



**AIDS  
Research  
Alliance**

From hope to cure.

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2012 AND 2011**

**AND REPORTS IN COMPLIANCE WITH  
OMB CIRCULAR A-133  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**AIDS RESEARCH ALLIANCE**  
(A NONPROFIT CALIFORNIA CORPORATION)  
FINANCIAL STATEMENTS



**AIDS  
Research  
Alliance**  
From hope to cure.

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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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of AIDS Research Alliance (a nonprofit California corporation), which comprise the statement of financial positions as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIDS Research Alliance as of December 31, 2012 and 2011, 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.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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. The 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 financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated September 20, 2013, 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* in considering AIDS Research Alliance's internal control over financial reporting and compliance.

*Rossi Doskocil & Finkelstein LLP*

September 20, 2013  
Long Beach, California

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

<i>As of December 31,</i>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 97,939	\$ 280,653
Contracts receivable, net of allowance for doubtful accounts of \$0 and \$7,029 for 2012 and 2011, respectively	115,808	136,307
Contributions and grants receivable, net of unamortized discount	100,000	36,034
Investments	41,339	-
Prepaid expenses	6,255	24,035
Total current assets	361,341	477,029
<b>Property and equipment, net</b>	181,717	260,430
<b>Other assets:</b>		
Intangible assets, net of accumulated amortization of \$3,741 and \$2,259, respectively	16,664	11,295
Land held for sale	13,200	13,200
Deposits and other assets	33,011	33,011
Total other assets	62,875	57,506
Total assets	\$ 605,933	\$ 794,965
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Current maturities long-term debt	\$ 42,817	\$ 37,179
Accounts payable	229,893	479,448
Accrued expenses	71,935	46,630
Deferred revenue	6,942	-
Deferred rent - current portion	52,239	40,802
Total current liabilities	403,826	604,059
<b>Long-term liabilities:</b>		
Long-term debt, less current maturities	55,131	97,192
Deferred rent	275,000	52,239
Total long-term liabilities	330,131	149,431
Total liabilities	733,957	753,490
<b>Commitments and Contingencies</b>		
<b>Net assets:</b>		
Unrestricted	(308,765)	(162,895)
Temporarily restricted	180,741	204,370
Total net assets	(128,024)	41,475
	\$ 605,933	\$ 794,965

*The accompanying notes are an integral part of these financial statements*

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

<i>For the year ended December 31,</i>		<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>%</b>	
<b>Support and revenue:</b>					
Contributions - general	\$ 494,381	\$ -	\$ 494,381	25.3	%
Contributions - in-kind	61,702	-	61,702	3.2	
Contract revenue	1,363,552	-	1,363,552	69.7	
Special events, net of direct costs of \$24,458	34,032	-	34,032	1.7	
Other income	2,282	-	2,282	0.1%	
	1,955,949	-	1,955,949	100%	
<b>Net assets released from restrictions:</b>					
Satisfaction of program/donor restrictions	23,629	(23,629)	-		
Total support and revenue	1,979,578	(23,629)	1,955,949	100.0	
<b>Expenses:</b>					
Program	1,547,447	-	1,547,447	79.1	
Fundraising	416,587	-	416,587	21.3	
General and administrative	161,413	-	161,413	8.3	
Total expenses	2,125,448	-	2,125,448	108.7	
<b>Change in net assets</b>	(145,870)	(23,629)	(169,499)	(8.7)	%
<b>Net assets, beginning of year</b>	(162,895)	204,370	41,475		
<b>Net assets, end of year</b>	\$ (308,765)	\$ 180,741	\$ (128,024)		

*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,*

	<b>2011</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>%</b>
<b>Support and revenue:</b>				
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
Other income (loss)	(2,287)	-	(2,287)	(0.1)
	1,755,109	237,370	1,992,479	100.0
<b>Net assets released from restrictions:</b>				
Satisfaction of program/donor restrictions	191,650	(191,650)	-	
Total support and revenue	1,946,759	45,720	1,992,479	100.0
<b>Expenses:</b>				
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	106.91
<b>Change in net assets</b>	(183,336)	45,720	(137,616)	(6.9) %
<b>Net assets, beginning of year</b>	20,441	158,650	179,091	
<b>Net assets, end of year</b>	\$ (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 FUNCTIONAL EXPENSES

*For the year ended December 31, 2012*

	Research and trials	Community education	Total Program Services	Fundraising	General and administration	Total
Advertising	\$ 572	\$ 80	\$ 652	\$ -	\$ -	\$ 652
Bank and credit fees	242	4	246	3,286	8,601	12,133
Depreciation	56,955	5,780	62,735	8,063	17,181	87,979
Dues and subscriptions	287	-	287	16	-	303
Facilities and equipment lease	267,429	43,898	311,327	37,502	9,444	358,272
Insurance - liability and content	22,783	1,109	23,892	1,775	1,925	27,592
Interest	-	-	-	-	9,674	9,674
Medical research	156,306	34	156,340	30	50	156,420
Meetings, conferences and meals	25,737	324	26,062	2,689	7,728	36,478
Office expense	20,190	2,137	22,326	4,302	10,904	37,532
Office supplies	1,530	-	1,530	1,208	5,924	8,662
Outside services	88,824	8,228	97,052	92,251	11,841	201,144
Postage and shipping	20,977	118	21,095	3,905	1,393	26,393
Printing	371	-	371	1,292	557	2,221
Repair and maintenance	1,200	-	1,200	-	29	1,229
Salaries and related costs	734,886	53,113	787,998	256,838	73,857	1,118,694
Taxes and licenses	34,334	-	34,334	3,430	2,305	40,069
	\$ 1,432,623	\$ 114,824	\$ 1,547,447	\$ 416,587	\$ 161,413	\$ 2,125,448

*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*

	<b><u>Program Services</u></b>				<b><u>General and administration</u></b>	
	<b>Research and trials</b>	<b>Community education</b>	<b>Total Program Services</b>	<b>Fundraising</b>		<b>Total</b>
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 CASH FLOWS

<i>For the year ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (169,499)	\$ (137,616)
Adjustments to reconcile change in net assets to net cash flow used in operating activities:		
Depreciation and amortization expense	87,979	103,963
Donated investments	(41,339)	-
Net loss (gains) on investments	-	2,362
(Increase) decrease in assets:		
Contracts receivable	20,499	98,759
Contributions and grants receivable	(63,966)	86,500
Prepaid expenses	17,780	(3,049)
Increase (decrease) in liabilities:		
Accounts payable	(249,555)	65,069
Accrued expenses	25,305	(17,569)
Deferred revenue	6,942	-
Deferred rent	234,198	(29,674)
Net cash provided by operating activities	(131,656)	168,745
<b>Cash flows from investing activities:</b>		
Investment in website development	(9,110)	-
Proceeds from sale of investments	-	53,953
Purchase of property and equipment	(5,525)	(26,776)
Net cash provided by investing activities	(14,635)	27,177
<b>Cash flows from financing activities:</b>		
Repayment of long term debt	(36,423)	(168,006)
Proceeds from the issuance of long term debt	-	134,371
Net cash used in financing activities	(36,423)	(33,635)
<b>Net change in cash</b>	<b>(182,714)</b>	<b>162,287</b>
<b>Cash, beginning of year</b>	<b>280,653</b>	<b>118,366</b>
<b>Cash, end of year</b>	<b>\$ 97,939</b>	<b>\$ 280,653</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 9,674	\$ 12,693
Recognition of in-kind contributions	\$ 61,702	\$ 2,267
Receipt of donated investments	\$ 41,339	\$ -

*The accompanying notes are an integral part of these financial statements*

*For the years ended December 31, 2012 and 2011*

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**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 150 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 September 20, 2013, 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.

***For the years ended December 31, 2012 and 2011***

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▪ *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, 2012 and 2011, 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, 2012, its current liabilities exceeded current assets by \$42,485 and it had negative unrestricted net assets of \$308,765. During the years ended December 31, 2012 and 2011, the Organization experienced a decrease in net assets of \$169,499 and \$137,616, respectively.

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 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)

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

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***For the years ended December 31, 2012 and 2011***

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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:

<b><i>December 31,</i></b>	<b>2012</b>	<b>2011</b>
In-kind donations	\$ 61,702	\$ 2,267
Total	\$ 61,702	\$ 2,267

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 2012, the Organization derived 70% of its contract revenue from two clinical research organizations. As of December 31, 2012, 48% of the contracts receivable were due from a clinical research organization for which the Organization has completed or is currently conducting research trials. During the year ended December 31, 2012, ARA derived 20% of its public support from one individual contributor.

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.

Effective June 1, 2012, the Organization's two primary clinical research contracts were extended through December 2013. The associated research

contracts are awarded by the NIH, and then subcontracted to the Organization. The ongoing contract revenue from these clinical research organizations beyond 2013 is dependent, in part, upon the Organization's membership within a specified medical research network. The Organization's membership, along with all other memberships, is currently under a national review process that will determine renewal for an approximately 7 year period subsequent to 2013. However, a current clinical trial under the existing contract will continue as modified (HVTN 505.5) through December 2015. Although the Organization fully expects renewal within the network, the Organization has not been notified of the results of this evaluation, as of the reporting date. The non-renewal of the Organization's contract with this network would have a material adverse affect on the Organization's results of operations and financial conditions.

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.

***For the years ended December 31, 2012 and 2011***

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***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 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 on donor accessibility. The development costs associated with the development of the website were capitalized as incurred. Total capitalized costs on the website were \$20,405 and \$11,295 for the years ended December 31, 2012 and 2011. Total amortization expense of the associated costs was \$3,741 and \$0 for 2012 and 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, 2012 and 2011 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

***For the years ended December 31, 2012 and 2011***

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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, 2012 and 2011, advertising costs were \$ 652 and \$2,428, respectively.

***Special events:***

The Organization sponsors various fundraising events every other year. The Organization had its major fundraising events during the year ended December 31, 2012.

***Reclassification:***

Certain reclassifications have been made so that the December 31, 2011 amounts conform to the December 31, 2012 classifications. These reclassifications had no effect on the change in net assets for the year ended December 31, 2011.

**NOTE 3**

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**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.

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

***For the years ended December 31, 2012 and 2011***

<i>As of December 31,</i>	<b>2012</b>	<b>2011</b>
Mutual funds	\$ -	\$ -
Marketable equity securities	41,339	-
Total	\$ 41,339	\$ -

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

<i>For the year ended December 31,</i>	<b>2012</b>	<b>2011</b>
Dividends & capital gains distributions	\$ 10	\$ 48
Net realized and unrealized (losses) gains	-	(2,362)
Total	\$ 10	\$ (2,314)

**NOTE 4**

**SPLIT INTEREST AGREEMENT**

In 2012, the Organization was notified that it was named as a beneficiary under a trust agreement (the "Trust"). The Trust stipulates that the Organization will receive substantial portion of the donor's estate upon the donor's death. The estimated current value of the beneficiary interest in the Trust was approximately \$1.2 Million at December 31, 2012.

Under the guidance of ASC 958-605 *Non-profit Revenue Recognition*, which determines the recognition criteria for split interest agreement, the transaction was determined to be revocable and, thus, not recorded at December 31, 2012 in the accompanying financial statements.

**NOTE 5**

**PROPERTY AND EQUIPMENT, NET**

Property and equipment are summarized as follows:

<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
Furniture	\$ 112,138	\$ 112,138
Equipment	311,029	345,733
Leasehold improvements	169,362	169,362
	592,529	627,233
Less: accumulated depreciation	(410,812)	(366,803)
	\$ 181,717	\$ 260,430

Depreciation expense recognized was \$86,683 and \$103,963 during the years ended December 31, 2012 and December 31, 2011, respectively.

**NOTE 6**

**LONG TERM DEBT**

On January 27, 2012, the Organization restructured its Line of Credit, which expired in November 2011, into a term loan agreement. The term loan was in an original amount of \$129,606. The loan is payable in thirty-six (36) 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 a 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 \$9,674 and \$12,693 for the years ended December 31, 2012 and 2011.



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NOTES TO FINANCIAL STATEMENTS

***For the years ended December 31, 2012 and 2011***

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

<b><i>For the year ended December 31,</i></b>	<b>Total</b>
2013	\$ 42,817
2014	46,029
2015	9,102
	<u>\$ 97,948</u>

**NOTE 7**

**RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets at December 31, 2012 and 2011 consisted of the following:

<b><i>For the years ended December 31,</i></b>	<b>2012</b>	<b>2011</b>
Donations:		
HIV prostratin study	\$ 180,741	\$ 202,370
Community outreach	-	2,000
	<u>\$ 180,741</u>	<u>\$ 204,370</u>

**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), Merck (HIV-1 Vaccines: Low Risk, High Risk, Integrase Inhibitor (Fail/Naïve), Pfizer (Pregabalin A0081066 / A0081095), Napo Pharmaceuticals, Inc (Diarrhea Study), Schering Plough (Antiviral Salvage Therapy), EMD/Serono (growth hormone releasing factor), BD Diagnostics ( Specimen Collection Study ), ABBOTT (Specimen Collection Study), ViiV (HIV Hepatitis C co-infection), GeoVax (HIV Therapeutic Vaccine), Tobira (Naïve CCR5 Antagonist), Gilead (Non-Competitive Integrase Inhibitor), Merck (Integrase Inhibitor Cation Chelation ).

**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, 2012 and 2011.

**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 Organization is currently concluding negotiations with the landlord to extend their lease for another five-year term. Due to economic changes over the past five years, competition for clinical trials has increased and the overall economy, in particular the fundraising sector, has shifted dramatically. In response to these developments, the Organization has taken bold steps to reduce lease expenses and streamline operations. In keeping with this strategy, the lease extension currently under negotiation would be for a significantly reduced square footage, and would cut rental expenses by more than 50%, without reducing clinical capacity.

The new lease would also reduce rent still outstanding from the current lease. As of December 31, 2012, the Organization had paid \$1,058,097 in lease rent and owed a total of \$316,497 under the terms of its existing lease. In September 2013, as part of the negotiations to extend the lease, the Organization reached terms which include a provision to forgive approximately \$180,000 of the rent payable, contingent upon the Organization's compliance with the terms of the new lease and a promissory note. The updated terms also propose to restructure approximately \$180,000 of the current

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

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***For the years ended December 31, 2012 and 2011***

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balance owed as a long-term liability, payable over the new lease term.

Accordingly, the Organization has reclassified \$275,000 of the amount owed at December 31, 2012 as a long-term liability deferred rent in the accompanying statement of financial position. The remaining portion of rent currently due of \$41,497 is included in accounts payable.

The following is a schedule by fiscal year of future 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***

<b><i>December 31,</i></b>	<b>Facility</b>	<b>Equipment</b>	<b>Total</b>
2013	\$ 393,246	\$ 6,749	\$ 399,995
2014	-	6,749	6,749
2015	-	6,749	6,749
2016	-	562	562
	\$ 393,246	\$ 20,809	\$ 414,055

Rent expense recorded during the years ended December 31, 2012 and 2011 was \$356,272 and \$306,277, respectively.

**NOTE 11**

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**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.

**AIDS RESEARCH ALLIANCE**  
(A NONPROFIT CALIFORNIA CORPORATION)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

*For the year ended December 31, 2012*

<b>Federal Grantor/ Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass- through number</b>	<b>Disbursements/ Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Pass-through from Fred Hutchinson Cancer Research Center - Allergy, Immunology and Transplantation Research	93.855	0000723006	\$ 277,571
Pass-through from Fred Hutchinson Cancer Research Center - Allergy, Immunology and Transplantation Research	93.855	0000750833	\$ 367,345
Pass-through from University of California, Los Angeles - Allergy, Immunology and Transplantation Research	93.855	1568 G KB982	306,291
			\$ 951,207

*The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards*

**AIDS RESEARCH ALLIANCE**  
(A NONPROFIT CALIFORNIA CORPORATION)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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**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)

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

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Board of Directors

**AIDS Research Alliance**

Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of AIDS Research Alliance, (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2013

**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. 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)

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

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**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*.

**PURPOSE OF THIS REPORT**

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

*Rossi Droskovic & Finkelstein LLP*

Long Beach, California  
September 20, 2013

**AIDS RESEARCH ALLIANCE**

(A NONPROFIT CALIFORNIA CORPORATION)

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

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Board of Directors

**AIDS Research Alliance**

Los Angeles, California

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

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, 2012. 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.

**MANAGEMENT'S RESPONSIBILITY**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on compliance for each of AIDS Research Alliance's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with 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 Nonprofit 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 on compliance for each major federal program. However, our audit does not provide a legal determination of AIDS Research Alliance's compliance.

**OPINION ON EACH MAJOR FEDERAL PROGRAM**

In our opinion, AIDS Research Alliance complied, in all material respects, with the types of compliance 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, 2012.

## **AIDS RESEARCH ALLIANCE**

(A NONPROFIT CALIFORNIA CORPORATION)

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

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### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of AIDS Research Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered AIDS Research Alliance's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A 1-33, 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 and correct, 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged by governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rossi Moskowitz & Finkelstein LLP*

Long Beach, California  
September 20, 2013



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

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***For the year ended December 31, 2012***

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**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of AIDS Research Alliance.
2. No significant deficiencies relating to the audit of the financial statements are reported in the "Independent Auditor's Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*".
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**

NONE

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

NONE

*For the year ended December 31, 2012*

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**D. Prior year Findings and Questioned Costs:**

**Significant Deficiencies-Financial Reporting**

**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.
- 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.

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

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*For the year ended December 31, 2012*

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**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.

**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 CEO reviews and approve each payment in advance based on the clinic's records and receipts. Finally, the Controller prepares the check, which the CEO signs.

Wells Fargo, who handles payroll for ARA, sends the CEO a personal and confidential payroll report for each pay period, by overnight mail. The CEO 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 CEO.

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.