Audited Consolidated Financial Statements
and Supplementary Information
AIDS Healthcare Foundation
Years ended December 31, 2011 and 2010
with Report of Independent Auditors

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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Report of Independent Auditors

Board of Directors
AIDS Healthcare Foundation

We have audited the accompanying consolidated balance sheets of AIDS Healthcare Foundation (Foundation) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2012 on our consideration of AIDS Healthcare Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audits.

Our audits were 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.

Vasquez + Company LLP

Los Angeles, California
April 26, 2012

	December 31	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 34,912,212**	$ 18,608,676
Assets limited as to use	**114,440**	115,206
Accounts receivable, net of allowance for doubtful accounts of $5,275,796 and $2,836,800 at December 31, 2011 and 2010, respectively	**22,240,852**	13,490,620
Premium revenue receivable, net of allowance for doubtful accounts of $976,569 at December 31, 2011 and 2010	**2,517,395**	3,223,959
Contributions receivable, due within one year	**263,913**	184,650
Inventories	**11,773,320**	7,726,617
Investments	**12,096,125**	-
Prepaid expenses and other current assets	**3,320,046**	16,563,421
Total current assets	**87,238,303**	59,913,149
Assets limited as to use, net of current portion	**1,667,558**	1,384,462
Contributions receivable, net of current portion	**13,719**	178,350
Long-term premium revenue receivable, net of allowance for doubtful accounts of $3,434,252 and $2,895,643 at December 31, 2011 and 2010, respectively	**1,897,948**	1,436,557
Property and equipment, net	**29,603,564**	21,136,274
Debt issuance costs, net of accumulated amortization of $417,398 and $380,271 at December 31, 2011 and 2010, respectively	**349,129**	386,256
Investments	**13,001,688**	4,176,463
Deposits and other assets	**1,501,774**	504,904
Total assets	**$ 135,273,683**	$ 89,116,415
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	**$ 20,713,726**	$ 17,273,291
Accrued expenses	**8,969,939**	5,701,015
Accrued interest payable	**30,220**	33,486
Claims payable	**5,222,060**	4,623,359
Current portion of long-term debt	**509,167**	517,068
Total current liabilities	**35,445,112**	28,148,219
Long-term debt, net of current portion	**4,135,833**	5,792,443
Total liabilities	**39,580,945**	33,940,662
Net assets		
Unrestricted	**94,878,846**	54,293,781
Temporarily restricted	**813,892**	881,972
Total net assets	**95,692,738**	55,175,753
Total liabilities and net assets	**$ 135,273,683**	$ 89,116,415

See notes to consolidated financial statements.

	Years ended December 31 2011	2010
Unrestricted revenues, gains, and other support		
Pharmacy revenue	$ **208,451,049**	$ 157,283,776
Premium revenue	**85,535,634**	71,857,209
Grant revenue	**16,571,274**	15,104,366
Net patient service revenue	**2,393,207**	1,916,096
Contributions		
Cash	**905,766**	962,211
In-kind, thrift store	**11,277,085**	10,137,757
In-kind, other	**493,275**	771,592
Other	**438,286**	277,203
Total unrestricted revenues, gains, and other support before net assets released from restrictions for operations	**326,065,576**	258,310,210
Net assets released from restrictions for operations	**2,698,418**	2,339,236
Total unrestricted revenues, gains and other support	**328,763,994**	260,649,446
Expenses		
Salaries and benefits	**61,307,743**	52,193,673
Medical services, supplies and drugs	**181,233,262**	151,494,581
Cost of sales, thrift stores	**90,563**	54,168
Rent	**6,289,217**	5,835,150
Depreciation and amortization	**2,209,516**	1,802,742
Interest expense	**318,268**	357,818
Provision for bad debts	**2,339,318**	1,819,096
Insurance	**1,306,400**	1,116,389
Professional services	**7,800,195**	5,981,635
Charitable contributions	**1,131,304**	561,629
Other expenses	**24,153,143**	18,984,245
Total expenses	**288,178,929**	240,201,126
Change in unrestricted net assets	**40,585,065**	20,448,320
Temporarily restricted net assets		
Contributions	**2,630,338**	2,173,432
Net assets released from restrictions for operations	**(2,698,418)**	(2,339,236)
Change in temporarily restricted net assets	**(68,080)**	(165,804)
Change in net assets	**40,516,985**	20,282,516
Net assets, beginning of year	**55,175,753**	34,893,237
Net assets, end of year	$ **95,692,738**	$ 55,175,753

See notes to consolidated financial statements.

	Years ended December 31	
	2011	2010
Cash flows from operating activities		
Change in net assets	**$ 40,516,985**	$ 20,282,516
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of property and equipment	**2,172,389**	1,765,615
Amortization of debt issuance costs	**37,127**	37,127
Provision for bad debts	**2,339,318**	1,819,096
Contributed pharmacy inventory	**(494,228)**	(772,493)
Changes in operating assets and liabilities:		
Accounts receivable	**(11,089,550)**	2,890,378
Premium revenue receivable	**245,173**	(567,690)
Inventories	**(3,552,475)**	1,999,622
Prepaid expenses, deposits, and other assets	**12,246,505**	(9,634,674)
Contributions receivable	**85,368**	155,489
Accounts payable	**3,440,435**	4,843,506
Accrued expenses and claims payable	**3,867,625**	227,537
Accrued interest payable	**(3,266)**	(1,092)
Net cash provided by operating activities	**49,811,406**	23,044,937
Cash flows from investing activities		
Additions to property and equipment	**(10,639,679)**	(5,793,514)
Assets limited as to use	**(282,330)**	(50,790)
Investments	**(20,921,350)**	1,063,381
Net cash used in investing activities	**(31,843,359)**	(4,780,923)
Cash flows from financing activities		
Principal payments on line of credit	**-**	(2,499,707)
Principal payments on long-term debt	**(1,664,511)**	(497,366)
Net cash used in financing activities	**(1,664,511)**	(2,997,073)
Net change in cash and cash equivalents	**16,303,536**	15,266,941
Cash and cash equivalents, beginning of year	**18,608,676**	3,341,735
Cash and cash equivalents, end of year	**$ 34,912,212**	$ 18,608,676
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	**$ 321,534**	$ 358,910

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 19 outpatient healthcare centers and 19 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 27 healthcare centers in Africa, 24 healthcare centers in Asia and 5 healthcare centers in Latin/Central America. In addition, the Foundation operates 22 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 and other deposits restricted by the States of California and Florida in connection with the Foundation’s Medicare and Medicaid HMO contracts.

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

Assets Limited as to Use (continued)

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, 2011 and 2010.

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 that would impair the carrying amount of its long-lived assets during the years ended December 31, 2011 and 2010.

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.

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 estimated 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.

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.

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, 2011 and 2010, 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)

Charity Care (continued)

In August 2010, the FASB issued guidance that requires healthcare entities to use cost as the measurement basis for charity care disclosures and defines costs as the direct and indirect costs of providing charity care. The amended disclosure requirements are effective for fiscal years beginning after December 15, 2010 and must be applied retroactively. The Foundation adopted the amended disclosure requirements on January 1, 2010.

Note 17 – Charity Care reflects the amended disclosure requirements, and the costs of caring for charity care patients in prior periods disclosed in Note 17 have been restated. Since the new guidance amends disclosure requirements only, its adoption did not impact the Foundation's consolidated financial statements.

Fair Value Measurements

Generally accepted accounting principles, which defines 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.

The Foundation's financial assets and liabilities include primarily cash and cash equivalents, investments, receivables, accounts payable and accrued liabilities. Because of the short-term nature of the cash, receivables, accounts payable and accrued liabilities, the carrying amounts of these assets and liabilities approximate their fair value.

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:

		2011		2010
Gross patient revenue	**$**	**9,267,010**	$	4,374,174
Contractual discounts		**(6,873,803)**		(2,458,078)
Net patient service revenue	**$**	**2,393,207**	$	1,916,096

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

Medi-Cal and Medicaid
The Medi-Cal and Medicaid programs accounted for approximately 22% and 14% of consolidated net patient service revenue in 2011 and 2010, 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% and 20% of consolidated net patient service revenue in 2011 and 2010, 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 54% and 66% of consolidated net patient service revenue in 2011 and 2010, 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
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 the 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, 2011 and 2010, there were no saving sharing settlements that occurred.

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

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

NOTE 3 PREMIUM REVENUE (Continued)

Florida Medicare HMO
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. This HMO is 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 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. This HMO is 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.

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

NOTE 3 PREMIUM REVENUE (Continued)

Florida 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 on an administrative fee. The administrative fee paid to the Foundation was increased. 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, 2011 and 2010 as follows:

	2011	2010
Positive Healthcare Partners - Medicare (California)	**$ 39,584,708**	$ 37,474,755
Positive Healthcare Partners - Medicare (Florida)	**22,865,677**	17,182,157
Positive Healthcare - Medi-Cal (California)	**11,593,925**	9,584,028
Florida Disease Management Program	**6,915,696**	6,446,769
Positive Healthcare - Medicaid (Florida)	**4,575,628**	1,163,442
California Disease Management Program	**-**	6,058
	$ 85,535,634	$ 71,857,209

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 60% and 65% of consolidated grant revenues in 2011 and 2010, 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 2011.

NOTE 5 CONTRIBUTIONS RECEIVABLE

Contributions receivable totaling $263,913 and $184,650 at December 31, 2011 and 2010, respectively, are expected to be received within one year.

Included in noncurrent contributions receivable at December 31, 2011 and 2010 are $13,719 and $178,350, respectively, of contributions of the use of a facility for inpatient services that expires in 2013. Such amounts are included as a component of temporarily restricted net assets and are reclassified to unrestricted net assets annually as net assets released from restrictions in amounts approximating $164,631, reflecting the fair value of the annual use of the facility. The remaining contributions receivable are expected to be received within the next year.

NOTE 6 INVENTORIES

At December 31, inventories consist of:

	2011	2010
Pharmacy drugs	**$ 9,595,914**	$ 5,582,357
Thrift store inventory	**1,332,965**	1,242,585
Test kits inventory	**641,386**	737,033
Condoms	**203,055**	164,642
	$ 11,773,320	$ 7,726,617

NOTE 7 ASSETS LIMITED AS TO USE

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

	2011	2010
Held by trustee under bond repayment agreement:		
Money market funds	**$ 809,683**	$ 810,455
Amount to be used to satisfy current liabilities	**(114,440)**	(115,206)
Long-term assets limited as to use	**695,243**	695,249
Restricted deposits:		
Money market mutual funds restricted for insolvency protection as required by Florida Medicaid HMO contract	**334,280**	51,220
Cash deposits held by the State of Florida for Florida Medicare HMO contract	**300,000**	300,000
Money market mutual funds restricted for California Medicare HMO contract	**338,035**	337,993
	972,315	689,213
Total long-term assets limited as to use	**$ 1,667,558**	$ 1,384,462

NOTE 8 INVESTMENTS

At December 31, investments consist of:

		2011		2010
U.S. government and corporate bonds	**$**	**25,097,813**	$	4,176,463
Less current portion		**12,096,125**		-
	$	**13,001,688**	$	4,176,463

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 9 PROPERTY AND EQUIPMENT

At December 31, property and equipment is composed of:

		2011		2010
Land	**$**	**8,029,951**	$	5,448,289
Buildings		**14,400,986**		12,350,972
Leasehold improvements		**7,465,504**		6,711,966
Furniture and fixtures		**2,348,792**		2,212,991
General equipment		**4,522,357**		2,386,652
Vehicles		**2,722,247**		1,801,821
Computer software		**3,930,659**		3,463,138
Computer equipment		**4,757,657**		3,442,221
Low value assets		**144,464**		-
Total		**48,322,617**		37,818,050
Accumulated depreciation and amortization		**(18,719,053)**		(16,681,776)
Property and equipment, net	**$**	**29,603,564**	$	21,136,274

Provision for depreciation and amortization for property and equipment amounted to $2,172,389 and $1,765,615 in 2011 and 2010, respectively. Land and buildings collateralize certain notes payable, as discussed in note 11.

NOTE 10 LINE OF CREDIT

The Foundation has a line of credit agreement with a bank, expiring on September 1, 2013, that provides for secured borrowings up to $30 million and $15 million in 2011 and 2010, respectively, at a rate per annum equal to the prime rate. There was no outstanding balance on the line of credit as of December 31, 2011 and 2010. The Foundation is subject to certain financial covenants relating to net assets, net income, and a specified debt ratio.

NOTE 11 LONG-TERM DEBT

At December 31, long-term debt is composed of the following:

		2011		2010
California Health Facilities Financing Authority 2005 Insured Health Facility Series A Revenue 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.	**$**	**4,645,000**	$	5,135,000
Wells Fargo Term Loan, collateralized by a second trust deed on the building, commencing on September 1, 2007 through July 1, 2014, bearing interest at 6.74% per annum; principal and interest payable in monthly installments of $8,672. The loan was paid in full in 2011.		**-**		1,174,511
		4,645,000		6,309,511
Current portion		**(509,167)**		(517,068)
Noncurrent portion	**$**	**4,135,833**	$	5,792,443

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

		Amount
Year ending December 31		
2012	$	509,167
2013		534,167
2014		557,500
2015		574,167
2016		598,333
Thereafter		1,871,666
Total	$	4,645,000

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 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.

NOTE 11 LONG-TERM DEBT (Continued)

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 $37,127 for the years ended December 31, 2011 and 2010.

The Foundation obtained a $1,245,000 seven-year term loan from Wells Fargo Bank. The funds were used for the purchase of a building in Wilton Manors, Florida, which has a thrift store and pharmacy. The loan was paid in full in November 2011.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

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

	2011	2010
Housing	**$ 318,448**	$ 358,990
Rental facilities	**178,395**	343,026
Program support	**317,049**	179,956
Total	**$ 813,892**	$ 881,972

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.

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, 2011 and 2010 amounted to $638,403 and $554,421, 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:

	2011	2010
Private Insurance	**34%**	29%
AIDS Drug Assistance Program	**20%**	23%
Department of Health and Human Services	**7%**	13%
Los Angeles County	**11%**	10%
Other Grants	**7%**	8%
Medi-Cal/Medicaid	**14%**	7%
Centers for Medicare and Medicaid Services	**1%**	7%
Agency for Health Care Administration	**4%**	3%
Medicare (FFS)	**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, 2011 and 2010 that exceeded the balance insured by the FDIC by approximately $35,143,264 and $17,508,276, 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, 2011 and 2010 that exceeded the balance insured by approximately $965,180 and $1,229,893, 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 $6,289,217 and $5,835,150 in 2011 and 2010, respectively.

NOTE 15 COMMITMENTS AND CONTINGENCIES (Continued)

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2011 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending December 31		
2012	$	5,268,090
2013		3,780,538
2014		2,542,494
2015		1,439,700
2016		1,088,977
Thereafter		1,586,927
Total	$	15,706,726

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.

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.

NOTE 15 COMMITMENTS AND CONTINGENCIES (Continued)

Government Regulation (continued)

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, 2011, 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:

	2011	2010
Healthcare services	**$ 260,339,626**	$ 217,830,537
Fundraising	**1,422,935**	1,436,292
Thrift stores	**10,443,882**	9,170,430
Outreach	**8,350,683**	6,708,597
Administration	**7,621,803**	5,055,270
Total	**$ 288,178,929**	$ 240,201,126

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, 2011 and 2010 amounted to $17,703,302 and $13,621,872, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2011 and 2010 amounted to $4,487,103 and $4,397,707, respectively.

NOTE 18 SUBSEQUENT EVENTS

The Foundation has evaluated events or transactions that occurred subsequent to the balance sheet date through April 26, 2012 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
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
2010:						
Salaries and benefits	$ 40,682,837	$ 426,376	$ 5,065,401	$ 3,815,124	$ 2,203,935	$ 52,193,673
Medical services, supplies and drugs	150,736,659	266	1,096	746,401	10,159	151,494,581
Cost of sales	-	-	54,168	-	-	54,168
Rent	3,186,624	15,364	2,084,674	166,742	381,746	5,835,150
Depreciation and amortization	1,322,681	8,867	234,229	103,863	133,102	1,802,742
Interest expense	220,042	1,440	72,337	7,597	56,402	357,818
Provision for bad debts	1,819,096	-	-	-	-	1,819,096
Insurance	886,048	18,196	143,918	37,815	30,412	1,116,389
Professional services	4,466,600	491,325	94,684	365,952	563,074	5,981,635
Charitable contributions	-	-	-	-	561,629	561,629
Other expenses	14,509,950	474,458	1,419,923	1,465,103	1,114,811	18,984,245
	$ 217,830,537	$ 1,436,292	$ 9,170,430	$ 6,708,597	$ 5,055,270	$ 240,201,126

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

The Board of Directors
AIDS Healthcare Foundation

We have audited the consolidated financial statements of AIDS Healthcare Foundation (Foundation) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 26, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vasquez + Company LLP

Los Angeles, California
April 26, 2012