



AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008

AND REPORTS IN COMPLIANCE WITH
OMB CIRCULAR A-133
FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 audit provides 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, 2009, 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 November 2, 2010, 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.

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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The financial statements as of and for the year ended December 31, 2008, were audited by us in accordance with auditing standards generally accepted in the United States of America. In our report dated August 29, 2009, we expressed an unqualified opinion on the financial statements as of and for the year ended December 31, 2008.

Rossi Moskowitz & Finkelstein LLP

November 2, 2010

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

<i>As of December 31,</i>	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ 597,076
Contracts receivable	344,443	140,461
Contributions and grants receivable	15,920	164,762
Prepaid expenses	50,328	44,876
Total current assets	410,691	947,175
Property and equipment, net	299,163	97,713
Other assets:		
Investments	192,509	153,656
Deposits	37,525	33,011
Total other assets	230,034	186,667
Total assets	\$ 939,888	\$ 1,231,555
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ 194,933	\$ -
Accounts payable	235,269	11,030
Accrued expenses	58,229	77,041
Deferred rent - current portion	18,137	-
Total current liabilities	506,568	88,071
Long-term liabilities:		
Deferred rent	123,454	-
Total long-term liabilities	123,454	-
Total liabilities	630,022	88,071
Commitments and Contingencies		
Net assets:		
Unrestricted	284,054	891,620
Temporarily restricted	25,812	251,864
Total net assets	309,866	1,143,484
	\$ 939,888	\$ 1,231,555

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>		2009		
	Unrestricted	Temporarily Restricted	Total	%
Support and revenue:				
Contributions - general	\$ 433,673	\$ 45,000	\$ 478,673	26.2 %
Contributions - in-kind	70,374	-	70,374	3.9
Contract revenue	1,105,834	-	1,105,834	60.7
Combined federal campaign	-	-	-	-
Grants	13,853	-	13,853	0.8
Special events, net of direct costs of \$85,163	91,547	-	91,547	5.0
Net gain on investments, dividends & distributions	63,648	-	63,648	3.5
Interest income	1,474	-	1,474	
	1,780,403	45,000	1,825,403	99.9
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	271,052	(271,052)	-	
Total support and revenue	2,051,455	(226,052)	1,825,403	100.0
Expenses:				
Program	1,975,143	-	1,975,143	108.2
Fundraising	316,529	-	316,529	17.3
General and administrative	367,349	-	367,349	20.1
Total expenses	2,659,021	-	2,659,021	145.6
Change in net assets	(607,566)	(226,052)	(833,618)	(45.6) %
Net assets, beginning of year	891,620	251,864	1,143,484	
Net assets, end of year	\$ 284,054	\$ 25,812	\$ 309,866	

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
Net gain (losses) on investments, dividends & distributions	(120,274)	-	(120,274)	(6.6)
Interest income	18,559	-	18,559	1.0
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 FUNCTIONAL EXPENSES

For the year ended December 31, 2009

	<u>Program Services</u>					
	Research and trials	Community education	Total Program Services	Fundraising	General and administration	Total
Advertising	\$ 9,702	\$ -	\$ 9,702	\$ -	\$ -	\$ 9,702
Depreciation	35,436	9,376	44,812	16,642	10,543	71,997
Dues and subscriptions	2,840	75	2,915	65	276	3,256
Facilities rent	143,557	53,878	197,435	55,681	89,682	342,798
Insurance - liability and content	24,246	873	25,119	873	4,960	30,952
Interest	-	-	-	-	7,553	7,553
Medical research	336,239	-	336,239	-	-	336,239
Meetings, conferences and meals	51,972	7	51,979	591	14,529	67,099
Office expense	44,646	2,300	46,946	11,981	59,940	118,867
Office supplies	2,426	573	2,999	3,181	20,308	26,488
Outside services	28,786	879	29,665	14,816	56,804	101,285
Postage and shipping	1,584	9,692	11,276	20,924	2,464	34,664
Printing	1,813	20,954	22,767	-	-	22,767
Program expenses	22,656	2,558	25,214	-	-	25,214
Relocation expense	-	-	-	-	24,223	24,223
Repair and maintenance	1,984	-	1,984	-	267	2,251
Salaries and related costs	881,800	260,795	1,142,595	168,940	69,859	1,381,394
Staff recruitment	22,192	1,304	23,496	-	5,941	29,437
Supplies	-	-	-	22,835	-	22,835
	\$ 1,611,879	\$ 363,264	\$ 1,975,143	\$ 316,529	\$ 367,349	\$ 2,659,021

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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

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>	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (833,618)	\$ (301,621)
Adjustments to reconcile change in net assets to net cash flow used in operating activities:		
Depreciation expense	71,997	12,914
Donated investments	(5,933)	(24,640)
Net (gains) losses on investments	(62,682)	120,682
Loss on sale of fixed assets	85	5,033
(Increase) decrease in assets:		
Contracts receivable	(203,982)	235,860
Contributions and grants receivable	148,842	(4,206)
Prepaid expenses	(5,452)	(9,647)
Deposits	(4,514)	(31,762)
Increase (decrease) in liabilities:		
Accounts payable	224,239	(20,124)
Accrued expenses	(12,879)	(20,479)
Deferred revenue	-	(212,248)
Deferred rent	141,591	-
Net cash generated (used) by operating activities	(542,306)	(250,238)
Cash flows from investing activities:		
Acquisition of investments	(167,378)	(7,383)
Proceeds from sale of investments	191,207	26,353
Proceeds from sale of fixed assets	200	400
Capital expenditures	(273,732)	(58,965)
Net cash (used in) provided by investing activities	(249,703)	(39,595)
Cash flows from financing activities:		
Proceeds from bank line of credit	194,933	-
Net cash provided by financing activities	194,933	\$ -
Net change in cash	(597,076)	(289,833)
Cash, beginning of year	597,076	886,909
Cash, end of year	\$ -	\$ 597,076
Supplemental disclosure of cash flow information:		
Interest paid	\$ 8,234	\$ 2,315
Recognition of in-kind contributions and related assets and expenses	\$ 70,374	\$ 565,259
Receipt of donated investments	\$ 5,933	\$ 24,640

The accompanying notes are an integral part of these financial statements

For the years ended December 31, 2009 and 2008

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.

Significant events:

In 2009, the Organization was forced to relocate due to a major redevelopment project of the City of West Hollywood. As a result, the Organization began paying market rates for its administrative and medical facilities. Before 2009, the Organization received donated facilities from the City of West Hollywood. Accordingly, commencing in January 2009, the Organization relocated to a new facility in Los Angeles, for which it incurred rent charges of approximately \$340,000 during 2009, plus parking expenses of \$22,500. This event had a significant negative impact on the Organization’s Change in Net Assets and use of cash for 2009.

Furthermore, during 2009 the Organization incurred approximately \$196,000 in expenditures for a Prostratin Study, satisfying the program restrictions thereby the funds were released from Temporarily Restricted Net Assets. However, the funds received for the Prostratin Study were recorded and received prior to January 1, 2008. Accordingly, during 2009 the expenditure of these temporarily restricted funds had a significant negative impact on the Organization’s Change in Net Assets and use of cash by approximately \$196,000.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting principles:

Effective September 30, 2009 the Financial Accounting Standards Board (“FASB”) established the FASB Accounting Standards Codification (“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. Except for newly issued standards that have not been codified, references to codified literature have been updated to reflect this change.

For the years ended December 31, 2009 and 2008

In preparing these financial statements, we evaluated the period from December 31, 2009 through 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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. 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.
- *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, 2009 and 2008, the Organization did not have any revenues classified as permanently restricted.

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 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.

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

For the years ended December 31, 2009 and 2008

In-kind contributions:

In 2008, the Organization leased its facility under the terms of an operating lease, which management believes provided for a monthly rent at a significant discount from fair market value rental rates in the geographic area. (See Note 9). Accordingly, the Organization recorded the difference between the rent paid and the estimated fair market value of the facility lease as an in-kind contribution. In 2008, the value of this in-kind contribution was \$132,000. Rent expense is allocated on a functional basis. (See Note 10).

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>	2009	2008
In-kind rent	\$ -	\$ 132,000
Legal services	-	28,541
In-kind donations	70,374	-
Total included in contributions - in-kind	70,374	160,541
Special events	-	404,718
Total	\$ 70,374	\$ 565,259

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 2009, the Organization derived 72% of its contract revenue from two pharmaceutical companies. As of December 31, 2009, 82% of the contracts receivable were due from two pharmaceutical companies for which the Organization has completed or is currently conducting research trials. During the year ended December 31, 2009, ARA derived 20% of its public support from one contributor.

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.

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.

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.

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

For the years ended December 31, 2009 and 2008

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
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. Total depreciation expense recognized was \$70,984 and \$12,914 during the year ended December 31, 2009 and December 31, 2008, respectively.

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 does not believe that during the years ended December 31, 2009 and 2008 that it had 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 – Overall, and subsections, formerly FASB Interpretation No. 48. Accordingly, the Council 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.

For the years ended December 31, 2009 and 2008

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, 2009 and 2008, advertising costs were \$9,702 and \$36,230, 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 2009.

Reclassification:

Certain reclassifications have been made so that the December 31, 2008 amounts conform to the December 31, 2009 classifications. These reclassifications had no effect on the change in net assets for the year ended December 31, 2008.

NOTE 3

INVESTMENTS

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

The Organization has implemented ASC 820-10 *Fair Value Measurements*, which is effective for the Organization’s fiscal year beginning January 1, 2008. ASC 820-10 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 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.

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

For the years ended December 31, 2009 and 2008

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	
	2009	2008
Mutual funds	\$ 186,576	\$ 148,387
Marketable equity securities	5,933	5,269
Total	\$ 192,509	\$ 153,656

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

<i>For the year ended December 31,</i>	2009	2008
Dividends & capital gains distributions	\$ 2,741	\$ 408
Net realized and unrealized (losses) gains	60,907	(120,159)
Total	\$ 63,648	\$ (119,751)

NOTE 4

PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

<i>For the years ended December 31,</i>	2009	2008
Furniture	\$ 110,863	\$ 74,231
Equipment	195,095	127,675
Leasehold improvements	169,362	-
	475,320	201,906
Less: accumulated depreciation	(176,157)	(104,193)
	\$ 299,163	\$ 97,713

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 June 10, 2010. Outstanding borrowings under this revolving credit facility as of December 31, 2009 and 2008 was \$194,933 and \$0, respectively.

The interest rate on the line of credit was 5.72% as of December 31, 2009 and December 31, 2008. Interest expense incurred on the line of credit was \$7,553 for the year ended December 31, 2009 and \$2,315 for the year ended December 31, 2008.

NOTE 6

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2009 and 2008 are available for pre-clinical trial studies as follows:

<i>For the years ended December 31,</i>	2009	2008
Prostratin	\$ 25,812	\$ 221,918
Other clinical trials	-	29,946
Total	\$ 25,812	\$ 251,864

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: 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), 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).

AIDS RESEARCH ALLIANCE
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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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.

The Organization entered into an office equipment lease classified as an operating lease which expires in 2011. Included in office expense was equipment rent expense of \$6,492 and \$4,512 for the years ended December 31, 2009 and 2008, 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
2010	\$ 269,880	\$ 6,492	\$ 276,372
2011	430,674	5,951	436,625
2012	411,789	-	411,789
2013	393,246	-	393,246
	<u>\$ 1,505,589</u>	<u>\$ 12,443</u>	<u>\$ 1,518,032</u>

Rent expense recorded for the facility for the year ended December 31, 2009 was \$342,798. Rent expense for the year ended December 31, 2008 was \$148,896, at estimated fair market rental value of the facility. For the year ended December 31, 2008, 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.

AIDS RESEARCH ALLIANCE
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2009

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	93.959	0000680557	396,690
Pass-through from University of California, Los Angeles - Allergy, Immunology and Transplantation Research	93.959	1568 G KB982	214,784
			\$ 611,474

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

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, 2009, and have issued our report thereon dated November 2, 2010. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness [2009-1].

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*.

We noted certain other matters that we reported to management of AIDS Research Alliance in a separate letter dated November 2, 2010.

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.

Rossi Moskovic & Finkelstein LLP

Long Beach, California
November 2, 2010

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

Board of Directors

AIDS Research Alliance

Los Angeles, California

COMPLIANCE

We have audited AIDS Research Alliance (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, 2009. 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, 2009.

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

INTERNAL CONTROL OVER COMPLIANCE

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 over compliance 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 Dostkovic & Finkelstein LLP

Long Beach, California

November 2, 2010

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

For the year ended December 31, 2009

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of AIDS Research Alliance.
2. One significant deficiency relating to the audit of the financial statements is 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*. This significant deficiency is considered to be a material weakness.
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 a major program was the Block Grant for Prevention and Treatment of Substance Abuse, CFDA # 93.959.
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 Statements Audit

2009-1

Material Weakness

Condition:

At December 31, 2009, the Organization failed to identify and record significant adjustments required by generally accepted accounting principles necessary to prevent a misstatement in the financial statements.

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

For the year ended December 31, 2009

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. A component of internal control system 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. The Organization as a component of internal control should monitor its policies and procedures to ensure that they are functioning as designed.

Effect:

The failure to analytically review transactions and assertions contained in the monthly financial statements causes certain amounts to be understated or overstated based on the underlying transactions. The monthly close process should include a review process and reconciliation of all significant supporting schedules and subsidiary ledgers to the general ledger, that may cause account balances to be materially misstated, and therefore the Organization's financial statements to be materially misstated.

Auditor's 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.

Organization's Response:

The Organization has retained a bookkeeper more experienced with nonprofit accounting and audits than previous personnel. Consequently, a new Monthly Close-Out procedure has been implemented, which includes a review checklist of Balance Sheet accounts, Accounts Receivable, Accounts Payable and requires review and approval from either the CAO or CEO. Additionally, the organization will communicate with the auditors on a quarterly basis to ensure that monthly closing journal entries are entered correctly, in order to eliminate or reduce year-end adjustments. Thus, the Auditor's recommendation regarding monthly close policies and procedures have been fully implemented.

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

NONE

D. Prior year Findings and Questioned Costs:

NONE