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# AIDS Healthcare Foundation
# Audited Consolidated Financial Statements
# and Supplementary Information
***As of and For the Years Ended December 31, 2021 and 2020***
***with Independent Auditor's Report***

VASQUEZ
+ COMPANY LLP

An independently owned member
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**AIDS Healthcare Foundation**
**Audited Consolidated Financial Statements**
**and Supplementary Information**
***As of and For the Years Ended December 31, 2021 and 2020***
***with Independent Auditor's Report***

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## Independent Auditor's Report

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

### Opinion

We have audited the consolidated financial statements of AIDS Healthcare Foundation (the Foundation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Consolidated Financial Statements

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2022 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Vasquez & Company LLP

**Glendale, California**
**April 27, 2022**

| | | December 31 | |
|---|---|---|---|
| | | **2021** | 2020 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 207,605,900** | $ 213,198,662 |
| Pharmacy revenue receivable, net of allowance for doubtful accounts of $9,347,911 and $8,927,470 at December 31, 2021 and 2020, respectively | | **94,526,769** | 77,874,895 |
| Premium revenue receivable | | **21,148,694** | 19,706,583 |
| Grant revenue receivable, net of allowance for doubtful accounts of $917,843 and $776,192 at December 31, 2021 and 2020, respectively | | **16,291,433** | 20,899,549 |
| Accounts receivable - other, net of allowance for doubtful accounts of $25,126,286 and $18,725,935 at December 31, 2021 and 2020, respectively | | **41,519,470** | 10,327,741 |
| Inventories | | **68,954,812** | 85,846,365 |
| Short-term investments | | **6,436,869** | 8,948,730 |
| Prepaid expenses and other current assets | | **27,219,164** | 22,085,582 |
| | **Total current assets** | **483,703,111** | 458,888,107 |
| **Noncurrent assets** | | | |
| Property and equipment, net | | **357,050,793** | 270,856,797 |
| Long-term investments | | **139,447,839** | 52,605,059 |
| Intangibles, deposits and other assets | | **29,296,870** | 31,648,209 |
| Property held for sale, net | | **14,340,889** | 14,340,889 |
| Assets limited as to use | | **3,846,314** | 3,846,266 |
| | **Total assets** | **$ 1,027,685,816** | $ 832,185,327 |
| **LIABILITIES AND NET ASSETS** | | | |
| **Current liabilities** | | | |
| Accounts payable | | **$ 87,299,945** | $ 81,921,640 |
| Accrued expenses | | **26,432,327** | 29,378,151 |
| Claims payable | | **13,945,299** | 14,602,076 |
| Unearned premiums | | **3,985,201** | 150,822 |
| Current portion of long-term debt | | **2,520,000** | 15,637,618 |
| | **Total current liabilities** | **134,182,772** | 141,690,307 |
| Deferred rent | | **2,495,115** | 2,731,708 |
| Interest rate swap | | **2,312,990** | 5,183,677 |
| Long-term debt, net of current portion | | **55,607,737** | 57,998,503 |
| | **Total liabilities** | **194,598,614** | 207,604,195 |
| **Net assets** | | | |
| Without donor restrictions | | **832,749,108** | 624,471,042 |
| With donor restrictions | | **338,094** | 110,090 |
| | **Total net assets** | **833,087,202** | 624,581,132 |
| | **Total liabilities and net assets** | **$ 1,027,685,816** | $ 832,185,327 |

*See notes to consolidated financial statements.*

| | Years ended December 31 | |
|---|---|---|
| | **2021** | 2020 |
| **Operating revenues** | | |
| **Unrestricted revenues, gains, and other support** | | |
| Pharmacy revenue, net | **$ 1,684,029,002** | $ 1,500,246,949 |
| Premiums earned, net | **164,351,114** | 160,980,659 |
| Grant revenue, net | **72,041,281** | 70,561,769 |
| Net patient service revenue | **10,702,031** | 8,906,825 |
| Contributions: | | |
| Cash | **4,163,094** | 4,715,417 |
| In-kind, thrift store | **16,159,519** | 9,638,454 |
| In-kind, other | **1,198,984** | 385,225 |
| Other | **11,415,948** | 10,833,793 |
| **Operating revenues before net assets released from restrictions for operations** | **1,964,060,973** | 1,766,269,091 |
| Net assets released from restrictions for operations | **109,142** | 329,730 |
| **Total operating revenues** | **1,964,170,115** | 1,766,598,821 |
| **Operating expenses** | | |
| Cost of pharmacy and thrift stores sales | **1,099,188,575** | 965,305,852 |
| Salaries and benefits | **278,926,087** | 256,640,809 |
| Medical services, supplies and drugs | **186,343,178** | 182,294,523 |
| Rent and other facilities related expenses | **60,608,742** | 56,235,349 |
| Professional services | **30,144,489** | 29,733,959 |
| Depreciation and amortization | **19,395,725** | 17,754,973 |
| Charitable contributions | **13,059,125** | 14,949,197 |
| Insurance | **4,311,260** | 3,065,816 |
| Provision for bad debts | **2,582,861** | 7,026,415 |
| Interest expense | **2,385,951** | 2,728,337 |
| Other expenses | **69,442,242** | 99,410,792 |
| **Total operating expenses** | **1,766,388,235** | 1,635,146,022 |
| **Income from operations** | **197,781,880** | 131,452,799 |
| Investment income, net | **10,496,186** | 3,981,728 |
| **Increase in net assets without donor restrictions** | **208,278,066** | 135,434,527 |
| **Changes in net assets with donor restrictions** | | |
| Contributions | **337,146** | 71,026 |
| Net assets released from restrictions for operations | **(109,142)** | (329,730) |
| **Increase (decrease) in net assets with donor restrictions net assets** | **228,004** | (258,704) |
| **Increase in net assets** | **208,506,070** | 135,175,823 |
| Net assets, beginning of year | **624,581,132** | 489,405,309 |
| Net assets, end of year | **$ 833,087,202** | $ 624,581,132 |

*See notes to consolidated financial statements.*

# AIDS Healthcare Foundation
## Consolidated Statements of Functional Expenses
## Years ended December 31, 2021 and 2020

| **2021** | **Healthcare Services** | **Housing Services** | **Thrift Stores** | **Outreach** | **Fundraising** | **Administration** | **Total** |
|---|---|---|---|---|---|---|---|
| **Cost of pharmacy and thrift stores sales** | **$ 1,099,153,369** | **$ -** | **$ 35,206** | **$ -** | **$ -** | **$ -** | **$ 1,099,188,575** |
| **Salaries and benefits** | **226,374,267** | **1,782,220** | **7,971,092** | **24,829,027** | **2,415,550** | **15,553,931** | **278,926,087** |
| **Medical services, supplies and drugs** | **177,654,767** | **266** | **8,794** | **8,417,590** | **6,181** | **255,580** | **186,343,178** |
| **Rent and other facilities related expenses** | **42,327,968** | **2,647,428** | **2,227,072** | **3,371,699** | **128,543** | **9,906,032** | **60,608,742** |
| **Professional services** | **21,262,428** | **469,428** | **310,571** | **4,753,052** | **225,344** | **3,123,666** | **30,144,489** |
| **Depreciation and amortization** | **14,315,463** | **1,227,026** | **305,844** | **1,274,204** | **7,953** | **2,265,235** | **19,395,725** |
| **Charitable contributions** | **1,626,348** | **-** | **-** | **8,827,942** | **2,516,206** | **88,629** | **13,059,125** |
| **Insurance** | **2,756,194** | **379,151** | **234,921** | **265,582** | **631** | **674,781** | **4,311,260** |
| **Provision for bad debts** | **1,912,072** | **250,901** | **29,600** | **12,394** | **-** | **377,894** | **2,582,861** |
| **Interest expense** | **1,558,503** | **-** | **18,507** | **94,025** | **-** | **714,916** | **2,385,951** |
| **Other expenses** | **52,511,531** | **481,636** | **1,326,051** | **13,525,307** | **1,533,786** | **63,931** | **69,442,242** |
| | **$ 1,641,452,910** | **$ 7,238,056** | **$ 12,467,658** | **$ 65,370,822** | **$ 6,834,194** | **$ 33,024,595** | **$ 1,766,388,235** |

| 2020 | Healthcare Services | Housing Services | Thrift Stores | Outreach | Fundraising | Administration | Total |
|---|---|---|---|---|---|---|---|
| Cost of pharmacy and thrift stores sales | $ 965,238,999 | $ - | $ 66,853 | $ - | $ - | $ - | $ 965,305,852 |
| Salaries and benefits | 209,080,812 | 1,096,414 | 7,875,699 | 21,127,653 | 2,347,225 | 15,113,006 | 256,640,809 |
| Medical services, supplies and drugs | 174,860,030 | 124 | 12,459 | 7,365,271 | 898 | 55,741 | 182,294,523 |
| Rent and other facilities related expenses | 39,484,937 | 2,271,670 | 2,432,814 | 3,568,744 | 111,772 | 8,365,412 | 56,235,349 |
| Professional services | 19,381,054 | 422,770 | 182,395 | 4,960,484 | 534,680 | 4,252,576 | 29,733,959 |
| Depreciation and amortization | 13,492,075 | 734,036 | 202,663 | 1,041,819 | 14,412 | 2,269,968 | 17,754,973 |
| Charitable contributions | 1,037,706 | - | - | 10,579,495 | 3,166,235 | 165,761 | 14,949,197 |
| Insurance | 2,089,833 | 225,839 | 107,199 | 240,120 | 1,331 | 401,494 | 3,065,816 |
| Provision for bad debts | 6,495,984 | 493,566 | 36,575 | 290 | - | - | 7,026,415 |
| Interest expense | 1,867,834 | - | 21,661 | 109,261 | - | 729,581 | 2,728,337 |
| Other expenses | 49,597,583 | 252,313 | 799,814 | 41,985,309 | 835,672 | 5,940,101 | 99,410,792 |
| | $ 1,482,626,847 | $ 5,496,732 | $ 11,738,132 | $ 90,978,446 | $ 7,012,225 | $ 37,293,640 | $ 1,635,146,022 |

*See notes to consolidated financial statements.*

| | Years ended December 31 | |
|---|---|---|
| | **2,021** | 2020 |
| **Cash flows from operating activities** | | |
| Change in net assets | **$ 208,506,070** | $ 135,175,823 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | **16,967,417** | 16,062,658 |
| Gain on investment | **(8,601,250)** | (1,947,712) |
| Loss on sale of property and equipment | **76,222** | 3,836 |
| Amortization of debt issuance costs | **129,233** | 66,075 |
| Amortization of intangible assets | **2,352,087** | 1,688,479 |
| Provision for bad debts | **2,582,861** | 7,026,415 |
| Unrealized (gain) loss on interest rate swap | **(2,870,687)** | 4,134,644 |
| Contributed pharmacy inventory | **1,198,984** | 385,225 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable - other | **(50,426,464)** | (17,156,332) |
| Premium revenue receivable | **(1,442,111)** | (11,388,557) |
| Grant revenue receivable | **4,608,116** | (6,350,564) |
| Inventories | **15,692,569** | (43,357,977) |
| Prepaid expenses, deposits, and other current assets | **(5,134,329)** | (295,179) |
| Accounts payable | **5,378,305** | 11,923,187 |
| Unearned premiums | **3,834,379** | (51,840) |
| Accrued expenses | **(2,945,824)** | 5,657,860 |
| Claims payable | **(656,777)** | (5,535,316) |
| Deferred rent | **(236,593)** | (197,339) |
| **Net cash provided by operating activities** | **189,012,208** | 95,843,386 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | **(103,564,979)** | (36,809,767) |
| Proceeds from sale of property and equipment | **327,344** | 58,950 |
| Acquisition of intangible assets | **-** | (11,944,941) |
| Purchases of investments | **(90,248,594)** | - |
| Proceeds from sale of investments, net | **14,518,925** | 18,137,448 |
| **Net cash used in investing activities** | **(178,967,304)** | (30,558,310) |
| **Cash flows from financing activities** | | |
| Principal payments on long-term debt | **(15,637,618)** | (3,180,109) |
| **Cash used in financing activities** | **(15,637,618)** | (3,180,109) |
| **Net change in cash, cash equivalents and restricted cash** | **(5,592,714)** | 62,104,967 |
| Cash, cash equivalents and restricted cash, beginning of year | **217,044,928** | 154,939,961 |
| Cash, cash equivalents and restricted cash, end of year | **$ 211,452,214** | $ 217,044,928 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid for interest during the year | **$ 2,385,951** | $ 2,728,337 |

*See notes to consolidated financial statements.*

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows.

| | Years ended December 31 | |
|---|---|---|
| | **2021** | 2020 |
| Cash and cash equivalents | **$ 207,605,900** | $ 213,198,662 |
| Restricted cash included in assets limited as to use | **3,846,314** | 3,846,266 |
| **Total cash, cash equivalents and restricted cash shown in the statement of cash flows** | **$ 211,452,214** | $ 217,044,928 |

*See notes to consolidated financial statements.*

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

**Nature of Business**
AIDS Healthcare Foundation (the Foundation) headquartered in Los Angeles, California is a not-for-profit healthcare organization incorporated in 1987. The Foundation provides medical care for those affected by Human Immuno-deficiency Virus (HIV) or living with the Acquired Immune Deficiency Syndrome (AIDS). In addition, the Foundation participates in patient advocacy, housing, and scientific research for those in need. The Mission of the Foundation is to provide "Cutting edge medicine and advocacy regardless of the ability to pay". The Foundation has a network of 68 outpatient healthcare centers and 62 pharmacies that are located in 15 states including California, Florida, Texas, Washington, New York, Pennsylvania, Georgia, Nevada, Louisiana, South Carolina, Mississippi, Maryland, Illinois, Virginia and Ohio as well as Washington, DC and Puerto Rico. The Foundation operates 21 Out of the Closet Thrift Stores in 7 states. The Foundation also operates in 45 countries including 13 in Africa, 13 in the Americas, 10 in Asia and 9 in Europe. The Foundation owns 11 properties in California to provide very low income and transitional housing.

**Principles of Consolidation**
The Foundation's consolidated financial statements include the accounts of AIDS Healthcare Foundation, AHF Healthcare Centers, AHF MCO of Florida, Inc., AHF MCO of Georgia, Inc., AIDS Healthcare Foundation Disease Management of Florida, Inc., HIV Immunotherapeutic Institute (formerly AHF Pharmacy Network), AIDS Healthcare Foundation Texas, Inc., 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), AID Atlanta, Incorporated, AIDS Outreach Center (AOC), IRIS House, AIDS Interfaith Network, Inc.(AIN), Thursday's Child, Inc., AHF China LLC., and Coalition to Preserve LA. All significant inter-organization balances and transactions have been eliminated in consolidation.

**Basis of Presentation**
The consolidated financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Foundation to report information regarding its financial position and activities according to the following net assets classifications:

*Net assets without donor restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the Board of Directors.

*Net assets with donor restrictions*: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

**Basis of Presentation (Continued)**

Donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

**Assets Limited as to Use**

Assets limited as to use primarily include deposits restricted by the States of Florida, California and Georgia in connection with the Foundation's Medicare and Medicaid health maintenance organization (HMO) contracts. Assets limited as to use include deposits as required by Florida Office of Insurance Regulation (FLOIR), the Florida Agency for Healthcare Administration (FL AHCA), the California Department of Managed Health Care (CA DMHC) and the Georgia Office of Insurance and Safety Fire Commissioner. These assets consist primarily of cash deposits and investments in money market funds which are reported at fair value based on quoted market prices.

**Inventories**

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

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

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

### Property and Equipment

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

| | |
|---|---|
| Buildings and fixed equipment | 5 to 50 years |
| Furniture and movable equipment | 3 to 15 years |
| Software | 3 to 10 years |

The Foundation's policy is to capitalize acquisitions of property and equipment with a cost of $1,000 or more. Maintenance, repairs and investments in minor equipment are charged to operations. Expenditures that will materially increase the value of properties or extend useful lives are capitalized.

### Impairment of Long-lived Assets

The Foundation reviews the carrying amount of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The measurement of possible impairment is based primarily on the undiscounted future operating cash flows without interest charges generated through the use of these assets during their remaining estimated useful life. The assessed recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved. Based upon its most recent analysis, the Foundation believes that no events occurred during the years ended December 31, 2021 and 2020 that would impair the carrying amount of its long-lived assets.

### Goodwill and Intangible Assets

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed less fair value of assets and businesses acquired. As of December 31, 2021, and 2020, goodwill of $5,972,930 is recorded in the Foundation's consolidated balance sheets within intangibles, deposits and other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with GAAP, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, after assessing the totality of events and circumstances, an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary.

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

**Goodwill and Intangible Assets (Continued)**
Intangible assets primarily represent the customer relationships acquired in the MOMs and Hillcrest Pharmacies business acquisitions (see Note 16). The intangibles were measured at fair value using Level 3 inputs. The income approach was utilized in valuing the customer relationships, whereby the Foundation capitalized the future cash flows attributable to the customers based upon their expected future mortality dispersion function. The value of the customer relationships is amortized, to reflect the pattern of economic benefits consumed, on a straight-line basis over its useful life of 15 years.

As of December 31, 2021, and 2020, net intangible assets amounted to $20,835,113 and $23,341,161, respectively.

**Debt Issuance Costs**
Debt issuance costs are deferred and amortized to interest expense using a method that approximates the effective-level-interest method over the term of the related debt. The debt issuance costs are related to the notes and loan agreements with Wells Fargo as further described in Note 13.

**Claims Payable**
Claims payable includes the liability for claims and medical services incurred but not paid and the estimated liability for claims incurred but not reported as of year end. The liability for claims incurred but not reported is determined based on historical evaluations and statistical analysis of paid claims. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimate is continually reviewed and adjusted, as necessary, based on claims experience or as new information becomes known; such adjustments are included in current operations.

**Pharmacy Revenue**
The Foundation has agreements with third-party payers that provide payments to the Foundation at amounts different from its established rates. Payment arrangements include contracted calculations based upon Average Wholesale Price or Acquisition Cost. Pharmacy revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for pharmacy drugs dispensed. The allowance for doubtful accounts from pharmacy revenue receivables amounted to $9,347,911 and $8,927,470 at December 31, 2021 and 2020, respectively.

The Foundation recognizes revenue when control of the prescription drugs is transferred to customers, in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those prescription drugs. The following revenue recognition policies have been established:

1. Revenues generated from prescription drugs sold in the pharmacies and associated administrative fees are recognized at the Foundation's point-of-sale, which is when the claim is adjudicated by the Foundation's online claims processing system and the Foundation has transferred control of the prescription drug to the customer and performed all of its performance obligations.

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

**Pharmacy Revenue (Continued)**

2. Revenues generated from prescription drugs sold by mail service are recognized when the prescription drug is delivered to the customer. At the time of delivery, the Foundation has performed substantially all of its performance obligations under its client contracts and does not experience a significant level of returns or reshipments.

**Net Patient Service Revenue**

The Foundation has agreements with third-party payers that provide for payments to the Foundation at amounts different from its established rates. Payment arrangements include individually contracted rates determined between the Foundation and the third-party payers as well as charges determined by publicly funded payers including Medi-Cal, Medicaid and Medicare. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments that are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Patient service revenues are recognized as performance obligations are satisfied. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided. Inpatient rounding services are performance obligations satisfied over time and revenue is recognized based on actual charges incurred in relation to total expected or actual charges. The performance obligations for these contracts are generally completed when the patients are discharged. The Foundation uses the portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for outpatient and inpatient rounding revenue. Based on historical trends, the Foundation believes that the revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach had been used.

**Premiums**

The Foundation has agreements with publicly funded payers including Medi-Cal and Medicare to provide medical services to subscribing participants. Under these agreements, the Foundation receives monthly capitation payments based on the number of each payer’s participants, regardless of services actually performed by the Foundation.

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

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

**Premiums (Continued)**
For the Medi-Cal Plan, the Medi-Cal agency for California determines the amount based on the county in which the member resides and other factors. Member census is subject to audit and retroactive adjustment and such adjustments when determinable are included in current operations. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

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

**Grant Revenue**
A portion of the Foundation's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in accordance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated balance sheets. For the years ended December 31, 2021 and 2020, the Foundation received no cost-reimbursable grant awards that were not recognized as revenue. For other types of grants, revenue is recognized when the service has been performed.

No advance payments were received that were required to be recorded in the consolidated balance sheets as a refundable advance as of December 31, 2021 and 2020.

**Contributions**
Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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

### Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among program services, fundraising and administration.

Such allocations are determined by management on an equitable basis. The expenses are primarily allocated using the time and effort method (salaries, benefits, and other expenses), usage (supplies), and full time equivalents (rent and other facilities related expenses).

### Federal and State Income Taxes

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

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the years ended December 31, 2021 and 2020, 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 2017 through 2021 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.

### Deferred Rent

For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Foundation recognizes rent expense on a straight-line basis over the non-cancelable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Foundation takes possession or controls the physical use of the property. As of December 31, 2021 and 2020, deferred rent (non-current) of $2,495,115 and $2,731,708, respectively, are recorded on the consolidated balance sheets.

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

**Transactions in Foreign Currencies**
The Foundation operates in 45 countries and accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars at the appropriate exchange rates when each transaction is executed. The net loss from foreign currency transactions amounted to $993,230 and $1,645,046 for the years ended December 31, 2021 and 2020, respectively, and is included in other expenses in the accompanying consolidated statements of operations and changes in net assets. The U.S. dollar is considered to be the functional and reporting currency of the Foundation.

**Interest Rate Swap**
The Foundation entered into interest rate swap agreements as a hedge against the variability in future interest payments due on certain long-term debts. The terms of the swap agreements effectively convert the variable rate interest payments due on the term notes to fixed rates through maturity (see Note 14). In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 815 (ASC 815), *Accounting for Derivative Instruments and Hedging Activities*, the interest rate swap is measured at fair value and recognized as either an asset or a liability in the consolidated balance sheets. The change in fair value of the swap is recognized as a gain or loss in the period of change.

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

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

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

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

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

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

**New Accounting Pronouncements**
In February 2016, the FASB issued ASU No. 2016-02*, Leases (Topic 842)*, that requires lessees to recognize a right-of-use asset representing the right to use, or control, a specified asset over the lease term and a lease liability representing the obligation to make lease payments, measured on a discounted basis, over the lease term for substantially all leases. Lessees may make an accounting policy election for short-term leases under which these right-of-use assets and liabilities are not recognized. Lessor accounting remains largely unchanged from that applied under current U.S. GAAP. The new lease accounting standard also requires additional quantitative and qualitative information about its leasing arrangements and the amount, timing and uncertainty of cash flows arising from leases.

The new lease standard is effective for the Foundation on January 1, 2022. The Foundation will use the optional transition method to the modified retrospective approach in which Topic 842 will not be applied to comparative periods presented and incremental disclosures are not required for periods before the Foundation's adoption of Topic 842. The Foundation is currently identifying and evaluating its lease population, including leases embedded within service arrangements, and assessing business processes and controls to support the ongoing recognition and disclosure requirements after adoption. The Foundation is also implementing a new software to manage the lease portfolio and perform the accounting required under the new lease standard. The Foundation expects that the adoption of Topic 842 will have a material impact on its consolidated balance sheet, but does not expect the adoption of Topic 842 to have a significant impact on its consolidated statement of operations and changes in net assets and cash flows.

In September 2020, FASB issued ASU 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* This ASU addresses presentation and disclosure requirements for not-for-profit entities for contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. The Foundation has not yet adopted this ASU and does not expect a significant impact on the Foundation's consolidated financial statements upon adoption in subsequent years.

## NOTE 2 NET PATIENT SERVICE REVENUE

The Foundation has agreements with third party payers that provide for payments to the Foundation at amounts that vary from its established rates. The difference between patient charges and the related contractual payment amount for the years ended December 31 are as follows:

| | **2021** | 2020 |
|---|---|---|
| Gross patient service revenue | **$ 56,835,289** | $ 44,633,674 |
| Contractual discounts and provision for bad debts | **(46,133,258)** | (35,726,849) |
| Net patient service revenue | **$ 10,702,031** | $ 8,906,825 |

## NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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

**Medi-Cal and Medicaid**
The Medi-Cal and Medicaid programs accounted for approximately 12% and 25% of consolidated net patient service revenue in 2021 and 2020, 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 17% and 14% of consolidated net patient service revenue in 2021 and 2020, respectively. Healthcare services rendered to Medicare program beneficiaries are paid at prospectively determined rates for outpatient care. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

**Other Third-party Payers**
The Foundation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These payers accounted for approximately 71% and 61% of consolidated net patient service revenue in 2021 and 2020, respectively. The basis for payment to the Foundation under these agreements includes, among others, discounts from established charges, and prospectively determined daily rates.

## NOTE 3 PREMIUMS

**Positive Healthcare (PHC)**
In April 1995, the Foundation contracted with the California Department of Health Care Services (DHCS) to provide capitated HIV healthcare to Medi-Cal beneficiaries. The capitated plan is known as Positive Healthcare (the Plan). 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. The premium rates are determined annually by DHCS.

## NOTE 3 PREMIUMS (CONTINUED)

**Positive Healthcare (Continued)**
The contract with DHCS as a Primary Care Case Management (PCCM) entity ended on June 30, 2019.

In July 2019, the Foundation entered a new contract with DHCS to provide capitated HIV healthcare to Medi-Cal beneficiaries. The contract is similar to the terminated contract with additional services, which includes hospital inpatient and additional prescription coverage.

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

**Positive Healthcare - Florida Medicaid HMO**
In May 2010, AHF MCO of Florida, Inc. (AHF MCO) contracted with State of Florida Agency for Health Care Administration (FL AHCA) to provide Medicaid managed care services as Positive Healthcare to Medicaid beneficiaries living with a diagnosis of HIV/AIDS in Broward County. In September 2012, AHF MCO contracted with FL AHCA to provide similar services in Dade County. In January 2014, FL AHCA and AHF MCO entered into a new contract to provide similar HMO services to Medicaid beneficiaries beginning on July 1, 2014. Positive Healthcare began serving Medicaid beneficiaries in Broward, Dade, and Monroe counties. Positive Healthcare has a comprehensive network of contracted providers and offers the full range of Medicaid benefits, including contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals and hospitalization. FL AHCA compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's diagnosis.

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

As of February 2019, the Florida Medicaid HMO was discontinued. The Foundation will continue to pay claims on a run-off basis. The Foundation does not expect the discontinuance to have a material financial impact.

## NOTE 3 PREMIUMS (CONTINUED)

**Positive Healthcare Partners**
**California Medicare HMO, Florida Medicare HMO and Georgia Medicare HMO**
In January 2006, the Foundation contracted with the Centers for Medicare and Medicaid Services (CMS) to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Los Angeles County. The Foundation established a California HMO to provide these services known as Positive Healthcare Partners. In January 2008, the Foundation contracted with CMS to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Broward, Dade and Duval counties. The Foundation established a Florida HMO to provide these services known as Positive Healthcare Partners. In April 2017, the Foundation received an HMO Certificate of Authority from the State of Georgia Office of Commissioner of Insurance. In August 2017, the Foundation contracted with CMS to provide a Medicare Advantage Part D Special Needs Plan to Medicare beneficiaries living with a diagnosis of HIV/AIDS in Fulton County. The Plan began operations on January 1, 2018. As of December 31, 2021, the Georgia Medicare HMO was discontinued. The Foundation continues to pay claims on a run-off basis.

These HMOs have a comprehensive network of contracted providers and offer the full range of traditional Medicare Parts A, B, and D benefits, including the following contracted services: primary medical care, specialty consultation, outpatient services, pharmaceuticals, hospice, hospitalization, rehabilitation services, behavioral health and skilled nursing facility care to voluntary members of the plan. CMS compensates the Foundation on a per member per month (PMPM) capitated basis, based on each member's risk scoring as outlined in Medicare Advantage Risk Adjustment Policies.

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

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

The net premiums earned under the above programs for the years ended December 31 are as follows:

| | **2021** | 2020 |
|---|---|---|
| Positive Healthcare Partners - Medicare (Florida) | **$ 98,735,048** | $ 98,342,978 |
| Positive Healthcare Partners - Medicare (California) | **44,428,640** | 44,492,481 |
| Positive Healthcare - Medicaid (California/Florida) | **19,972,927** | 16,881,873 |
| Positive Healthcare Partners - Medicare (Georgia) | **1,214,499** | 1,263,327 |
| **Net premiums earned** | **$ 164,351,114** | $ 160,980,659 |

## 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 12% of consolidated grant revenue in both 2021 and 2020. For outpatient services, 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. The Foundation's County cost reports have been reviewed and settled with the County through February 2021.

**Other Counties**

Other significant grant revenue sources were generated from affiliates, ACQC, AID Atlanta and IRIS House. For the years ended December 31, 2021 and 2020, ACQC grant revenue accounted for 18% and 20%, respectively while AID Atlanta accounted for 7% and 9%, respectively and IRIS House accounted for 10% in both years, of consolidated grant revenues.

## NOTE 5 AVAILABILITY AND LIQUIDITY

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

| **Financial assets:** | **2021** | 2020 |
|---|---|---|
| Cash and cash equivalents | **$ 207,605,900** | $ 213,198,662 |
| Pharmacy revenue receivable, net | **94,526,769** | 77,874,895 |
| Premium revenue receivable | **21,148,694** | 19,706,583 |
| Grant revenue receivable, net | **16,291,433** | 20,899,549 |
| Accounts receivable - other, net | **41,519,470** | 10,327,741 |
| Investments | **145,884,708** | 61,553,789 |
| Restricted cash included in assets limited as to use | **3,846,314** | 3,846,266 |
| **Total financial assets** | **530,823,288** | 407,407,485 |
| Less amounts not available to be used within one year: | | |
| Long-term investments | **(139,447,839)** | (52,605,059) |
| Restricted cash included in assets limited as to use | **(3,846,314)** | (3,846,266) |
| Net assets with donor restrictions | **338,094** | 110,090 |
| Less net assets with donor restrictions to be met in less than a year | **(338,094)** | (110,090) |
| **Financial assets available to meet general expenditures over the next twelve months** | **$ 387,529,135** | $ 350,956,160 |

As part of the Foundation's liquidity plan, the Foundation invests excess cash in short and long-term investments, including money market accounts, fixed income and equity securities. The Foundation had a $30 million line of credit which was cancelled as of December 31, 2021 (see Note 12).

## NOTE 6 INVENTORIES

At December 31, inventories consist of:

| | **2021** | 2020 |
|---|---|---|
| Pharmacy drugs | **$ 65,268,403** | $ 82,500,851 |
| Thrift store inventory | **1,910,055** | 1,191,439 |
| Condoms | **1,147,496** | 1,359,410 |
| Test kits inventory | **628,858** | 794,665 |
| **Total inventories** | **$ 68,954,812** | $ 85,846,365 |

## NOTE 7 ASSETS LIMITED AS TO USE

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

| | **2021** | 2020 |
|---|---|---|
| **Restricted deposits:** | | |
| Cash deposit held by the State of Georgia for Georgia Medicare HMO contract | **$ 1,000,000** | $ 1,000,000 |
| Money market account restricted for Florida PHC | **2,187,753** | 2,187,753 |
| Cash deposits held by the State of Florida for Florida Medicare HMO contract | **300,000** | 300,000 |
| Money market mutual funds restricted for California Medicare HMO contract | **358,561** | 358,513 |
| **Total assets limited as to use** | **$ 3,846,314** | $ 3,846,266 |

## NOTE 8 INVESTMENTS

At December 31, investments consist of:

| | **2021** | 2020 |
|---|---|---|
| Public equity | **$ 98,908,758** | $ 14,097,690 |
| Fixed income | **36,116,632** | 38,621,227 |
| Venture capital | **5,562,285** | 3,425,589 |
| Hedge funds | **3,024,694** | 2,649,885 |
| Private equity | **2,272,339** | 2,759,398 |
| | **145,884,708** | 61,553,789 |
| Less short-term portion | **(6,436,869)** | (8,948,730) |
| **Long-term investments** | **$ 139,447,839** | $ 52,605,059 |

## NOTE 8 INVESTMENTS (CONTINUED)

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

| | Fair Value Measurements at December 31, 2021 Using | | | |
|---|---|---|---|---|
| | **Quoted Prices In Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| **Public equity** | **$ 97,850,004** | **$ 1,058,754** | **$ -** | **$ 98,908,758** |
| **Fixed income** | **27,646,478** | **8,470,154** | **-** | **36,116,632** |
| **Venture capital** | **-** | **-** | **5,562,285** | **5,562,285** |
| **Hedge funds** | **-** | **3,024,694** | **-** | **3,024,694** |
| **Private equity** | **-** | **14,511** | **2,257,828** | **2,272,339** |
| **Total** | **$ 125,496,482** | **$ 12,568,113** | **$ 7,820,113** | **$ 145,884,708** |

The following table sets forth by level within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2020:

| | Fair Value Measurements at December 31, 2020 Using | | | |
|---|---|---|---|---|
| | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Public equity | $ 13,124,022 | $ 973,668 | $ - | $ 14,097,690 |
| Fixed income | 22,722,483 | 15,898,744 | - | 38,621,227 |
| Venture capital | - | - | 3,425,589 | 3,425,589 |
| Hedge funds | - | 2,649,885 | - | 2,649,885 |
| Private equity | - | 135,602 | 2,623,796 | 2,759,398 |
| Total | $ 35,846,505 | $ 19,657,899 | $ 6,049,385 | $ 61,553,789 |

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 8 INVESTMENTS (CONTINUED)

A reconciliation of investments in which significant unobservable inputs (Level 3) for the years ended December 31, 2021 and 2020 were used in determining fair value is as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Level 3 investments, beginning of year | $ | **6,049,385** | $ | 8,113,076 |
| Increase in unrealized appreciation on investments | | **966,439** | | 156,130 |
| Purchases | | **1,314,810** | | 1,320,081 |
| Dispositions | | **(510,521)** | | (3,539,902) |
| **Level 3 investments, end of year** | $ | **7,820,113** | $ | 6,049,385 |

## NOTE 9 PROPERTY AND EQUIPMENT

At December 31, property and equipment is comprised of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Land | $ | **129,473,443** | $ | 102,668,878 |
| Buildings | | **172,266,054** | | 119,268,655 |
| Leasehold improvements | | **29,307,864** | | 31,965,274 |
| General equipment | | **28,518,820** | | 26,830,118 |
| Computer equipment | | **29,832,376** | | 28,627,771 |
| Computer software | | **28,024,434** | | 26,703,568 |
| Vehicles | | **12,399,859** | | 11,387,847 |
| Furniture and fixtures | | **12,476,088** | | 11,385,660 |
| Low value assets | | **2,809,939** | | 2,318,476 |
| Assets under construction | | **34,190,136** | | 17,075,911 |
| Total | | **479,299,013** | | 378,232,158 |
| Accumulated depreciation and amortization | | **(122,248,220)** | | (107,375,361) |
| **Property and equipment, net** | $ | **357,050,793** | $ | 270,856,797 |

Provision for depreciation and amortization of property and equipment amounted to $16,967,417 and $16,062,658 in 2021 and 2020, respectively.

## NOTE 10 PROPERTY HELD FOR SALE

The Foundation classified two of its properties as held for sale as management believes that the assets' carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The Foundation reports its assets classified as held for sale at the lower of their carrying amount or fair value less cost incurred to sell.

## NOTE 10 PROPERTY HELD FOR SALE (CONTINUED)

The Foundation does not depreciate or amortize these assets while they are classified as held for sale. As of December 31, 2021 and 2020, property held for sale totals $14,340,889.

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

## NOTE 11 CLAIMS PAYABLE

Claims payable is reviewed periodically, with any necessary adjustments reflected during the current period in the results of operations. While the ultimate amount of claims payable and related expenses are dependent on future developments, it is management's opinion that the liability that has been established is adequate to cover such costs.

The summary of changes in claims payable for the years ended December 31, 2021 and 2020 is as follows:

| | **2021** | 2020 |
|---|---|---|
| Claims payable at beginning of year | **$ 14,602,076** | $ 20,137,392 |
| Incurred hospital and medical services claims: | | |
| Current year | **184,289,308** | 174,396,580 |
| Prior years | **(7,783,664)** | (7,676,525) |
| Total incurred | **176,505,644** | 166,720,055 |
| Paid hospital and medical services claims: | | |
| Current year | **(170,087,800)** | (161,645,312) |
| Prior years | **(7,074,621)** | (10,610,059) |
| Total paid | **(177,162,421)** | (172,255,371) |
| **Claims payable at end of year** | **$ 13,945,299** | $ 14,602,076 |

As of December 31, 2021 and 2020, the liability for unpaid claims and claims adjustment expenses was $13,945,299 and $14,602,076, respectively. The estimated ultimate claims and claims adjustment expenses incurred decreased by approximately $7.8 million related to prior years. This favorable development is generally the result of ongoing analysis of recent claim payments and claim development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

## NOTE 12 LINE OF CREDIT

The Foundation had a line of credit agreement with a bank, renewed on December 1, 2019, that provided for secured borrowings up to $30 million, at a rate per annum equal to the prime rate or LIBOR rate plus 1.875%. The agreement expired and the line of credit was simultaneously canceled effective December 31, 2021. There was no outstanding balance on the line of credit as of December 31, 2021 and 2020. Under the agreement, the Foundation was subject to certain financial covenants relating to net assets, net income, and a specified debt ratio. The Foundation maintains nominal standby letters of credit related to certain of its lease contracts.

## NOTE 13 LONG-TERM DEBT

At December 31, long-term debt consists of:

| | **2021** | 2020 |
|---|---|---|
| Wells Fargo and City National Syndicated Series 2019 A-F Loans totaling $63,600,000 bearing variable interest rates per annum compounded monthly on the outstanding balance. Principal is payable on the 1st of each month commencing in February 2020, with the final installment consisting of all remaining unpaid principal due and payable in full on January 1, 2040. | **$ 58,996,000** | $ 61,444,000 |
| 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 was payable on the 1st of each month commencing April 2015. In March 2021, the Foundation paid the remaining outstanding principal balance of $13.0 million, exercising its option in accordance with the terms of the agreement not to extend the debt to 2034. | **-** | 13,189,618 |
| | **58,996,000** | 74,633,618 |
| Current portion | **(2,520,000)** | (15,637,618) |
| Noncurrent portion | **56,476,000** | 58,996,000 |
| Less: debt issuance costs | **(868,263)** | (997,497) |
| **Long-term debt** | **$ 55,607,737** | $ 57,998,503 |

## NOTE 13 LONG-TERM DEBT (CONTINUED)

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

| Year ending December 31 | | Amount |
|---|---|---|
| 2022 | $ | 2,520,000 |
| 2023 | | 2,384,000 |
| 2024 | | 2,640,000 |
| 2025 | | 2,712,000 |
| 2026 | | 2,808,000 |
| Thereafter | | 45,932,000 |
| Total | $ | 58,996,000 |

Interest on long-term debt charged as expense amounted to $1,039,320 and $1,516,624 for the years ended December 31, 2021 and 2020, respectively.

Wells Fargo and City National Syndicated Series 2019 A-F Loans
On December 30, 2019, the Foundation entered into syndicated loan agreements with Wells Fargo and City National for the issuance of Series A-F loans totaling $63.6 million, of which $21.4 million represented refinancing of its outstanding Series 2018 A and Series B bonds and $42.2 million in new debt. Under the terms of the agreement, the Foundation has the option to utilize up to $36.4 million in additional funding. The Foundation intends to use the loan proceeds for the financing and refinancing of the acquisition, construction, improvement and operation of its low-income housing projects and other property purchases used for its operating activities.

Wells Fargo Public Finance Authority (PFA) Bond
From 2014 to 2017, the Foundation entered into agreements with Wells Fargo and the Public Finance Authority (PFA). The Foundation used the proceeds to refinance a portion of its existing debt and to pay certain costs incurred in connection with the issuance of the Bonds. In 2017, the amended and restated agreements provide for, among other terms, the increase in allowed value of permitted acquisitions.

In March 2021, the Foundation paid the remaining outstanding principal balance of $13.0 million on the PFA Bonds, exercising its option in accordance with the terms of the agreement not to extend the debt. No prepayment penalties were incurred as a result of the extinguishment of the debt.

## NOTE 14 INTEREST RATE SWAP AGREEMENTS

The Foundation executed interest rate swap agreements with Wells Fargo Bank to manage debt service costs on its variable rate long-term debt by achieving a synthetic fixed rate payment in the swap counterparty and receiving a variable rate payment from the swap counterparty that effectively offsets the payment on the underlying variable rate debt.

## NOTE 14 INTEREST RATE SWAP AGREEMENTS (CONTINUED)

The details of the swap agreements for the year ended December 31, 2021 are as follows:

| | Amended Series 2018A Loan | Series 2019A&B Loan |
|---|---|---|
| Outstanding notional amount | $ 19,435,000 | $ 38,403,000 |
| Fixed interest rate | 2.132% | 1.84% |
| Floating rate option | 80.375% of USD-Libor-BBA | 80.375% of USD-Libor-BBA |
| Floating rate day count fraction | Actual/360 | Actual/360 |
| Trade date | 12/20/2018 | 1/8/2020 |
| Effective date | 12/20/2018 | 1/1/2020 |
| Termination date | 12/1/2028 | 1/1/2040 |

At December 31, 2021 and 2020, the fair value of the swap liability amounted to $2,312,990 and $5,183,677, respectively. The fair values were the quoted market prices at December 31 of each year. The decrease in the swap liability and corresponding $2,870,687 unrealized gains resulted from the relatively higher LIBOR interest rate on December 31, 2021. The swap counterparty was rated A+ by Standard & Poor's as of December 31 of each year.

On January 8, 2020, the Foundation executed a swap agreement having a notional amount of $41.8 million, with a maturity in January 2040. This agreement was entered into to effectively fix the interest rate on its Series 2019 A-F loans (See Note 13).

## NOTE 15 NET ASSETS WITH DONOR RESTRICTIONS

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

| | **2021** | 2020 |
|---|---|---|
| Housing | **$ 263,094** | $ 516 |
| Program support | **45,000** | 109,574 |
| Other | **30,000** | - |
| **Total** | **$ 338,094** | $ 110,090 |

## NOTE 16 BUSINESS AND ASSET ACQUISITIONS

In November 2020, the Foundation acquired certain assets of Hillcrest Pharmacy, a three-location, HIV-focused specialty pharmacy servicing San Diego communities, for $12.0 million. This acquisition serves to strengthen the Foundation's footprint and ability to deliver HIV care and services to the multicultural populations in the Southern California region. Intangibles totaling $11.9 million was recognized as a result of this acquisition.

In November 2021, the Foundation entered into an Affiliation Agreement with Thursday's Child, Inc, a New York 501(c)(3) organization. The organization's mission is to develop, coordinate and provide services to people living and affected by HIV and AIDS.

In March 2022, the Foundation entered into an Affiliation Agreement with Broward House, Inc., a Florida 501(c)(3) organization. The organization's mission is to develop, coordinate, and provide services for people living with and affected by HIV/AIDS, serving approximately 900 patients/clients in Broward County, Florida.

## NOTE 17 EMPLOYEE RETIREMENT PLAN

The Foundation sponsors a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code: AHF Savings and Investment Plan (the Plan). All classes of employees, except for per diem and temporary employees, are eligible to participate in the Plan. An employee is eligible for participation in the months following 30 days from the date of employment. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan is administered by the employer and all contributions are held in accounts maintained by the Plan custodian.

Each year, participants may contribute pre-tax annual compensation as defined in the Plan, subject to certain limitations, with the contributions and earnings thereon being nontaxable until withdrawn from the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans.

The Foundation may contribute up to $6,000 annually per participant depending on the number of years of service. The Foundation's matching contribution expense for the years ended December 31, 2021 and 2020 amounted to $6,860,530 and $5,660,757, respectively.

## NOTE 18 CONCENTRATIONS OF CREDIT RISK

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

| | **2021** | 2020 |
|---|---|---|
| Private Insurance | **47.34%** | 50.44% |
| Other Grants | **33.26%** | 23.07% |
| Centers for Medicare and Medicaid Services | **8.58%** | 11.70% |
| Medi-Cal/Medicaid | **3.81%** | 4.87% |
| Department of Health and Human Services | **3.55%** | 3.53% |
| AIDS Drug Assistance Program | **3.08%** | 5.94% |
| Medicare (Fee for Service) | **0.33%** | 0.38% |
| Agency for Health Care Administration | **0.05%** | 0.07% |
| **Total** | **100.00%** | 100.00% |

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

## NOTE 19 COMMITMENTS AND CONTINGENCIES

**Operating Leases**

The Foundation leases certain equipment and facilities under non-cancelable operating lease agreements expiring at various dates through December 2031. Total rental expense for all operating leases was $19,330,921 and $18,169,573 in 2021 and 2020, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2021 that have initial or remaining lease terms in excess of one year:

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

## NOTE 19 COMMITMENTS AND CONTINGENCIES (CONTINUED)

**Insurance Coverages**

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

**Litigation**

The Foundation is involved in litigation arising from the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material 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, government agency, or private party will not contend that certain aspects of the Foundation's operations or procedures are subject to, or are not in compliance with such laws, regulations, or rules or that the state or federal regulatory agencies or courts would interpret such laws, regulations, and rules in the Foundation's favor. The sanctions for failure to comply with such laws, regulations, or rules could include exclusion from the Medicare and Medicaid programs, significant fines, and criminal penalties.

The Foundation participates in a number of federally funded grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

## NOTE 20 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 years ended December 31, 2021 and 2020 amounted to $81,963,304 and $74,809,411, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2021 and 2020 amounted to $641,499 and $712,901, respectively.

## NOTE 21 IMPACT OF CORONAVIRUS ON THE FOUNDATION'S OPERATIONS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States.

It is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. However, the Foundation's management believes that the financial impact, if any, will not materially affect its results of operations.

## NOTE 22 SUBSEQUENT EVENTS

The Foundation has evaluated events subsequent to December 31, 2021 to assess the need for the potential recognition or disclosure in the financial statements. Such events were evaluated through April 27, 2022, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements except as discussed in Notes 10 and 16.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AIDS Healthcare Foundation (the Foundation), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2022.

## Internal Control Over Financial Reporting

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

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

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

**Report on Compliance and Other Matters**

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

**Purpose of this Report**

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

Vasquez & Company LLP

**Glendale, California**
**April 27, 2022**

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