46%	1.86%
Floating rate option	USD-Libor-BBA	USD-Libor-BBA
Floating rate day count fraction	Actual/360	Actual/360
Trade date	3/18/2015	10/8/2014
Effective date	3/18/2015	10/8/2014
Termination date	3/01/2034	10/8/2021

At December 31, 2016 and 2015, the fair value of the swap liability was $482,478 and $788,395, respectively. The fair values were the quoted market prices at December 31 of each year. The swap counterparty was rated A+ by Standard & Poor’s as of December 31 of each year.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Housing	**$ 184,000**	$ 156,283
ACQC program	**-**	650,755
Program support	**224,199**	15,764
WORLD program	**-**	25,000
Total	**$ 408,199**	$ 847,802

NOTE 13 BUSINESS AND ASSET ACQUISITIONS

AIDS Center of Queens County, Inc.
On February 2, 2015, the Foundation acquired AIDS Center of Queens County, Inc. (ACQC), a New York nonprofit corporation. The Foundation became the sole member of ACQC.

There was no consideration transferred by the Foundation to ACQC. The Foundation accounted for this business combination by applying the acquisition method of accounting. Goodwill amounting to $779,932 was recognized as a result of the acquisition. In determining the goodwill amount, all assets acquired and liabilities assumed were measured at the fair value as of the acquisition date. The results of ACQC's operations subsequent to the acquisition date have been included in the consolidated financial statements.

In 2016, the Foundation paid $59,049 and recognized additional goodwill related to the ACQC acquisition.

Southside Help Center, Inc.
On February 6, 2015, the Foundation acquired Southside Help Center, Inc. (SSHC), an Illinois nonprofit corporation. The Foundation became the sole member of SSHC.

The amount of $100,000 was transferred by the Foundation to SSHC. The Foundation accounted for this business combination by applying the acquisition method of accounting. Inherent Contribution amounting to $124,527 was recognized as a result of the acquisition. In determining the inherent contribution amount, all assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The results of ACQC's operations subsequent to the acquisition date have been included in the consolidated financial statements.

AID Atlanta, Inc.
On June 19, 2015, the Foundation acquired AID Atlanta, Inc., a Georgia nonprofit corporation. The Foundation became the sole member of AID Atlanta, Inc.

There was no consideration transferred by the Foundation to AID Atlanta, Inc. The Foundation accounted for this business combination by applying the acquisition method of accounting. Goodwill amounting to $1,917,155 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 AID Atlanta, Inc.'s operations subsequent to the acquisition date have been included in the consolidated financial statements.

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 the sole member of the WORLD.

NOTE 13 BUSINESS AND ASSET ACQUISITIONS (CONTINUED)

Others

In 2016, the Foundation acquired two practices, located in New York, NY. Goodwill totaling $603,844 was recognized as a result of these acquisitions.

In 2015, the Foundation acquired three practices, located in Dallas, TX; Atlanta, GA; and New York, NY. Goodwill totaling $584,817 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 $650,000 in 2016 and $584,817 in 2015.

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, 2016 and 2015 amounted to $2,352,068 and $1,402,404, respectively.

NOTE 15 CONCENTRATIONS OF CREDIT RISK

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

NOTE 15 CONCENTRATIONS OF CREDIT RISK (CONTINUED)

	2016	2015
Private Insurance	**50.28%**	41.36%
AIDS Drug Assistance Program	**7.20%**	7.24%
Department of Health and Human Services	**5.81%**	4.27%
Other Grants	**17.33%**	16.00%
Medi-Cal/Medicaid	**4.94%**	4.58%
Centers for Medicare and Medicaid Services	**3.01%**	18.62%
Agency for Health Care Administration	**11.20%**	7.68%
Medicare (FFS)	**0.23%**	0.25%
Total	**100.00%**	100.00%

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

NOTE 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 $15,034,149 and $14,059,113 in 2016 and 2015, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2016 that have initial or remaining lease terms in excess of one year:

Year ending December 31		Amount
2017	$	9,454,256
2018		7,865,267
2019		5,962,300
2020		4,993,649
2021		4,369,222
Thereafter		9,011,657
Total	$	41,656,351

NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Foundation maintains claims-made medical malpractice insurance for up to $2,000,000 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.

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. In addition, the Foundation has received a final report for contract years 2011/2012 and 2012/2013 from the LA County Auditor Controller identifying potential disallowance of $3.5 million of claimed costs. The Foundation has responded to the report and is expecting a positive resolution. 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:

		2016		2015
Healthcare services	**$**	**1,017,512,182**	$	906,407,560
Thrift stores		**10,463,254**		10,885,511
Outreach		**53,478,025**		32,270,468
Fundraising		**3,996,588**		2,762,442
Administration		**37,129,773**		31,414,608
Total	**$**	**1,122,579,822**	$	983,740,589

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, 2016 and 2015 amounted to $45,752,776 and $34,084,337, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2016 and 2015 amounted to $1,356,558 and $1,029,435, respectively.

NOTE 19 SUBSEQUENT EVENTS

The Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 28, 2017, 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.

	Healthcare services	Thrift stores	Outreach	Fundraising	Administration	Total
2016						
Salaries	**$ 93,326,043**	**$ 3,975,031**	**$ 8,244,042**	**$ 936,539**	**$ 7,997,339**	**$ 114,478,994**
Benefits	**32,441,089**	**1,856,098**	**3,543,146**	**276,868**	**2,965,648**	**41,082,849**
Medical services, supplies and drugs	**191,028,171**	**1,568**	**4,253,761**	**460**	**1,157,031**	**196,440,991**
Cost of sales	**597,906,155**	**38,652**	**-**	**-**	**-**	**597,944,807**
Rent and other facilities related expenses	**23,920,353**	**2,767,360**	**1,292,099**	**76,353**	**7,750,207**	**35,806,372**
Depreciation and amortization	**6,811,262**	**331,850**	**843,712**	**13,013**	**3,400,920**	**11,400,757**
Interest expense	**935,037**	**19,035**	**55,387**	**11,659**	**402,618**	**1,423,736**
Provision for bad debts	**16,838,739**	**-**	**151,872**	**-**	**-**	**16,990,611**
Insurance	**1,496,385**	**76,696**	**88,125**	**1,857**	**390,078**	**2,053,141**
Professional services	**14,937,694**	**360,931**	**4,143,921**	**298,141**	**5,246,361**	**24,987,048**
Charitable contributions	**921,371**	**741**	**3,383,977**	**767,718**	**1,431,122**	**6,504,929**
Other expenses	**36,949,883**	**1,035,292**	**27,477,983**	**1,613,980**	**6,388,449**	**73,465,587**
	$ 1,017,512,182	**$ 10,463,254**	**$ 53,478,025**	**$ 3,996,588**	**$ 37,129,773**	**$ 1,122,579,822**

	Healthcare services	Thrift stores	Outreach	Fundraising	Administration	Total
2015:						
Salaries	$ 80,857,211	$ 4,023,431	$ 7,606,938	$ 389,634	$ 7,528,423	$ 100,405,637
Benefits	26,489,643	1,943,675	2,874,142	87,884	2,016,066	33,411,410
Medical services, supplies and drugs	181,702,419	4,735	3,356,724	7,890	469,128	185,540,896
Cost of sales	535,265,616	58,261	-	-	-	535,323,877
Rent and other facilities related expenses	18,942,551	3,082,571	1,243,771	86,148	6,937,915	30,292,956
Depreciation and amortization	5,819,415	448,461	660,577	9,896	3,095,000	10,033,349
Interest expense	994,889	22,963	66,619	14,022	593,737	1,692,230
Provision for bad debts	12,465,157	40,683	32,877	-	-	12,538,717
Insurance	1,384,176	74,600	83,212	2,090	424,721	1,968,799
Professional services	12,856,543	312,255	3,113,012	389,315	4,074,418	20,745,543
Charitable contributions	1,131,791	20,354	2,459,125	708,564	60,656	4,380,490
Other expenses	28,498,149	853,522	10,773,471	1,066,999	6,214,544	47,406,685
	$ 906,407,560	$ 10,885,511	$ 32,270,468	$ 2,762,442	$ 31,414,608	$ 983,740,589

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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, 2016, 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 28, 2017.

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 28, 2017
Los Angeles, California

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