



AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AIDS RESEARCH ALLIANCE
(A NONPROFIT CALIFORNIA CORPORATION)
FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of AIDS Research Alliance (a nonprofit California corporation) as of December 31, 2008 and 2007, 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 of America'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIDS Research Alliance as of December 31, 2008 and 2007, 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.

Rossi Doskocil & Finkelstein LLP

August 29, 2009

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

<i>As of December 31,</i>	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 597,076	\$ 886,909
Contracts receivable	145,223	381,083
Contributions and grants receivable	160,000	155,794
Prepaid expenses	44,876	35,229
Total current assets	947,175	1,459,015
Property and equipment, net	97,713	57,081
Other assets:		
Investments	153,656	268,682
Deposits	33,011	1,249
Total other assets	186,667	269,931
	\$ 1,231,555	\$ 1,786,027
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 11,030	\$ 31,154
Accrued expenses	77,041	97,520
Deferred revenue	-	212,248
Total current liabilities	88,071	340,922
Commitments and Contingencies		
Net assets:		
Unrestricted	891,620	1,093,210
Temporarily restricted	251,864	351,895
Total net assets	1,143,484	1,445,105
	\$ 1,231,555	\$ 1,786,027

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,

	2008			
	Unrestricted	Temporarily Restricted	Total	%
Support and revenue:				
Contributions - general	\$ 557,894	\$ 85,000	\$ 642,894	35.4 %
Contributions - in-kind	160,541	-	160,541	8.8
Contract revenue	697,506	-	697,506	38.4
Combined federal campaign	112,525	-	112,525	6.2
Grants	25,377	115,000	140,377	7.7
Special events, net of direct costs of \$471,571	168,055	-	168,055	9.3
Unrealized loss on investments	(120,682)	-	(120,682)	(6.6)
Interest income	18,559	-	18,559	1.0
Dividend income	408	-	408	0.0
Loss on disposal of assets	(5,033)	-	(5,033)	(0.3)
	1,615,150	200,000	1,815,150	100.0
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	300,031	(300,031)	-	
Total support and revenue	1,915,181	(100,031)	1,815,150	100.0
Expenses:				
Program	1,590,293	-	1,590,293	87.6
Fundraising	348,157	-	348,157	19.2
General and administrative	178,321	-	178,321	9.8
Total expenses	2,116,771	-	2,116,771	116.6
Change in net assets	(201,590)	(100,031)	(301,621)	(16.6) %
Net assets, beginning of year	1,093,210	351,895	1,445,105	
Net assets, end of year	\$ 891,620	\$ 251,864	\$ 1,143,484	

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

For the year ended December 31,

	2007			
	Unrestricted	Temporarily Restricted	Total	%
Support and revenue:				
Contributions - general	\$ 559,418	\$ 5,000	\$ 564,418	26.8 %
Contributions - in-kind	168,923	-	168,923	8.0
Contract revenue	1,085,369	-	1,085,369	51.7
Combined federal campaign	102,945	-	102,945	4.9
Grants	23,600	-	23,600	1.1
Special events, net of direct costs of \$72,877	62,206	-	62,206	3.0
Realized gain on sale of investments	43,131	-	43,131	2.1
Interest income	45,178	-	45,178	2.1
Dividend income	6,623	-	6,623	0.3
	2,097,393	5,000	2,102,393	100.0
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	125,388	(125,388)	-	
Total support and revenue	2,222,781	(120,388)	2,102,393	100.0
Expenses:				
Program	1,807,456	-	1,807,456	86.0
Fundraising	273,596	-	273,596	13.0
General and administrative	124,021	-	124,021	5.8
Total expenses	2,205,073		2,205,073	104.8
Change in net assets	17,708	(120,388)	(102,680)	(4.8) %
Net assets, beginning of year	1,075,502	472,283	1,547,785	
Net assets, end of year	\$ 1,093,210	\$ 351,895	\$ 1,445,105	

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

For the year ended December 31, 2008

	<u>Program Services</u>				<u>General and administration</u>		
	Research and trials	Community education	Total Program Services	Fundraising			Total
Advertising	\$ 36,230	\$ -	\$ 36,230	\$ -	\$ -	\$ -	\$ 36,230
Depreciation	10,184	627	10,811	824	1,279	-	12,914
Dues and subscriptions	5,412	274	5,686	324	-	-	6,010
Facilities rent	117,387	7,370	124,757	10,114	14,025	-	148,896
Insurance - liability and content	21,628	476	22,104	408	5,436	-	27,948
Interest	-	-	-	-	2,315	-	2,315
Medical research	251,291	-	251,291	-	-	-	251,291
Meetings, conferences and meals	55,171	602	55,773	6,213	19,081	-	81,067
Office expense	25,424	1,943	27,367	29,625	8,759	-	65,751
Office supplies	8,157	725	8,882	9,282	6,500	-	24,664
Outside services	35,489	2,000	37,489	20,062	62,438	-	119,989
Postage and shipping	3,137	1,060	4,197	29,499	4,041	-	37,737
Printing	1,381	5,400	6,781	13,331	-	-	20,112
Program expenses	-	7,392	7,392	-	-	-	7,392
Repair and maintenance	1,657	-	1,657	-	6	-	1,663
Salaries and related costs	670,102	319,698	989,800	165,774	54,292	-	1,209,866
Staff recruitment	-	76	76	515	19	-	610
Supplies	-	-	-	62,186	130	-	62,316
	\$ 1,242,650	\$ 347,643	\$ 1,590,293	\$ 348,157	\$ 178,321	\$ -	\$ 2,116,771

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

For the year ended December 31, 2007

	<u>Program Services</u>				<u>General and administration</u>	
	Research and trials	Community education	Total Program Services	Fundraising		Total
Advertising	\$ 37,981	\$ -	\$ 37,981	\$ -	\$ -	\$ 37,981
Depreciation	16,403	1,540	17,943	1,192	1,846	20,981
Dues and subscriptions	4,768	90	4,858	741	60	5,659
Facilities rent	115,941	8,280	124,221	10,158	14,100	148,479
Insurance - liability and content	28,471	1,203	29,674	676	2,646	32,996
Medical research	388,043	-	388,043	-	-	388,043
Meetings, conferences and meals	44,848	4,774	49,622	7,336	26,269	83,227
Office expense	24,040	3,748	27,788	13,641	11,863	53,292
Office supplies	8,892	696	9,588	6,334	5,951	21,873
Outside services	19,583	-	19,583	26,839	14,130	60,552
Postage and shipping	1,499	6,078	7,577	18,550	1,685	27,812
Printing	3,620	34,112	37,732	6,182	-	43,914
Program Expenses	-	8,304	8,304	-	-	8,304
Repair and maintenance	7,099	-	7,099	16	355	7,470
Salaries and related cost	712,223	322,513	1,034,736	139,964	43,667	1,218,367
Staff recruitment	1,671	1,037	2,708	299	1,449	4,456
Supplies	-	-	-	41,668	-	41,668
	\$ 1,415,082	\$ 392,374	\$ 1,807,456	\$ 273,596	\$ 124,021	\$ 2,205,073

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 years ended December 31,</i>	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (301,621)	\$ (102,680)
Adjustments to reconcile change in net assets to net cash flow used in operating activities:		
Depreciation expense	12,914	20,981
Donated investments	(24,640)	(21,671)
Investment losses (gains)	120,682	(50,346)
Loss on sale of fixed assets	5,033	
(Increase) decrease in assets:		
Contracts receivable	235,860	(134,313)
Contributions and grants receivable	(4,206)	(135,375)
Prepaid expenses	(9,647)	(7,822)
Inventory	-	23,348
Deposits	(31,762)	(16)
Increase (decrease) in liabilities:		
Accounts payable	(20,124)	(60,103)
Accrued expenses	(20,479)	(40,663)
Deferred revenue	(212,248)	(4,075)
Net cash used in operating activities	(250,238)	(512,735)
Cash flows from investing activities:		
Acquisition of investments	(7,383)	-
Proceeds from sale of investments	26,353	36,197
Proceeds from sale of fixed assets	400	-
Capital expenditures	(58,965)	(8,347)
Net cash (used in) provided by investing activities	(39,595)	27,850
Net change in cash	(289,833)	(484,885)
Cash, beginning of year	886,909	1,371,794
Cash, end of year	\$ 597,076	\$ 886,909
Supplemental disclosure of cash flow information:		
Interest paid	\$ 2,315	\$ -
Recognition of in-kind contributions and related assets and expenses	\$ 565,259	\$ 211,675
Receipt of donated investments	\$ 24,640	\$ -

The accompanying notes are an integral part of these financial statements

For the years ended December 31, 2008 and 2007

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 publishes a scientific journal, *Searchlight*, that 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

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 of experimental drugs. These transactions are considered exchange transactions under Statement of Financial Accounting Standards No. 116 (“SFAS No. 116”), *Accounting for Contributions Received and Contributions Made*. 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. As of December 31, 2008 and 2007, deferred revenue was \$0 and \$212,248, respectively.

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

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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:

The Organization leases its facility under the terms of an operating lease, which management believes provides for a monthly rent at a significant discount from fair market value rental rates in the geographic area. (See Note 10). Accordingly, the Organization records the difference between the rent paid and the estimated fair market value of the facility lease as an in-kind contribution. In 2008 and 2007, the value of this in-kind contribution was \$132,000. Rent expense is allocated on a functional basis. (See Note 11).

Donated services are recognized as contributions in accordance with SFAS No. 116 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>	2008	2007
In-kind rent	\$ 132,000	\$ 132,000
Legal services	28,541	28,046
Pre-clinical trial services on prostratin	-	8,877
Total included in contributions - in-kind	160,541	168,923
Special events	404,718	42,752
Total	\$ 565,259	\$ 211,675

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 2008, the Organization derived 55% of its contract revenue from three pharmaceutical companies. As of December 31, 2008, 59% of the contracts receivable were due from three pharmaceutical companies for which the Organization has completed or is currently conducting research trials. As of December 31, 2008, 72% of the contributions and grants receivable were due from one individual contributor. During the year ended December 31, 2008, ARA derived 18% of its public support from two individual contributors.

During 2007, the Organization derived 54% of its contract revenue from three pharmaceutical companies. As of December 31, 2007, 72% of the contracts receivable were due from three pharmaceutical companies for which the Organization either has completed or is currently conducting research trials. As of December 31, 2007, 36% of the contributions and grants receivable were due from one individual contributor. For the year ended December 31, 2007, ARA derived 19% of its public support from two individual contributors.

A significant reduction in the amounts of pharmaceutical contracts would 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.

At December 31, 2008 and 2007, the Organization had cash deposits in excess of federally insured limits at one financial institution. The Organization, however, has not experienced and does not

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For the years ended December 31, 2008 and 2007

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 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

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.

Income taxes:

The Organization is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions.

Contracts receivable:

Contracts receivable are stated at the amount management expects to collect from outstanding balances. The Organization has determined that an allowance for doubtful accounts was not required in 2008 and 2007. The Organization provides for losses on accounts 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 fully collected.

Advertising:

The Organization uses advertising to promote its clinical trial programs. Costs of advertising are expensed as incurred. During the years ended December 31, 2008 and 2007, advertising costs were \$36,230 and \$37,981, respectively.

Special events:

In 2008, the Organization sponsored various events including, but not limited to, a spring "Art Seen" event. This event is held every other year, and accordingly, was not held in 2007.

Reclassification:

Certain reclassifications have been made so that the December 31, 2007 amounts conform to the December 31, 2008 classifications. These

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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

reclassifications had no effect on the change in net assets for the year ended December 31, 2007.

NOTE 3

INVESTMENTS

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

The Organization has implemented Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which is effective for the Organization's fiscal year beginning January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS 157. 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 SFAS 157 fair value hierarchy levels.

<i>As of December 31,</i>	Level 1	
	2008	2007
Mutual funds	\$ 148,387	\$ 268,682
Marketable equity securities	5,269	-
Total	\$ 153,656	\$ 268,682

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

<i>For the year ended December 31,</i>	2008	2007
Dividends & capital gains distributions	\$ 408	\$ 6,623
Net realized and unrealized (losses) gains	(120,682)	43,131
Total	\$ (120,274)	\$ 49,754

NOTE 4

PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

<i>For the years ended December 31,</i>	2008	2007
Furniture	\$ 74,231	\$ 17,897
Equipment	127,675	144,857
	201,906	162,754
Less: accumulated depreciation	(104,193)	(105,673)
	\$ 97,713	\$ 57,081

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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

NOTE 5

LINE OF CREDIT

The Organization maintains a revolving credit agreement ("the Facility") with a bank that provides for maximum borrowings of \$250,000 and is secured by substantially all of the Organization's assets. This Facility bears interest at the bank's prime rate plus 2.47% and expires on September 10, 2009. There were no outstanding borrowings under this revolving credit facility as of December 31, 2008 and 2007.

Interest expense incurred on the line of credit was \$2,315 for the year ended December 31, 2008 and \$0 for the year ended December 31, 2007.

NOTE 6

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2008 and 2007 are available for pre-clinical trial studies as follows:

<i>For the years ended December 31,</i>	2008	2007
Prostratin	\$ 221,918	\$ 230,228
Other clinical trials	29,946	121,667
Total	\$ 251,864	\$ 351,895

NOTE 7

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: 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), U19 (Microbicides), UARP (Microbicides), Pharmexa/Epimmune (Therapeutic Vaccine), Napo Pharmaceuticals, Inc (Diarrhea Study), Numico BITE (Dietary Supplement), 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 8

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 makes no contributions to the Plan.

NOTE 9

COMMITMENTS

In 2008, the Organization entered into a lease of its new facility in Los Angeles which expires in December 2013. The lease is an operating lease and 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, 2008 and 2007

The Organization entered into an office equipment lease classified as an operating lease which expires in 2008. Included in office expense was equipment rent expense of \$4,512 and \$5,884 for the years ended December 31, 2008 and 2007, respectively.

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
2009	\$ 262,260	\$ 6,492	\$ 268,752
2010	359,880	6,492	366,372
2011	370,674	5,951	376,625
2012	381,789	-	381,789
Thereafter	393,246	-	393,246
	\$ 1,767,849	\$ 18,935	\$ 1,786,784

Rent expense recorded for the facility for the years ended December 31, 2008 and 2007 was \$148,896 and \$148,479, respectively, at estimated fair market rental value of the facility. For the years ended December 31, 2008 and 2007, as disclosed in Note 2, the Organization received an annual discount of approximately \$132,000 from the estimated fair market value of the facility lease.

NOTE 10

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.