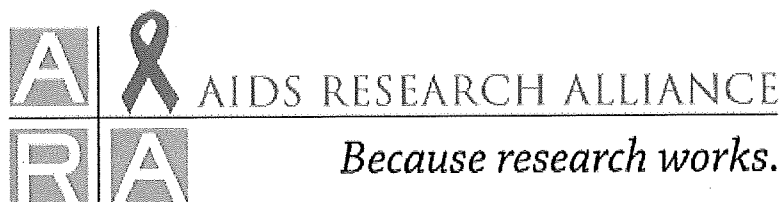


AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

AND REPORTS IN COMPLIANCE WITH
OMB CIRCULAR A-133
FOR THE YEAR ENDED DECEMBER 31, 2011

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
FINANCIAL STATEMENTS



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ROSSI DOSKOCIL & FINKELSTEIN

LLP

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
AIDS Research Alliance
Los Angeles, California

We have audited the accompanying statements of financial position of AIDS Research Alliance (a nonprofit California corporation) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of AIDS Research Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 financial statements referred to above present fairly, in all material respects, the financial position of AIDS Research Alliance as of December 31, 2011 and 2010, and 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 June 7, 2012, on our consideration of AIDS Research Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ROSSI DOSKOCIL & FINKELSTEIN
LLP

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of AIDS Research Alliance taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rossi Doskocil & Finkelstein LLP

Long Beach, California
June 7, 2012

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
STATEMENT OF FINANCIAL POSITION

<i>As of December 31,</i>	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 280,653	\$ 118,366
Contracts receivable, net of allowance for doubtful accounts of \$7,029, respectively	136,307	235,066
Contributions and grants receivable, net of unamortized discount	36,034	122,534
Prepaid expenses	24,035	20,986
Total current assets	477,029	496,952
Property and equipment, net	271,725	348,912
Other assets:		
Investments	-	56,315
Land held for sale	13,200	13,200
Deposits and other assets	33,011	33,011
Total other assets	46,211	102,526
Total assets	\$ 794,965	\$ 948,390
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ -	\$ 168,006
Current maturities long-term debt	37,179	-
Accounts payable	479,448	414,379
Accrued expenses	46,630	64,199
Deferred rent - current portion	40,792	29,677
Total current liabilities	604,049	676,261
Long-term liabilities:		
Long-term debt, less current maturities	97,192	-
Deferred rent	52,249	93,038
Total long-term liabilities	149,441	93,038
Total liabilities	753,490	769,299
Commitments and Contingencies		
Net assets:		
Unrestricted	(162,895)	20,441
Temporarily restricted	204,370	158,650
Total net assets	41,475	179,091
	\$ 794,965	\$ 948,390

The accompanying notes are an integral part of these financial statements

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
STATEMENT OF ACTIVITIES

For the year ended December 31,

	2011			
	Unrestricted	Temporarily Restricted	Total	%
Support and revenue:				
Contributions - general	\$ 277,032	\$ 237,370	\$ 514,402	25.8 %
Contributions - in-kind	2,267	-	2,267	0.1
Contract revenue	1,449,067	-	1,449,067	72.7
Grants	9,934	-	9,934	0.5
Special events, net of direct costs of \$77,000	19,096	-	19,096	1.0
Net loss on investments, dividends & distributions	(2,314)	-	(2,314)	(0.1)
Interest income	27	-	27	
	1,755,109	237,370	1,992,479	100.0
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	191,650	(191,650)	-	
Total support and revenue	1,946,759	45,720	1,992,479	100.0
Expenses:				
Program	1,624,679	-	1,624,679	81.5
Fundraising	231,997	-	231,997	11.6
General and administrative	273,419	-	273,419	13.7
Total expenses	2,130,095	-	2,130,095	106.8
Change in net assets	(183,336)	45,720	(137,616)	(6.8) %
Net assets, beginning of year	20,441	158,650	179,091	
Net assets, end of year	\$ (162,895)	\$ 204,370	\$ 41,475	

The accompanying notes are an integral part of these financial statements

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
STATEMENT OF ACTIVITIES

For the year ended December 31,

	2010			
	Unrestricted	Temporarily Restricted	Total	%
Support and revenue:				
Contributions - general	\$ 498,090	\$ 127,047	\$ 625,137	30.2 %
Contributions - in-kind	13,200	-	13,200	0.6
Contract revenue	1,126,668	-	1,126,668	54.4
Grants	21,500	250,000	271,500	13.1
Special events, net of direct costs of \$19,618	32,374	-	32,374	1.6
Net gain on investments, dividends & distributions	5,163	-	5,163	0.2
Loss on disposal of assets	(3,243)	-	(3,243)	(0.2)
	1,693,752	377,047	2,070,799	100.0
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	244,209	(244,209)	-	
Total support and revenue	1,937,961	132,838	2,070,799	100.0
Expenses:				
Program	1,707,961	-	1,707,961	82.5
Fundraising	230,574	-	230,574	11.1
General and administrative	263,039	-	263,039	12.7
Total expenses	2,201,574	-	2,201,574	106.3
Change in net assets	(263,613)	132,838	(130,775)	(6.3) %
Net assets, beginning of year	284,054	25,812	309,866	
Net assets, end of year	\$ 20,441	\$ 158,650	\$ 179,091	

The accompanying notes are an integral part of these financial statements

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2011

	<u>Program Services</u>			<u>General and administration</u>		
	Research and trials	Community education	Total Program Services	Fundraising	administration	Total
Advertising	\$ 2,428	\$ -	\$ 2,428	\$ -	\$ -	\$ 2,428
Depreciation	60,718	12,442	73,160	12,850	17,953	103,963
Dues and subscriptions	495	-	495	39	200	734
Facilities rent	214,495	39,047	253,542	25,469	19,912	298,923
Insurance - liability and content	24,008	580	24,588	434	3,857	28,879
Interest	-	-	-	-	12,693	12,693
Medical research	147,796	-	147,796	-	-	147,796
Meetings, conferences and meals	25,179	995	26,174	1,633	51,337	79,144
Office expense	35,288	1,127	36,415	21,753	33,271	91,439
Office supplies	4,477	5,114	9,591	528	7,353	17,472
Outside services	5,534	-	5,534	13,384	51,859	70,777
Postage and shipping	1,105	131	1,236	3,378	2,640	7,254
Printing	487	-	487	3,545	-	4,032
Program expenses	49,994	485	50,479	-	-	50,479
Repair and maintenance	8,109	-	8,109	-	-	8,109
Salaries and related costs	732,281	164,733	897,014	139,091	72,344	1,108,449
Staff recruitment	49,729	37,902	87,631	25	-	87,656
Supplies	-	-	-	9,868	-	9,868
	\$ 1,362,123	\$ 262,556	\$ 1,624,679	\$ 231,997	\$ 273,419	\$ 2,130,095

The accompanying notes are an integral part of these financial statements

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2010

	<u>Program Services</u>		<u>General and administration</u>		
	<u>Research and trials</u>	<u>Community education</u>	<u>Total</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 1,500	\$ -	\$ 1,500	\$ -	\$ 1,500
Depreciation	47,519	11,022	58,541	10,276	86,683
Dues and subscriptions	4,677	-	4,677	-	4,871
Facilities rent	230,447	53,179	283,626	44,142	383,091
Insurance - liability and content	26,068	975	27,043	748	32,208
Interest	-	-	-	-	11,360
Medical research	136,634	-	136,634	-	136,634
Meetings, conferences and meals	35,512	250	35,762	1,920	46,538
Office expense	28,474	1,177	29,651	12,628	76,473
Office supplies	2,875	1,610	4,485	42	14,383
Outside services	9,276	250	9,526	3,082	65,780
Postage and shipping	5,827	2,245	8,072	4,705	14,966
Printing	-	6,965	6,965	-	6,965
Program expenses	30,290	6,046	36,336	-	36,336
Repair and maintenance	1,934	-	1,934	-	2,020
Salaries and related costs	860,510	161,462	1,021,972	142,563	1,230,061
Staff recruitment	34,725	6,512	41,237	85	41,322
Supplies	-	-	-	10,383	10,383
	\$ 1,456,268	\$ 251,693	\$ 1,707,961	\$ 230,574	\$ 2,201,574

The accompanying notes are an integral part of these financial statements

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
STATEMENT OF CASH FLOWS

<i>For the year ended December 31,</i>	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (137,616)	\$ (130,775)
Adjustments to reconcile change in net assets to net cash flow used in operating activities:		
Depreciation expense	103,963	86,683
Donated investments	-	(42,182)
Net loss (gains) on investments	2,362	(5,055)
Loss on sale of fixed assets	-	3,243
(Increase) decrease in assets:		
Contracts receivable	98,759	109,377
Contributions and grants receivable	86,500	(106,614)
Prepaid expenses	(3,049)	29,342
Increase (decrease) in liabilities:		
Accounts payable	65,069	89,110
Accrued expenses	(17,569)	5,970
Deferred rent	(29,674)	71,124
Net cash provided by operating activities	168,745	110,223
Cash flows from investing activities:		
Proceeds from sale of investments	53,953	170,231
Proceeds from sale of assets	-	1,271
Purchase of property and equipment	(26,776)	(136,432)
Net cash provided by investing activities	27,177	35,070
Cash flows from financing activities:		
Repayment of bank line of credit	(168,006)	(26,927)
Proceeds from the issuance of long term debt	134,371	-
Net cash used in financing activities	(33,635)	(26,927)
Net change in cash	162,287	118,366
Cash, beginning of year	118,366	-
Cash, end of year	\$ 280,653	\$ 118,366
Supplemental disclosure of cash flow information:		
Interest paid	\$ 12,693	\$ 8,192
Recognition of in-kind contributions	\$ 2,267	\$ 13,200
Receipt of donated investments	\$ -	\$ 28,982

The accompanying notes are an integral part of these financial statements

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

NOTE 1

PURPOSE AND ACTIVITIES

AIDS Research Alliance (“ARA” or the “Organization”), a nonprofit Organization founded in 1989, is a national leader in fast-track independent AIDS research seeking to develop a cure for AIDS and develop medical strategies to prevent new infections and better treatments for people living with HIV/AIDS.

The Organization is comprised of physicians, scientists and other medical professionals who are dedicated to identifying more effective, less toxic treatments, and, eventually, a cure for people who are living with AIDS and HIV. The Organization is engaged in the development of effective treatments for HIV and its complications by conducting aggressive research designed to quickly and effectively demonstrate the merits of potential new HIV/AIDS therapies.

The Organization has conducted over 100 clinical and preclinical studies, ranging from therapies that take a holistic approach to HIV management to the first ever in-human HIV vaccine trial. ARA collaborates with pharmaceutical companies, small biotech firms as well as academic and government scientists, to advance the search for a cure and develop prevention strategies. ARA supports its own independent research by leveraging privately raised funds as well as income from clinical trials conducted for pharmaceutical companies.

The Organization’s scientific journal, *Searchlight*, focuses on the scientific endeavors of ARA and related developments in AIDS research and drug development, and is aimed primarily at the scientific and research communities.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

ARA’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The Financial Accounting Standards Board (“FASB”) established the FASB Accounting Standards Codification (“FASB ASC”) as the source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP.

In preparing these financial statements, management evaluated the period from January 1, 2012 through June 7, 2012, the date the financial statements were available for issuance for material subsequent events requiring recognition or disclosure in the accompanying financial statements.

Financial statement presentation:

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The classification of assets is based on the existence or absence of donor imposed restrictions, and the statement of activities reflects the changes in the classification of net assets. Net assets of the Organization are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by the actions of the Organization and/or the passage of time.

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

▪ *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Generally, the donors of these assets permit the Organization to use all or part of the investment income (such as interest and dividends) generated by the permanently restricted net assets but require that the value of the original contribution as well as changes in value of the related investments (other than investment income) be retained for further capital appreciation.

During the years ended December 31, 2011 and 2010, the Organization did not receive any revenues that should be classified as permanently restricted.

Liquidity:

The Organization's financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Organization as a going concern basis of accounting. However, the Organization has sustained significant decrease in net assets in recent years, has used substantial amounts of working capital in its operations; and at December 31, 2011, its current liabilities exceeded current assets by \$127,020 and it had negative unrestricted net assets of \$162,895. During the years ended December 31, 2011 and 2010, the Organization experienced a decrease in net assets of \$137,616 and \$130,775, respectively. However, the Organization in 2011 recorded a reversal of \$70,047 in revenue and support due to its removal as a beneficiary under a charitable remainder trust that was reported as revenue and support in 2010 (See Note 4). Accordingly, the Organization excluding the trust revenue would have reported a change in net assets of \$(200,822) for 2010 and \$(67,569) for 2011.

The Organization has taken steps to reduce its operating costs and discretionary spending to better align the Organization's cost structures.

Additionally, the Organization is focused on certain strategic opportunities to increase its revenues. Management believes that actions presently being taken along with management's future plans provide the opportunity for the Organization to continue as a going concern.

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 and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition:

The Organization has entered into agreements with various pharmaceutical companies to conduct trials using experimental drugs. These transactions are considered exchange transactions under FASB ASC 958-605, *Revenue Recognition*. As such, revenues are deemed to be earned and are recorded as revenue when services are rendered. Any funds received pursuant to these agreements in advance of services being rendered by the Organization are classified as deferred revenue.

Contributions:

Unconditional promises to give are recognized as contributions when the underlying promises are received by the Organization. Gifts of cash, unconditional promises to give, and other assets are reported as temporary restricted support if they are received with donor stipulations that specify the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporary restricted net assets are reclassified to

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind contributions:

Donated services are recognized as contributions in accordance with ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In-kind contributions are recorded at estimated fair market value.

Total in-kind donations and services received consisted of the following:

<i>December 31,</i>	2011	2010
In-kind donations	\$ 2,267	\$ 13,200
Total	\$ 2,267	\$ 13,200

The Board of Directors and certain Organization administrative staff provide services to ARA without compensation. The value of these services is not recorded in the financial statements since they would typically not need to be purchased if not provided by donation.

Concentrations of credit risk:

During 2011, the Organization derived 89% of its contract revenue from two clinical research organizations. As of December 31, 2011, 98% of the contracts receivable were due from a clinical research organization and a pharmaceutical company for which the Organization has completed or is currently conducting research trials. During the year ended December 31, 2011, ARA derived 70% of its public support from one corporate contributor.

During 2010, the Organization derived 86% of its contract revenue from one pharmaceutical company. As of December 31, 2010, 93% of the contracts receivable were due from three pharmaceutical companies for which the Organization has completed or is currently conducting research trials.

During the year ended December 31, 2010, ARA derived 47% of its public support from one corporate contributor.

A significant reduction in the amounts of pharmaceutical contracts could have a material adverse effect on the Organization's results of operations and financial condition.

Other financial instruments which potentially subject the Organization to concentration of credit risk consist of cash (which is federally insured up to certain limits) and temporary investments. Management believes the Organization maintains deposit relationships with financially sound, high quality financial institutions.

The Organization had cash deposits in excess of federally insured limits at various times of the year at one financial institution. The Organization, however, has not experienced and does not anticipate nonperformance by the financial institution.

Cash equivalents:

The Organization considers all highly liquid instruments purchased with original maturities of less than three months to be cash equivalents.

Marketable securities:

The Organization records its marketable securities at their fair market value. Investment earnings available for distribution are recorded as unrestricted net assets. Gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Property and equipment:

Property and equipment are stated at cost, if purchased, or at donated fair market value at the date of acquisition, if contributed, with depreciation

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

recorded using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	3 – 7 years
Furniture	7 years
Website	5 years
Leasehold improvements	5 – 10 years

Expenditures for additions and major improvements are capitalized at cost, whereas the cost of repairs and maintenance is charged to expense as incurred. At such time that property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the respective asset and accumulated depreciation accounts, and the gain or loss on such dispositions is recorded in the change in net assets.

During 2011, the Organization began developing a new website with an increased focus upon donor accessibility. The development costs associated with the development of the website, totaling \$11,295 were capitalized as incurred. The website was not operational until subsequent to 2011, and the amortization expense of the associated costs was \$0 for 2011.

Income taxes:

The Organization is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. The Organization believes that during the years ended December 31, 2011 and 2010 that it had no unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Organization follows the provisions of FASB ASC 740-10 *Income Taxes*. Accordingly, ARA accounts for uncertain tax positions by recording a

liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. The Organization does not believe that its financial statements include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

Contracts receivable:

Contracts receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for losses on contracts receivable using the allowance method. The allowance based on the Organization's historical experience, terms of contracts, and other facts and circumstances which may affect the ability of pharmaceutical companies to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Contributions and grants receivable:

Contributions and grants receivable are stated at the amounts management expects to collect from donors and grantors. The amounts have been substantially collected subsequent to year end.

Advertising:

The Organization uses advertising to promote its clinical trial programs. Costs of advertising are expensed as incurred. During the years ended December 31, 2011 and 2010, advertising costs were \$2,428 and \$1,500, respectively.

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

Special events:

The Organization sponsors various fundraising events every other year. The Organization had its major fundraising event during the year ended December 31, 2011.

Reclassification:

Certain reclassifications have been made so that the December 31, 2010 amounts conform to the December 31, 2011 classifications. These reclassifications had no effect on the change in net assets for the year ended December 31, 2010.

NOTE 3

INVESTMENTS

Investments are recorded at their fair values and consist of individual equities and equity mutual funds.

The Organization follows ASC 820-10 *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by ASC 820-10. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The following table summarizes the valuation of the Organization's investments by the ASC 820-10 fair value hierarchy levels.

<i>As of December 31,</i>	Level 1	
	2011	2010
Mutual funds	\$ -	\$ 49,954
Marketable equity securities	-	6,361
Total	\$ -	\$ 56,315

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

Investment income and net realized and unrealized gains (losses) consist of the following:

<i>For the year ended December 31,</i>	2011	2010
Dividends & capital gains distributions	\$ 48	\$ 15,998
Net realized and unrealized (losses) gains	(2,362)	(10,835)
Total	\$ (2,314)	\$ 5,163

NOTE 4

UNITRUST RECEIVABLES

The Organization is one of the beneficiaries named under a charitable remainder unitrust ("Trust") established in November 2010. The Trust stipulates that the Organization will receive 11% of the value of the Trust at the time of the donor's death or the sale of the "trust estate." The estimated present value of the contribution is discounted based on the donor's life expectancy and recorded as a temporarily restricted contribution. The asset held under the Trust, a four-unit apartment building in West Hollywood, had a fair market value of approximately \$1,125,000 as of December 31, 2010. The present value of future benefits expected to be received by the Organization is estimated to be \$70,047 as of December 31, 2010.

In 2011, the Organization was notified that it was replaced as a beneficiary of the trust. As such, the Organization in 2011 reversed the receivable and related revenue previously recorded in 2010.

NOTE 5

PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

<i>For the years ended December 31,</i>	2011	2010
Furniture	\$ 112,138	\$ 110,863
Equipment	345,733	331,527
Website	11,295	-
Leasehold improvements	169,362	169,362
	638,528	611,752
Less: accumulated depreciation	(366,803)	(262,840)
	\$ 271,725	\$ 348,912

Depreciation expense recognized was \$103,963 and \$86,683 during the years ended December 31, 2011 and December 31, 2010, respectively.

NOTE 6

LINE OF CREDIT

The Organization maintains a revolving credit agreement with a bank that provides for maximum borrowings of \$250,000 and is secured by substantially all of the Organization's assets. Outstanding borrowings under this revolving credit agreement as of December 31, 2011 and 2010 was \$134,371 and \$169,162, respectively.

Effective December 2010, the revolving credit agreement was amended with a required minimum payment of \$4,800 per month, commencing on December 10, 2010 and continuing each month thereafter until maturity. The interest rate on the line of credit was greater of the Prime plus 4.75% or a Floor Rate of 8% as of December 31, 2010.

On January 27, 2012, the Organization restructured the Line of Credit, which expired in November 2011, into a term loan agreement. The term loan has a balance of \$129,606 net of the payment made in January 2012. The loan is payable in thirty-six (36)

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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

monthly installments of \$4,062 including interest, commencing March 15, 2012. The loan bears an annual interest rate equal to the greater of a Floating Rate which is equal to the index plus 4.0% or the Floor Rate of 8.0%. The loan is secured by substantially all of the Organization's assets.

Interest expense incurred on borrowings pursuant to the revolving credit agreement was \$12,693 and \$11,360 for the years ended December 31, 2011 and 2010.

The principal maturities of term loan agreement are summarized as follows:

<i>For the year ended December 31,</i>	Total
2012	\$ 37,179
2013	42,502
2014	46,029
2015	8,661
	\$ 134,371

NOTE 7

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2011 and 2010 consisted of the following:

<i>For the years ended December 31,</i>	2011	2010
Donations:		
HIV prostratin study	\$ 202,370	\$ -
Community outreach	2,000	-
Charitable remainder unitrust	-	70,047
Other clinical trials	-	6,000
	204,370	76,047
Grant:		
Pepsi Refresh	-	82,603
Total	\$ 204,370	\$ 158,650

NOTE 8

MEDICAL RESEARCH EXPENSE

Medical research expenses include, but are not limited to, laboratory fees, imaging, medical supplies and other research expenses for the following research studies: HVTN 505 (HIV Vaccines), Theratechnologies (growth hormone analog), Merck (HIV-1 Vaccines: Low Risk, High Risk, Integrase Inhibitor (Fail/Naïve), Pfizer (Pregabalin A0081066 / A0081095), Spectra Point, NeurogesX, Inc. (C119 Neuropathy), Napo Pharmaceuticals, Inc (Diarrhea Study), POM Wonderful, (Natural Therapy Study), Schering Plough (Antiviral Salvage Therapy).

In addition, substantial preclinical development of a naturally occurring molecule-Prostratin was performed under license from the National Institutes of Health (NIH).

NOTE 9

RETIREMENT PLAN

The Organization provides a 403(b)(7) Plan under which employees may, by elective deferral under a salary reduction agreement, contribute to the Plan. Contributions and investments are determined by the employees. The Organization made no contributions to the Plan for the years ended December 31, 2011 and 2010.

NOTE 10

COMMITMENTS

In 2008, the Organization entered into an operating lease for its new facility in Los Angeles which expires in December 2013. The lease agreement contains a provision for rent adjustments based on fluctuations in the Consumer Price Index.

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For the years ended December 31, 2011 and 2010

During 2010, the facility lease was modified with a reduced payment schedule commencing in April 2010 through December 2010, for a total of \$90,000 in deferred payments. The total amount deferred was scheduled to be paid back over 18 months, commencing in June 2011, with an interest rate of 8%. The Organization was not able to comply with this agreement. Accordingly, in September 2011, the Organization and the landlord entered into additional lease payment deferrals.

As of the December 31, 2011, the Organization owed a total of \$260,579 on its facility lease which was included in accounts payable in the accompanying statement of financial position.

The following is a schedule by fiscal year of future minimum rent payments for the facility under operating leases that have initial or remaining noncancellable lease payments in excess of one year.

***For the years
ending***

<i>December 31,</i>	Facility	Equipment	Total
2012	\$ 381,789	\$ 6,749	\$ 388,538
2013	393,246	6,749	399,995
2014	-	6,749	6,749
2015	-	6,749	6,749
2016	-	562	562
	\$ 775,035	\$ 27,558	\$ 802,593

Rent expense recorded during the years ended December 31, 2011 and 2010 was \$306,277 and \$353,926, respectively.

NOTE 11

FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates by the Organization.

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 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2011

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through number	Disbursements/ Expenditures
U.S. Department of Health and Human Services			
Pass-through from Fred Hutchinson Cancer Research Center - Allergy, Immunology and Transplantation Research	93.855	0000695967	\$ 553,063
Pass-through from Fred Hutchinson Cancer Research Center - Allergy, Immunology and Transplantation Research	93.855	0000723006	\$ 505,619
Pass-through from University of California, Los Angeles - Allergy, Immunology and Transplantation Research	93.855	1568 G KB982	234,929
			\$ 1,293,611

AIDS RESEARCH ALLIANCE
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Notes to Schedule of Expenditures of Federal Awards:

Note A – The accompanying schedule of expenditures of federal awards includes the federal grant activity of AIDS Research Alliance and is prepared on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

AIDS RESEARCH ALLIANCE

(A NONPROFIT CALIFORNIA CORPORATION)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Board of Directors

AIDS Research Alliance

Los Angeles, California

We have audited the financial statements of AIDS Research Alliance (a California nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 7, 2012. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered AIDS Research Alliance's internal control over financial reporting as a basis for designing our audit 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 AIDS Research Alliance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting [2011-1, 2011-2, 2011-3]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

AIDS RESEARCH ALLIANCE

(A NONPROFIT CALIFORNIA CORPORATION)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether AIDS Research Alliance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 that are required to be reported under *Government Auditing Standards*.

AIDS Research Alliance's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit AIDS Research Alliance's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and 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.

Ross Daskal & Finkelstein LLP

Long Beach, California
June 7, 2012

AIDS RESEARCH ALLIANCE

(A NONPROFIT CALIFORNIA CORPORATION)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors

AIDS Research Alliance

Los Angeles, California

COMPLIANCE

We have audited AIDS Research Alliance's (a California nonprofit organization) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of AIDS Research Alliance's major federal programs for the year ended December 31, 2011. AIDS Research Alliance's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of AIDS Research Alliance's management. Our responsibility is to express an opinion on AIDS Research Alliance's compliance based on our audit.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about AIDS Research Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on AIDS Research Alliance's compliance with those requirements.

In our opinion, AIDS Research Alliance complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

AIDS RESEARCH ALLIANCE

(A NONPROFIT CALIFORNIA CORPORATION)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INTERNAL CONTROL OVER COMPLIANCE

The management of AIDS Research Alliance is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered AIDS Research Alliance's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AIDS Research Alliance's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management, and 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.

Rossi Droskovic & Finkelstein LLP

Long Beach, California

June 7, 2012

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2011

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of AIDS Research Alliance.
2. Noted three instances of significant deficiencies relating to the audit of the financial statements, which would be required to be reported in the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of AIDS Research Alliance, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal programs are reported in the "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133."
5. The auditor's report on compliance for the major federal award program for AIDS Research Alliance expresses an unqualified opinion on the major program.
6. No audit findings relating to the major federal award program that are required to be reported under Section 510(a) of OMB Circular A-133 were disclosed during the audit.
7. The program tested as major programs included: Allergy, Immunology and Transplantation Research, CFDA # 93.855.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. AIDS Research Alliance was not determined to be a low-risk auditee.

B. Findings — Financial Statement Audit

Significant Deficiencies

2011-1

Condition:

We noted the following control deficiencies related to segregation of duties:

- a. The Controller performs all the payroll function within the Organization such as accumulates payroll information, communicates with payroll processor to process payroll, performs updates/changes on payroll information, reviews payroll register and records payroll to the general ledger. We noted that the CEO reviews payroll bank statement information.

AIDS RESEARCH ALLIANCE
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2011

- b. Journal entries are not properly reviewed by employee separate from the posting process. In addition, we noted that payroll costs were not properly allocated to proper accounts resulting to material reclassification during the year.
- c. Bank reconciliations are prepared, but not reviewed by a separate employee

Criteria:

Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties, which means that no one employee should have access to both physical custody and access to the related accounting records or to all phases of a transaction.

Effect:

Without proper segregation of duties or review performed, an employee of the Organization may be able to perpetrate and conceal fraud without detection by management.

Recommendation:

Although the size of the Company's accounting staff prohibits complete adherence to this concept, the following practices could be implemented to improve existing internal control without impairing efficiency:

- a. Although the CEO reviews the payroll bank statement, payroll should be reviewed by an individual other than the Controller.
- b. Journal entries should be reviewed and approved by an employee other than the one who prepared the entry. This will help ensure that transactions are proper and will result to fewer adjustments on the general ledger.
- c. The Organization should assign an appropriate individual to review and approve monthly bank reconciliations on a timely basis.

2011-2

Condition:

The Organization failed to identify and record a significant number of adjustments required by generally accepted accounting principles necessary to prevent a misstatement in the financial statements.

Criteria:

An adequate and sound system of internal control encompasses policies and procedures designed to prevent or detect and correct material misstatements for account balances, transaction classes and disclosures which includes a monthly close process that involves reconciliation of all significant balance sheet accounts to subsidiary ledgers, supporting schedules or other analysis, including an overall analytical review, in order to ensure the accuracy of the financial statements.

Effect:

Failure to analyze and review transactions contained in the financial statement will cause certain account balances to be understated or overstated that could have a material impact on the financial statements.

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2011

Recommendation:

The Organization should adopt monthly close policies and procedures requiring that an analytical review be performed by an individual with adequate knowledge of the Organization's transactions to ensure the accuracy of the financial statements.

Management's response:

In general, the Organization accepts the aforementioned comments and recommendations, but notes the following:

The Organization has adopted best practices regarding segregation of duties, particularly in the handling of cash for the clinic, which is substantial because we pay our patients in cash for each visit. The records for all cash payments are prepared in the clinic; new requests for cash are made by the Office Administrator on the basis of the clinic's records, and the Executive Director reviews and approve each payment in advance based on the clinic's records and receipts. Finally, the Controller prepares the check, which the Executive Director signs.

Wells Fargo, who handles payroll for ARA, sends the Executive Director a personal and confidential payroll report for each pay period, by overnight mail. The Executive Director shares that with the Controller, after reviewing it. The Controller does, indeed, communicate directly with Wells Fargo regarding the payroll, but only after consultation with the Executive Director.

The Organization will look into whether additional controls can be established and will continue to make progress in the area of segregation of duties to the extent possible, given our staffing limitations.

C. Findings and Questioned Costs — Major Federal Award Program Audit

NONE

D. Prior year Findings and Questioned Costs:

2010-1

Significant Deficiency

Condition:

During the year ended December 31, 2010, the Organization failed to comply with certain required contractual billing procedures under one of its grants. The contract entered into by ARA required that ARA issue monthly billings based on costs incurred under the contract. However, the Organization's monthly billing was based on the approved annual budget rather than the actual costs incurred for the contract.

Criteria:

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2011

Compliance with contractual requirements should be part of the internal control environment. The Organization as a component of internal control should establish policies and procedures to ensure that the Organization identifies and monitors all the compliance requirements established by grantors.

Effect:

The failure to properly identify and monitor compliance requirements under federal award programs could result in a loss of federal funding. In addition, if the Organization is noncompliant with the requirements set by the grantors, the Organization's revenues within the financial statements could be materially misstated.

Auditor's Recommendation:

The Organization should implement policies and procedures to properly identify and monitor grant compliance requirements. In addition, the Organization should establish adequate systems and procedures to track costs incurred for separate programs, especially federal award programs. The amount of costs incurred by contract should be reviewed by management on a monthly basis for reasonableness and compliance to the terms of the contract, including billing requirements.

Organization's Response:

Our failure to comply with certain required billing procedures stemmed from an insufficient integration of AIDS Research Alliance as an investigative site for the international HIV Vaccine Trials Network, HVTN. As a new sub-awardee, we could not comply with procedures unknown to us, or that we should otherwise have known about.

AIDS Research Alliance is a sub-awardee on this federal grant and, as such, training was not made available for the financial components of the grant. The subject requirements for financial reporting for grant compliance were not communicated to our site until February 2010, three months before the end of the first grant period. At that time, it was disclosed that NIH holds bi-annual seminars regarding contracting and budgeting. The administrative official attended the first available seminar in April 2010 (one month prior to the end of the first grant period).

Since being notified about the requirements, the organization's chart of accounts has been modified to accurately capture the true costs associated with the grant. New processes have been implemented to further enforce compliance. The processes and procedures that are currently utilized document all required components of grant reporting. Furthermore, the process by which invoices for federal grants are created has been formalized and documented, and are now in full compliance.