

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Independent Auditor's Report and Consolidated
Financial Statements

June 30, 2016



GLOBAL FORUM
ON MSM & HIV
MSMGF.ORG

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

June 30, 2016

Contents

Independent Auditor’s Report.....	1
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Consolidated Financial Statements

Statement of Financial Position.....	3
Statement of Activities	4
Statement of Functional Expenses.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Supplementary Information

Consolidating Schedule – Statement of Financial Position Information.....	23
Consolidating Schedule – Statement of Activities Information	24

Independent Auditor's Report

Board of Directors
AIDS Project Los Angeles,
APLA Health & Wellness and
The Global Forum on MSM & HIV (MSMGF)
Los Angeles, California

We have audited the accompanying consolidated financial statements of AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Directors
AIDS Project Los Angeles,
APLA Health & Wellness and
The Global Forum on MSM & HIV (MSMGF)
Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF) as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
December 22, 2016

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Consolidated Statement of Financial Position

June 30, 2016

Assets

	Unrestricted	Temporarily Restricted	Total
Cash and cash equivalents	\$ 1,927,321	\$ 420,997	\$ 2,348,318
Investments	662,943	-	662,943
Accounts receivable, net	655,896	-	655,896
Medi-Cal waiver receivable	374,120	-	374,120
Grants receivable	1,690,128	-	1,690,128
Contributions receivable	751,654	2,460,913	3,212,567
Prepaid expenses and other assets	310,347	-	310,347
Deposits	388,052	-	388,052
Inventories	168,916	-	168,916
Split interest agreements	-	69,877	69,877
Property and equipment, net	2,558,318	-	2,558,318
	<u>\$ 9,487,695</u>	<u>\$ 2,951,787</u>	<u>\$ 12,439,482</u>
Total assets			

Liabilities and Net Assets

Accounts payable	\$ 1,182,481	\$ -	\$ 1,182,481
Accrued expenses	1,074,186	-	1,074,186
Deferred revenue	326,548	-	326,548
Notes payable	439,490	-	439,490
	<u>3,022,705</u>	<u>-</u>	<u>3,022,705</u>
Total liabilities			

Net Assets

Unrestricted			
Undesignated	4,529,735	-	4,529,735
Board designated	1,935,255	-	1,935,255
Temporarily restricted	-	2,951,787	2,951,787
	<u>6,464,990</u>	<u>2,951,787</u>	<u>9,416,777</u>
Total net assets			
	<u>\$ 9,487,695</u>	<u>\$ 2,951,787</u>	<u>\$ 12,439,482</u>
Total liabilities and net assets			

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Consolidated Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Fundraising events	\$ 2,835,116	\$ -	\$ 2,835,116
Cost of direct donor benefits	(563,915)	-	(563,915)
Net fundraising events	2,271,201	-	2,271,201
Contribution revenue	1,613,807	942,330	2,556,137
Grant revenue	13,520,751	-	13,520,751
Net patient service revenue	3,105,742	-	3,105,742
Medi-Cal waiver revenue	1,359,008	-	1,359,008
Contributed goods and services	1,362,589	-	1,362,589
Other revenue	486,837	-	486,837
Investment income	7,293	-	7,293
Net assets released from restrictions	536,660	(536,660)	-
Total revenue and other support	<u>24,263,888</u>	<u>405,670</u>	<u>24,669,558</u>
Expenses			
Client support	6,618,044	-	6,618,044
Education	6,554,015	-	6,554,015
Medical and dental services	5,578,232	-	5,578,232
Government affairs	492,336	-	492,336
Total program services	<u>19,242,627</u>	<u>-</u>	<u>19,242,627</u>
Management and general	2,024,902	-	2,024,902
Fundraising	2,035,528	-	2,035,528
Total expenses	<u>23,303,057</u>	<u>-</u>	<u>23,303,057</u>
Change in Net Assets	960,831	405,670	1,366,501
Net Assets, Beginning of Year	<u>5,504,159</u>	<u>2,546,117</u>	<u>8,050,276</u>
Net Assets, End of Year	<u>\$ 6,464,990</u>	<u>\$ 2,951,787</u>	<u>\$ 9,416,777</u>

**AIDS Project Los Angeles, APLA Health & Wellness and
The Global Forum on MSM & HIV (MSMGF)
Consolidated Statement of Functional Expenses
Year Ended June 30, 2016**

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total
	Client Support	Education	Medical and Dental Services	Government Affairs		Management and General	Fundraising		
Salaries and Related									
Salaries and wages	\$ 2,335,047	\$ 2,063,237	\$ 2,844,431	\$ 280,118	\$ 7,522,833	\$ 914,115	\$ 564,211	\$ 1,478,326	\$ 9,001,159
Employee benefits	644,538	516,029	682,478	61,073	1,904,118	190,502	141,583	332,085	2,236,203
Total personnel expenses	2,979,585	2,579,266	3,526,909	341,191	9,426,951	1,104,617	705,794	1,810,411	11,237,362
Purchased services and professional fees	294,685	1,967,606	303,732	61,991	2,628,014	305,207	456,446	761,653	3,389,667
Occupancy	515,203	404,401	584,194	33,043	1,536,841	135,036	145,172	280,208	1,817,049
Attendant care	895,981	-	-	-	895,981	-	-	-	895,981
Temporary help	118,939	182,617	201,774	-	503,330	-	370,766	370,766	874,096
Food supplies	1,180,026	-	-	-	1,180,026	-	-	-	1,180,026
Printing and duplication	32,512	52,357	20,812	2,076	107,757	8,531	107,399	115,930	223,687
Staff training, development and travel	43,613	736,072	46,473	24,734	850,892	40,124	27,447	67,571	918,463
Depreciation	115,673	90,620	220,628	4,882	431,803	30,945	12,763	43,708	475,511
Support to other organizations	167,322	328	1,000	12,634	181,284	3,155	349	3,504	184,788
Promotion and outreach	55,248	253,975	8,913	1,632	319,768	70,530	61,785	132,315	452,083
Postage and delivery	855	8,342	289	45	9,531	2,798	94,580	97,378	106,909
Supplies, equipment rental and maintenance	157,029	96,761	581,153	5,116	840,059	33,503	35,827	69,330	909,389
Accounting and legal	-	66,576	-	-	66,576	128,511	5,930	134,441	201,017
Insurance	5,144	676	28,710	-	34,530	117,014	-	117,014	151,544
Communications	56,229	39,726	53,645	4,992	154,592	14,950	11,270	26,220	180,812
Loss on disposal of fixed assets	-	74,692	-	-	74,692	29,981	-	29,981	104,673
Total expenses	<u>\$ 6,618,044</u>	<u>\$ 6,554,015</u>	<u>\$ 5,578,232</u>	<u>\$ 492,336</u>	<u>\$ 19,242,627</u>	<u>\$ 2,024,902</u>	<u>\$ 2,035,528</u>	<u>\$ 4,060,430</u>	<u>\$ 23,303,057</u>

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Consolidated Statement of Cash Flows

Year Ended June 30, 2016

Operating Activities

Change in net assets	\$ 1,366,501
Items not requiring (providing) cash	
Loss on disposal of property and equipment	104,673
Depreciation and amortization	475,511
Amortization of notes payable through service credits	(10,000)
Change in value of split interest agreements	6,239
Contribution of investments	(10,446)
Changes in	
Accounts receivable, net	(585,079)
Grants receivable	(46,726)
Contributions receivable	(22,899)
Deposits	146,597
Prepaid expenses and others assets	(111,302)
Inventories	(29,653)
Accounts payable and accrued expenses	234,418
Deferred revenue	(402,689)
	<u>1,115,145</u>
Net cash provided by operating activities	<u>1,115,145</u>

Investing Activities

Purchase of investments	(1,318,124)
Proceeds from sale of investments	1,979,341
Purchase of property and equipment	(748,312)
	<u>(87,095)</u>
Net cash used in investing activities	<u>(87,095)</u>

Increase in Cash and Cash Equivalents 1,028,050

Cash and Cash Equivalents, Beginning of Year 1,320,268

Cash and Cash Equivalents, End of Year \$ 2,348,318

Supplemental Cash Flows Information

Accounts payable incurred for property and equipment	\$ 352,549
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AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 1: Nature of Operations

AIDS Project Los Angeles and APLA Health & Wellness jointly operate as APLA Health, the mission of which is to achieve health care equity and promote well-being for the LGBT and other underserved communities and people living with and affected by HIV.

History

The Organization was founded in 1982 by four friends who were alarmed by the sudden deaths in their communities and enraged at an unresponsive government. AIDS Project Los Angeles officially opened its doors in early 1983 and has grown from a single telephone hotline operating out of a closet to a provider of comprehensive health and HIV support services, HIV testing and prevention education and government advocacy from 14 locations across Los Angeles County.

Services for the Low-Income LGBT Community and People Living with HIV

APLA Health serves more than 14,000 people from 14 locations in Los Angeles County every year, and focuses on providing free or low-cost medical, dental and behavioral health care to the LGBT community, as well as support services for those who are living with HIV. APLA Health's patient population is primarily people of color living at or below the federal poverty level who are facing multiple challenges in regards to their physical and mental health. As a federally qualified health center (FQHC), APLA Health provides medical, dental and behavioral health care to the community at large, but with an expertise in the unique needs of LGBT individuals, regardless of their HIV status.

APLA Health operates two full-service health centers—the Gleicher/Chen Health Center in the Baldwin Hills neighborhood of South Los Angeles, and the Long Beach Health Center in downtown Long Beach, two communities with diverse LGBT residents that have also been hit hard by the HIV/AIDS epidemic. In addition, the Organization offers oral health care from the Wilshire Dental Clinic in downtown Los Angeles and The S. Mark Taper Foundation Center dental clinic in South Los Angeles. The David Geffen Center in Mid-City offers behavioral health care services. The Organization also offers behavioral health care from a West Hollywood satellite office.

For patients who are living with HIV, APLA Health provides specialized medical care from its Gleicher/Chen Health Center. It also provides a diverse array of social support services from multiple locations throughout the County. These services include housing support, home health care, benefits counseling, case management, a telephone information line and groceries and nutrition counseling through its Vance North Necessities of Life Program food pantry network, the largest network of food pantries for people living with HIV in the country.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

STD Screening and Treatment, HIV Testing, PrEP Counseling and Management and HIV Prevention and Education

Since the beginning of the epidemic, APLA Health has delivered innovative HIV prevention programs that reduce infection rates through individual, group and community-level activities. The Organization's prevention programs seek to prevent infections among those who are HIV-negative and reduce the risk of HIV transmission among people who are already living with the disease. These efforts target those at greatest risk of HIV infection, including gay and bisexual men, people of color, youth, transgender individuals and those who struggle with addiction and mental health challenges. The Organization provides free HIV testing in three locations across the county, as well as free STD screening and treatment services at its Gleicher/Chen Health Center and the Long Beach Health Center.

Additionally, APLA Health is a trailblazer in the implementation of a comprehensive program that educated patients about pre-exposure prophylaxis (PrEP) and offers them access to it. PrEP is a biomedical intervention in which a person takes a medication (in this case, Truvada) daily to help prevent HIV infection. If taken correctly, PrEP is up to 99% effective in preventing HIV transmission. APLA Health launched its PrEP program in November 2014 at its Gleicher/Chen Health Center and now also offers PrEP counseling and management at its Long Beach Health Center.

Government Affairs

APLA Health's Government Affairs team works to advance LGBT and social justice initiatives, such as reducing health care disparities, and advocates for optimal HIV/AIDS and health care policy, programs, funding and legislation.

The Government Affairs staff works at all levels of government—local, county, state and federal—meeting and speaking with elected officials, administrators and other decision makers to ensure that people living with and at risk of acquiring HIV have access to the best possible information, prevention education, care, treatment and medications.

Government Affairs operates unilaterally and within a broad range of coalitions—from the California Alliance of HIV Advocates to AIDS United in Washington, D.C., and with organizations addressing health care more broadly, such as the California Primary Care Association and the Community Clinic Association of Los Angeles County. It supports initiatives such as the Ryan White Program, prevention programs at the Centers for Disease Control and Prevention, Housing Opportunities for Persons with AIDS, the AIDS Drug Assistance Program, Medicaid, Medicare and health care reform.

APLA Health also advocates for strengthening and expanding the nation's network of federally qualified health centers.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

The Global Forum on MSM & HIV (MSMGF)

The MSMGF was founded in 2006 and separately incorporated as of July 1, 2014, to address inequities in access to HIV prevention, care and treatment programs among gay and bisexual men and other men who have sex with men, while promoting their health and human rights, worldwide. The MSMGF has instigated and supports a global movement to address homophobic stigma and discrimination through strengthening public health policies and alleviating funding disparities. Working at the intersection between the HIV and LGBT rights sectors, the MSMGF is directly linked to 133 community-based organizations (CBOs) across 73 countries. MSMGF conducts advocacy, delivers technical support and manages sub-grants with CBOs that work at the country level. Over the past 10 years, the MSMGF was instrumental in achieving: 1) priority focus given to men who have sex with men and other key populations by the Global Fund, International AIDS Society, UNAIDS and bilateral donors, including U.S. PEPFAR; 2) evidence-informed, global guidance on rights-based prevention and treatment of HIV issued by WHO; 3) stronger technical guidance on civil society engagement and on the specific needs of men who have sex with men issued by U.S. PEPFAR to country missions; and 4) expanded global funding opportunities for key population-led organizations and networks, *e.g.*, RCNF; U.S. PEPFAR's LINKAGES, Global Fund's new funding model.

During the year that ended June 30, 2016, MSMGF increased its technical support to advocacy and HIV services implementation in 31 countries; worked with UNFPA, UNDP, WHO, UNAIDS, World Bank and the Bill and Melinda Gates Foundation to publish practical guidance for implementing HIV and STI programs for men who have sex with men; expanded support to Asian, African, Caribbean, Latin American and Eastern European regional networks; and intensified advocacy directed at UNAIDS, the Global Fund and U.S. PEPFAR. It established a new advocacy platform to fast-track the global HIV and human rights responses. The Platform worked to educate UN Member States in the lead up to the 2016 UN High-level Meeting on HIV and AIDS. This year the MSMGF trained scores of stakeholders and guided the development of several critical educational, training and policy documents, including ground breaking publications on anti-LGBT violence and the future of the global HIV response. In addition, the MSMGF implemented a new communications strategy that resulted in a fresh logo, a modernized website and a significantly expanded social media presence.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of AIDS Project Los Angeles, APLA Health & Wellness, and The Global Forum on MSM & HIV (MSMGF) (collectively, "the Organization"). Each director of APLA Health & Wellness must also serve on the AIDS Project Los Angeles board of directors. A majority of The Global Forum on MSM & HIV (MSMGF) directors shall be designated by the AIDS Project of Los Angeles board of directors. All material intercompany transactions and balances have been eliminated in consolidation.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Accounting Method

The Organization maintains its accounting records on an accrual method in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of consolidated 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 and 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with initial maturities of three months or less to be cash equivalents. At June 30, 2016, cash equivalents consisted primarily of money market accounts with brokers.

At June 30, 2016, the Organization's cash accounts exceeded federally insured limits by approximately \$1,085,000.

Investments and Investment Return

Investments in marketable securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Accounts Receivable

Patient accounts receivable are recorded at their net realizable value. In evaluating the collectability of patient accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the amount it anticipates will be collected. Management regularly reviews data about these major payer sources of revenue in evaluating this calculation.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Inventories

The Organization values food supplies inventory at the lower of cost, determined using the first-in, first-out method, or market. Donated food inventory is valued at the wholesale price.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Betterments, renewals and extraordinary repairs that extend the life of the asset are capitalized. Repair and maintenance expenditures that increase the efficiency of the assets are expensed as incurred. As assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts and any gain or loss on disposition is recognized in the statement of operations.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	1 - 38 years
Equipment	5 - 15 years
Furniture and fixtures	1 - 10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless the donor restricts use of the assets. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service. Donor restricted contributions for property and equipment whose restrictions are met within the same period as received are reported as unrestricted contributions.

Certain property and equipment have been purchased with grant funds received from governmental agencies. Such items may be reclaimed if not used to further the grant's objective.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2016.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. 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. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Pharmacy Revenue

The Organization participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. Reported 340B revenue consists of the pharmacy reimbursements, net of pharmacy fees. The 340B revenue is included in net patient service revenue on the statement of activities.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same period as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Contributed Goods and Services

In-kind contributions are recorded at the estimated fair value. Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contribution revenue recognized from contributed goods and services consisted of:

Food supplies	\$ 973,130
Volunteer hours	279,654
Legal services	94,757
Transportation	13,284
Equipment	1,764
	<hr/>
	\$ 1,362,589
	<hr/> <hr/>

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Fundraising Expenses

Fundraising expenses are recognized as they are incurred.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fundraising services categories based on various methods. The statement of functional expenses present, by natural classification, the expenses of each program and support service.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 3: Net Patient Service Revenue

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medi-Cal reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries were paid based on a cost reimbursement methodology until June 30, 2015. Under that methodology, the Organization received a tentative rate with final settlement determined after submission of an annual cost report by the Organization. Effective July 1, 2015, these services are now paid under a prospective payment system (PPS). Medicare payment, including patient coinsurance, will now be paid based on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medi-Cal. Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

The Organization is required to submit an annual Medi-Cal Reconciliation Request Form, per site to the California Department of Health Care Services (the "Department") for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change in the near term.

The Organization is a partner in the *My Health LA (MHLA) Program* with the County of Los Angeles and has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per unit of service and discounts from established charges as well as capitation payments.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Patient service revenue, net of contractual allowances and discounts, recognized for the year ended June 30, 2016, was approximately:

Medi-Cal	\$ 2,453,991
Medicare	99,668
Private insurance	539,843
Patients	<u>12,240</u>
Total	<u><u>\$ 3,105,742</u></u>

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2016, was:

Medi-Cal	95%
Medicare	3%
Private insurance	<u>2%</u>
	<u><u>100%</u></u>

Note 5: Investment and Investment Return

Investments at June 30, 2016, consisted of the following:

Certificates of deposit	\$ 462,536
Money market funds	<u>200,407</u>
Total	<u><u>\$ 662,943</u></u>

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 6: Contributions Receivable

Contributions receivable consisted of the following:

	Unrestricted	Temporarily Restricted	Total
Due within one year	\$ 579,722	\$ 2,244,810	\$ 2,824,532
Due in one to five years	321,932	66,103	388,035
	\$ 901,654	\$ 2,310,913	\$ 3,212,567

Included in contributions receivable at June 30, 2016, is the use of donated land for the S. Mark Taper Foundation Center through March 2019. The use of the land is expected to be recognized as follows:

2017	\$ 39,662
2018	39,662
2019	26,441
	\$ 105,765

In-kind rent expense for the year ended June 30, 2016, was \$39,662.

Note 7: Split Interest Agreements

The California Community Foundation, on behalf of the Organization, has received donations of assets in exchange for distributions of a fixed amount for a specific period of time to the donor or other beneficiaries. At June 30, 2016, the Organization has recorded a receivable of \$57,385, which reflects the fair market value of the donated assets at June 30, 2016, net of the annuitant liability, which is adjusted annually to reflect changes in life expectancies.

The Organization is the beneficiary of an irrevocable charitable remainder trust controlled by an unrelated third-party trustee. The estimated value of the expected future cash flows from this trust is \$12,492.

The Organization's interest in the agreements above is included in the Organization's financial statements as temporarily restricted net assets.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 8: Property and Equipment

Property and equipment at June 30, 2016, consisted of the following:

Buildings and leasehold improvements	\$ 3,605,530
Equipment	1,657,190
Furniture and fixtures	612,946
Construction in progress	437,098
	<hr/>
	6,312,764
Less: accumulated depreciation	3,754,446
	<hr/>
Property and equipment - net	<u>\$ 2,558,318</u>

Depreciation expense for the year ended June 30, 2016, was \$475,511.

The Organization was in process of completing construction on its clinic in Long Beach, California, at June 30, 2016. Construction on the clinic was completed in August 2016 at a total cost of approximately \$870,000. The project was funded with proceeds from grants and contributions.

Note 9: Accrued Expenses

Accrued expenses at June 30, 2016, consisted of the following:

Accrued vacation	\$ 457,467
Accrued payroll	413,180
Other accrued expenses	203,539
	<hr/>
Total	<u>\$ 1,074,186</u>

Note 10: Medical Malpractice Claims

The Organization purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the year ended June 30, 2016. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 11: Long-Term Debt

Note payable (A)	\$	159,490
Note payable (B)		280,000
		439,490
Less current maturities		10,000
		\$ 429,490

(A) Note payable with the City of Los Angeles due in annual installments of \$10,000, maturing in April 2031. The note bears no interest. The note is a service repayment loan that is forgiven annually subject to the property being used to provide low-income housing to people living with HIV/AIDS. No principal or interest is due prior to maturity as long as the property continues to be used for the intended purpose. For the year ended June 30, 2016, \$10,000 was forgiven and was recorded as contribution revenue on the statement of activities. The loan is secured by property.

(B) Note payable with the State of California Department of Housing and Community Development, due June 2025, with interest-only payments and any unpaid principal and interest due at maturity. Note bears interest at 3.00% and is secured by certain property.

Aggregate annual maturities of long-term debt at June 30, 2016, are:

2017	\$	10,000
2018		10,000
2019		10,000
2020		10,000
2021		10,000
Thereafter		389,490
		\$ 439,490

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 12: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Vance North Necessities of Life Food Program	\$ 2,200,000
Dental service operations	105,765
Patient centered medical home certification	300,000
Split interest agreements	69,877
Client support programs	106,970
Global Forum on MSM & HIV	152,349
Other	16,826
	<u>16,826</u>
	<u>\$ 2,951,787</u>

Note 13: Operating Leases

The Organization has operating leases for certain facilities which expire in various years through 2023. These leases generally contain renewal options for periods ranging from one to ten years.

Future minimum lease payments at June 30, 2016, are:

2017	\$ 1,529,902
2018	1,303,454
2019	958,596
2020	894,826
2021	899,974
Thereafter	1,144,647
	<u>1,144,647</u>
Future minimum lease payments	<u>\$ 6,731,399</u>

Rent expense under operating leases totaled \$1,432,466 for the year ended June 30, 2016.

Note 14: Retirement Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees. The Organization provides a discretionary employer matching contribution. Matching contributions of \$168,886 were recognized during the year ended June 30, 2016.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 15: Support to Other Organizations

It is the policy of the Board of Directors to support other service organizations whose goals are compatible with and whose services supplement those of the Organization. In this regard, during the year ended June 30, 2016, the Organization contributed \$184,788 to other service organizations.

Since 2005, APLA has loaned funds to APLA Health & Wellness to cover certain operating expenses and indirect costs resulting in an intercompany loan from APLA to APLA Health & Wellness. During the year ended June 30, 2016, the Board of Directors of APLA Health & Wellness approved a grant to APLA in the amount of \$1,199,183 which was reported as support to other organizations and an increase in the intercompany loan. This amount was included in contribution revenue by APLA and was eliminated in the consolidated financial statements.

Note 16: Allocation of Joint Costs

Through certain fundraising events, the Organization incurred joint costs of \$1,034,942 to expand outreach focused on achieving health care equity and promoting well-being for the LGBT and other underserved communities, including people living with and affected by HIV/AIDS and to raise funds. Of those costs, \$710,513 was allocated to fundraising expenses and \$324,429 was allocated to program services.

Note 17: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016:

	Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalent money				
market funds	\$ 644,267	\$ 644,267	\$ -	\$ -
Money market funds	201,211	201,211	-	-
Split interest agreements	69,877	-		69,877

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and would be classified as Level 2. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no securities classified as Level 2.

Split Interest Agreements

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Notes to Consolidated Financial Statements

June 30, 2016

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 10*.

Current Economic Conditions

The current economic environment presents not-for-profit organizations, including community health centers, with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. Any changes to the *Affordable Care Act*, including the health insurance exchanges and Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to not-for-profit organizations, including community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Supplementary Information

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Consolidating Schedule – Statement of Financial Position Information

June 30, 2016

	AIDS Project Los Angeles	APLA Health & Wellness	The Global Forum on MSM & HIV (MSMGF)	Eliminating Entries	Consolidated Total
Assets					
Cash and cash equivalents	\$ 1,043,793	\$ 1,007,647	\$ 296,878	\$ -	\$ 2,348,318
Investments	662,943	-	-	-	662,943
Accounts receivable, net	-	655,896	-	-	655,896
Medi-Cal waiver receivable	-	374,120	-	-	374,120
Grants receivables	600,538	918,876	170,714	-	1,690,128
Contributions receivable	2,548,490	658,931	5,146	-	3,212,567
Prepaid expenses and other assets	203,602	76,068	30,677	-	310,347
Deposits	375,076	8,342	4,634	-	388,052
Inventories	168,916	-	-	-	168,916
Due from affiliate	4,382,295	-	101,376	(4,483,671)	-
Split interest agreements	69,877	-	-	-	69,877
Property and equipment, net	468,513	2,088,335	1,470	-	2,558,318
	<u>\$ 10,524,043</u>	<u>\$ 5,788,215</u>	<u>\$ 610,895</u>	<u>\$ (4,483,671)</u>	<u>\$ 12,439,482</u>
Liabilities and Net Assets					
Accounts payable	\$ 129,723	\$ 834,566	\$ 218,192	\$ -	\$ 1,182,481
Accrued expenses	487,874	456,510	129,802	-	1,074,186
Due to affiliate	-	4,483,671	-	(4,483,671)	-
Deferred revenue	169,517	13,468	143,563	-	326,548
Notes payable	439,490	-	-	-	439,490
	<u>1,226,604</u>	<u>5,788,215</u>	<u>491,557</u>	<u>(4,483,671)</u>	<u>3,022,705</u>
Net assets					
Unrestricted					
Undesignated	5,923,438	(1,360,691)	(33,012)	-	4,529,735
Board designated	994,658	940,597	-	-	1,935,255
Temporarily restricted	2,379,343	420,094	152,350	-	2,951,787
	<u>9,297,439</u>	<u>-</u>	<u>119,338</u>	<u>-</u>	<u>9,416,777</u>
Total liabilities and net assets	<u>\$ 10,524,043</u>	<u>\$ 5,788,215</u>	<u>\$ 610,895</u>	<u>\$ (4,483,671)</u>	<u>\$ 12,439,482</u>

AIDS Project Los Angeles, APLA Health & Wellness and The Global Forum on MSM & HIV (MSMGF)

Consolidating Schedule – Statement of Activities Information Year Ended June 30, 2016

	AIDS Project Los Angeles	APLA Health & Wellness	The Global Forum on MSM & HIV (MSMGF)	Eliminating Entries	Consolidated Total
Revenues and Other Support					
Fundraising events	\$ 2,835,116	\$ -	\$ -	\$ -	\$ 2,835,116
Cost of direct donor benefits	(563,915)	-	-	-	(563,915)
Net fundraising events	2,271,201	-	-	-	2,271,201
Contribution revenue	2,605,091	866,245	283,984	(1,199,183)	2,556,137
Grant revenue	3,801,926	6,524,676	3,194,149	-	13,520,751
Net patient service revenue	-	3,105,742	-	-	3,105,742
Medi-Cal waiver revenue	-	1,359,008	-	-	1,359,008
Contributed goods and services	1,147,345	186,534	28,710	-	1,362,589
Other revenue	201,707	131,149	153,981	-	486,837
Investment income	7,293	-	-	-	7,293
Net assets released from restrictions	-	-	-	-	-
Total revenue and other support	<u>10,034,563</u>	<u>12,173,354</u>	<u>3,660,824</u>	<u>(1,199,183)</u>	<u>24,669,558</u>
Expenses and (Losses)					
Salaries and wages	3,646,818	4,464,362	889,979	-	9,001,159
Employee benefits	964,827	1,080,081	191,295	-	2,236,203
Purchased services and professional fees	1,142,576	643,724	1,603,367	-	3,389,667
Occupancy	838,275	911,042	67,732	-	1,817,049
Attendant care	-	895,981	-	-	895,981
Temporary help	672,325	201,771	-	-	874,096
Food supplies	1,180,026	-	-	-	1,180,026
Printing and duplication	163,064	39,440	21,183	-	223,687
Staff training, development and travel	272,911	101,882	543,670	-	918,463
Depreciation	97,510	377,707	294	-	475,511
Support to other organizations	183,788	1,200,183	-	(1,199,183)	184,788
Promotion and outreach	212,378	196,080	43,625	-	452,083
Postage and delivery	103,046	878	2,985	-	106,909
Supplies, equipment rental and maintenance	246,602	623,827	38,960	-	909,389
Accounting and legal	112,703	21,738	66,576	-	201,017
Insurance	76,983	73,885	676	-	151,544
Communications	85,809	85,489	9,514	-	180,812
Loss on disposal of fixed assets	29,981	74,692	-	-	104,673
Indirect cost charges	(1,180,592)	1,180,592	-	-	-
Total expenses	<u>8,849,030</u>	<u>12,173,354</u>	<u>3,479,856</u>	<u>(1,199,183)</u>	<u>23,303,057</u>
Change in Net Assets	1,185,533	-	180,968	-	1,366,501
Net Assets, Beginning of Year	<u>8,111,906</u>	<u>-</u>	<u>(61,630)</u>	<u>-</u>	<u>8,050,276</u>
Net Assets, End of Year	<u>\$ 9,297,439</u>	<u>\$ -</u>	<u>\$ 119,338</u>	<u>\$ -</u>	<u>\$ 9,416,777</u>