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

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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VASQUEZ & COMPANY LLP
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Report of Independent Auditors

Board of Directors
AIDS Healthcare Foundation

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIDS Healthcare Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Vasquez + Company LLP

Los Angeles, California
April 30, 2013

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

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

NOTE 1 DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Assets Limited as to Use

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

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

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

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

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

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

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

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

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

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

Property and Equipment (continued)

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

Impairment of Long-lived Assets

The Foundation reviews the carrying amount of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The measurement of possible impairment is based primarily on the undiscounted future operating cash flows without interest charges generated through the use of these assets during their remaining estimated useful life. The assessed recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved. Based upon its most recent analysis, the Foundation believes that no events occurred during the years ended December 31, 2012 and 2011 that would impair the carrying amount of its long-lived assets.

Goodwill and Intangible Assets

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed over fair value of assets of businesses acquired. As of December 31, 2012 and 2011, goodwill of $1,107,530 and $907,530, respectively, is recorded in the Foundation's consolidated balance sheets within intangibles, deposits and other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. Generally accepted accounting principles provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. No impairments were identified for the years ended December 31, 2012 and 2011.

Intangible assets represent the customer relationships acquired in the MOMs Pharmacies business acquisition. The value of the customer relationships is amortized, to reflect the pattern of economic benefits consumed, on a straight-line basis over its useful life of 15 years

Debt Issuance Costs

Debt issuance costs are deferred and amortized to interest expense using a method that approximates the effective-level-interest method over the term of the related debt.

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

Net Patient Service Revenue

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

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

Premium Revenue

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

Premiums are billed monthly and are recognized as revenue over the period in which the Foundation is obligated to provide services to its members. Premiums collected in advance are recorded as unearned premiums liability until earned. The premium is a predetermined amount on a per member per month basis. For the Medicare Plans, the Center for Medicare and Medicaid Services (CMS) determines the amount based on the county in which the member resides and other factors.

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

Premium Revenue (continued)

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

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

Grant Revenue

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

Pharmacy Revenue

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

Federal and State Income Taxes

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

Generally accepted accounting principles prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the years ended December 31, 2012 and 2011, the Foundation had no material unrecognized tax benefits or tax penalties or interest.

Charity Care

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

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

Fair Value Measurements

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

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

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

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

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

NOTE 2 NET PATIENT SERVICE REVENUE

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

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

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

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Medi-Cal and Medicaid

The Medi-Cal and Medicaid programs accounted for approximately 21% and 22% of consolidated net patient service revenue in 2012 and 2011, respectively. Outpatient services rendered to Medi-Cal and Medicaid program beneficiaries are paid at prospectively determined rates for outpatient care.

Medicare

The Medicare program accounted for approximately 24% of consolidated net patient service revenue in 2012 and in 2011. Healthcare services rendered to Medicare program beneficiaries are paid at prospectively determined rates for outpatient care. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Other Third-party Payers

The Foundation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These payers accounted for approximately 55% and 54% of consolidated net patient service revenue in 2012 and 2011, respectively. The basis for payment to the Foundation under these agreements includes, among others, discounts from established charges, and prospectively determined daily rates.

NOTE 3 PREMIUM REVENUE

Positive Healthcare
California Medicaid PCCM

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

NOTE 3 PREMIUM REVENUE (CONTINUED)

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

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

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

Florida Medicaid HMO
In May 2010, the Foundation contracted with State of Florida Agency for Health Care Administration (AHCA) to provide Medicaid managed care services to Medicaid beneficiaries living with a diagnosis of HIV/AIDS in Broward County. In September 2012, the Foundation contracted with State of Florida AHCA to provide similar services in Dade County. The Foundation established an HMO to provide these services known as Positive Healthcare. Positive Healthcare has a comprehensive network of contracted providers and offers the full range of Medicaid benefits, including contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals and hospitalization. AHCA compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's diagnosis. Enrollment in this HMO is voluntary and subject to cancellation by AHCA or the member based on loss of Medicare benefits, dissatisfaction with the program, death, relocation, or incarceration. Premiums are due monthly and are recognized as revenue during the period in which Positive Healthcare is obligated to provide services to members.

NOTE 3 PREMIUM REVENUE (CONTINUED)

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

Positive Healthcare Partners
California Medicare HMO
In January 2006, the Foundation contracted with the Centers for Medicare and Medicaid Services (CMS) to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Los Angeles County. The Foundation established an HMO to provide these services known as Positive Healthcare Partners. Positive Healthcare Partners has a comprehensive network of contracted providers and offers the full range of traditional Medicare Part A, B, and D benefits, including the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, hospitalization, rehabilitation services, behavioral health and skilled nursing facility care to voluntary members of the plan. CMS compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's risk scoring as outlined in Medicare Advantage Risk Adjustment Policies.

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

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

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

NOTE 3 PREMIUM REVENUE (CONTINUED)

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

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

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

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

NOTE 4 GRANT REVENUE

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

NOTE 5 INVENTORIES

At December 31, inventories consist of:

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

NOTE 6 ASSETS LIMITED AS TO USE

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

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

NOTE 7 INVESTMENTS

At December 31, investments consist of:

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

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

NOTE 8 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

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

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

NOTE 9 LINE OF CREDIT

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

NOTE 10 LONG-TERM DEBT

At December 31, long-term debt consist of:

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

NOTE 10 LONG-TERM DEBT (CONTINUED)

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

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

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

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

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

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

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

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

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

NOTE 12: BUSINESS ACQUISITIONS

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

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

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

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

NOTE 12: BUSINESS ACQUISITIONS (CONTINUED)

<u>Island Coast AIDS Network, Inc. (ICAN)</u>
On September 16, 2012, the Foundation acquired ICAN, a Florida not-for-profit corporation that provides HIV/AIDS healthcare prevention, disease management and education services.

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

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

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

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

NOTE 13 EMPLOYEE RETIREMENT PLAN

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

NOTE 13 EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

NOTE 14 CONCENTRATIONS OF CREDIT RISK

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

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

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

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

NOTE 15 COMMITMENTS AND CONTINGENCIES

Operating Leases

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

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

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

Insurance

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

Litigation

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

Government Regulation

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

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Government Regulation (continued)

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

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

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

NOTE 16 FUNCTIONAL EXPENSES

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

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

NOTE 17 CHARITY CARE

The Foundation provides care to patients who meet certain criteria under its charity care policy. The Foundation determines costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies and other operating expenses based on data from its accounting system. The costs of caring for charity care patients for the year ended December 31, 2012 and 2011 amounted to $24,233,701 and $17,703,302, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2012 and 2011 amounted to $1,651,677 and $4,487,103, respectively.

NOTE 18 SUBSEQUENT EVENTS

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

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

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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, 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 30, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Vasquez + Company LLP

April 30, 2013
Los Angeles, California