



AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

AND REPORTS IN COMPLIANCE WITH
OMB CIRCULAR A-133
FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of AIDS Research Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIDS Research Alliance as of December 31, 2010 and 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 April 27, 2011, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rossi Doskocil & Finkelstein LLP

April 27, 2011

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

<i>As of December 31,</i>	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 118,366	\$ -
Contracts receivable, net	235,066	344,443
Contributions and grants receivable, net of unamortized discount	122,534	15,920
Prepaid expenses	20,986	50,328
Total current assets	496,952	410,691
Property and equipment, net	348,912	299,163
Other assets:		
Investments	56,315	192,509
Land held for sale	13,200	-
Deposits and other assets	33,011	37,525
Total other assets	102,526	230,034
Total assets	\$ 948,390	\$ 939,888
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ 168,006	\$ 194,933
Accounts payable	324,379	235,269
Accrued expenses	64,199	58,229
Deferred rent - current portion	88,476	18,137
Total current liabilities	645,060	506,568
Long-term liabilities:		
Deferred rent	124,239	123,454
Total long-term liabilities	124,239	123,454
Total liabilities	769,299	630,022
Commitments and Contingencies		
Net assets:		
Unrestricted	20,441	284,054
Temporarily restricted	158,650	25,812
Total net assets	179,091	309,866
	\$ 948,390	\$ 939,888

The accompanying notes are an integral part of these financial statements

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

For the year ended December 31,

	2010			
	Unrestricted	Temporarily Restricted	Total	%
Support and revenue:				
Contributions - general	\$ 498,090	\$ 127,047	\$ 625,137	30.2 %
Contributions - in-kind	13,200	-	13,200	0.6
Contract revenue	1,126,668	-	1,126,668	54.4
Combined federal campaign	-	-	-	-
Grants	21,500	250,000	271,500	13.1
Special events, net of direct costs of \$19,618	32,374	-	32,374	1.6
Net gain on investments, dividends & distributions	5,163	-	5,163	0.3
Loss on disposal of assets	(3,243)	-	(3,243)	(0.2)
	1,693,752	377,047	2,070,799	100.0
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	244,209	(244,209)	-	
Total support and revenue	1,937,961	132,838	2,070,799	100.0
Expenses:				
Program	1,707,961	-	1,707,961	82.5
Fundraising	230,574	-	230,574	11.1
General and administrative	263,039	-	263,039	12.7
Total expenses	2,201,574		2,201,574	106.3
Change in net assets	(263,613)	132,838	(130,775)	(6.3) %
Net assets, beginning of year	284,054	25,812	309,866	
Net assets, end of year	\$ 20,441	\$ 158,650	\$ 179,091	

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

For the year ended December 31,

	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	60.6
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	0.1
	1,780,403	45,000	1,825,403	100.0
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	145.7
Change in net assets	(607,566)	(226,052)	(833,618)	(45.7) %
Net assets, beginning of year	891,620	251,864	1,143,484	
Net assets, end of year	\$ 284,054	\$ 25,812	\$ 309,866	

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

For the year ended December 31, 2010

	<u>Program Services</u>				<u>General and administration</u>	
	<u>Research and trials</u>	<u>Community education</u>	<u>Program Services</u>	<u>Total</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 1,500	\$ -	\$ 1,500	\$ -	\$ -	\$ 1,500
Depreciation	47,519	11,022	58,541	10,276	17,866	86,683
Dues and subscriptions	4,677	-	4,677	-	194	4,871
Facilities rent	230,447	53,179	283,626	44,142	55,323	383,091
Insurance - liability and content	26,068	975	27,043	748	4,417	32,208
Interest	-	-	-	-	11,360	11,360
Medical research	136,634	-	136,634	-	-	136,634
Meetings, conferences and meals	35,512	250	35,762	1,920	8,856	46,538
Office expense	28,474	1,177	29,651	12,628	34,194	76,473
Office supplies	2,875	1,610	4,485	42	9,856	14,383
Outside services	9,276	250	9,526	3,082	53,172	65,780
Postage and shipping	5,827	2,245	8,072	4,705	2,189	14,966
Printing	-	6,965	6,965	-	-	6,965
Program expenses	30,290	6,046	36,336	-	-	36,336
Repair and maintenance	1,934	-	1,934	-	86	2,020
Salaries and related costs	860,510	161,462	1,021,972	142,563	65,526	1,230,061
Staff recruitment	34,725	6,512	41,237	85	-	41,322
Supplies	-	-	-	10,383	-	10,383
	\$ 1,456,268	\$ 251,693	\$ 1,707,961	\$ 230,574	\$ 263,039	\$ 2,201,574

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, 2009

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

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>	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (130,775)	\$ (833,618)
Adjustments to reconcile change in net assets to net cash flow used in operating activities:		
Depreciation expense	86,683	71,997
Donated investments	(42,182)	(5,933)
Net (gains) on investments	(5,055)	(62,682)
Loss on sale of fixed assets	3,243	85
(Increase) decrease in assets:		
Contracts receivable	109,377	(203,982)
Contributions and grants receivable	(106,614)	148,842
Prepaid expenses	29,342	(5,452)
Deposits and other assets	-	(4,514)
Increase (decrease) in liabilities:		
Accounts payable	89,110	224,239
Accrued expenses	5,970	(12,879)
Deferred rent	71,124	141,591
Net cash provided by (used in) operating activities	110,223	(542,306)
Cash flows from investing activities:		
Acquisition of investments	-	(167,378)
Proceeds from sale of investments	170,231	191,207
Proceeds from sale of assets	1,271	200
Capital expenditures	(136,432)	(273,732)
Net cash provided by (used in) investing activities	35,070	(249,703)
Cash flows from financing activities:		
Repayment of bank line of credit	(26,927)	-
Proceeds from bank line of credit	-	194,933
Net cash (used in) provided by financing activities	(26,927)	194,933
Net change in cash	118,366	(597,076)
Cash, beginning of year	-	597,076
Cash, end of year	\$ 118,366	\$ -
Supplemental disclosure of cash flow information:		
Interest paid	\$ 8,192	\$ 8,234
Recognition of in-kind contributions	\$ 13,200	\$ 70,374
Receipt of donated investments	\$ 28,982	\$ 5,933

The accompanying notes are an integral part of these financial statements

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

For the years ended December 31, 2010 and 2009

NOTE 1

PURPOSE AND ACTIVITIES

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

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

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

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

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 utilized facilities from the City of West Hollywood at no charge. Commencing in January 2009, the Organization relocated to a new facility in Los Angeles, for which it incurred rent charges of approximately \$350,000 and \$340,000 during the year ended 2010 and 2009. This event had a significant negative impact on the Organization’s Change in Net Assets and use of cash for 2010 and 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

Basis of presentation:

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

Effective September 30, 2009 the Financial Accounting Standards Board (“FASB”) established the FASB Accounting Standards Codification (“ASC”) as the source of authoritative accounting to

For the years ended December 31, 2010 and 2009

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.

In preparing these financial statements, we evaluated the period from December 31, 2010 through April 27, 2011, 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.
- *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, 2010 and 2009, 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

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

For the years ended December 31, 2010 and 2009

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) 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>	2010	2009
In-kind donations	\$ 13,200	\$ 70,374
Total	\$ 13,200	\$ 70,374

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 2010, the Organization derived 86% of its contract revenue from one pharmaceutical company. As of December 31, 2010, 93% of the contracts receivable were due from three pharmaceutical companies for which the Organization has completed or is currently conducting research trials. During the year ended December 31, 2010, ARA derived 47% of its public support from one corporate contributor.

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. As of December 31, 2009, 72% of the contributions and grants receivable were due from one individual contributor. During the year ended December 31, 2009, ARA derived 20% of its public support from one individual contributor.

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

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

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

Cash equivalents:

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

Marketable securities:

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

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

For the years ended December 31, 2010 and 2009

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.

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, 2010 and 2009 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, ARA accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The

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

Contracts receivable:

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

Contributions and grants receivable:

Contributions and grants receivable are stated at the amounts management expects to collect from donors and grantors. The amounts have been 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, 2010 and 2009, advertising costs were \$1,500 and \$9,702, respectively.

AIDS RESEARCH ALLIANCE
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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

Special events:

The Organization sponsors various fundraising events every other year. The Organization is planning a major fundraising event for 2011.

Reclassification:

Certain reclassifications have been made so that the December 31, 2009 amounts conform to the December 31, 2010 classifications. These reclassifications had no effect on the change in net assets for the year ended December 31, 2009.

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.

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	
	2010	2009
Mutual funds	\$ 49,954	\$ 186,576
Marketable equity securities	6,361	5,933
Total	\$ 56,315	\$ 192,509

AIDS RESEARCH ALLIANCE
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NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

<i>For the year ended December 31,</i>	2010	2009
Dividends & capital gains distributions	\$ 15,998	\$ 2,741
Net realized and unrealized (losses) gains	(10,835)	60,907
Total	\$ 5,163	\$ 63,648

NOTE 4

UNITRUST RECEIVABLES

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

NOTE 5

PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows:

<i>For the years ended December 31,</i>	2010	2009
Furniture	\$ 110,863	\$ 110,863
Equipment	331,527	195,095
Leasehold improvements	169,362	169,362
	611,752	475,320
Less: accumulated depreciation	(262,840)	(176,157)
	\$ 348,912	\$ 299,163

Depreciation expense recognized was \$86,683 and \$71,997 during the years ended December 31, 2010 and December 31, 2009, respectively.

NOTE 6

LINE OF CREDIT

The Organization maintains a revolving credit agreement with a bank that provides for maximum borrowings of \$250,000 and is secured by substantially all of the Organization's assets. Outstanding borrowings under this revolving credit agreement as of December 31, 2010 and 2009 was \$169,162 and \$194,933, respectively.

Effective December 2010, the revolving credit agreement was amended with a required minimum payment of \$4,800 per month, commencing on December 10, 2010 and continuing each month thereafter until maturity. The Credit shall mature on November 10, 2011, at which time all unpaid principal, accrued interest, and any other unpaid amounts shall be due and payable in full. The interest rate on the line of credit is greater of the Prime plus 4.75% or a Floor Rate of 8% as of December 31, 2010.

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

For the years ended December 31, 2010 and 2009

The effective interest rate on the revolving credit agreement was 8.00% and 5.72% as of December 31, 2010 and December 31, 2009, respectively. Interest expense incurred on borrowings pursuant to the revolving credit agreement was \$11,360 and \$7,553 for the years ended December 31, 2010 and 2009.

NOTE 7

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009 consisted of the following:

<i>For the years ended December 31,</i>	2010	2009
Donations:		
Prostratin	\$ -	\$ 25,812
Charitable remainder unitrust	70,047	-
Other clinical trials	6,000	-
	76,047	25,812
Grant:		
Pepsi Refresh	82,603	-
Total	\$ 158,650	\$ 25,812

NOTE 8

MEDICAL RESEARCH EXPENSE

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

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

NOTE 9

RETIREMENT PLAN

The Organization provides a 403(b)(7) Plan under which employees may, by elective deferral under a salary reduction agreement, contribute to the Plan. Contributions and investments are determined by the employees. The Organization made no contributions to the Plan for the years ended December 31, 2010 and 2009.

NOTE 10

COMMITMENTS

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

During 2010, the facility lease was modified with a reduced payment schedule commencing in April 2010 through December 2010, for a total of \$90,000 in deferred payments. The total amount deferred is scheduled to be paid back over 18 months, commencing in June 2011, with an interest rate of 8%.

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.

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

For the years ended December 31, 2010 and 2009

*For the years
ending*

<i>December 31,</i>	Facility	Equipment	Total
2011	\$ 407,929	\$ 5,951	\$ 413,880
2012	440,333	-	440,333
2013	393,246	-	393,246
	\$ 1,241,508	\$ 5,951	\$ 1,247,459

Rent expense recorded for the facility for the years ended December 31, 2010 and 2009 was \$353,926 and \$342,798, respectively.

NOTE 11

FUNCTIONAL ALLOCATION OF EXPENSES

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

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

For the year ended December 31, 2010

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through number	Disbursements/ Expenditures
U.S. Department of Health and Human Services			
Pass-through from Fred Hutchinson Cancer Research Center - Allergy, Immunology and Transplantation Research	93.855	0000680557	\$ 695,410
Pass-through from University of California, Los Angeles - Allergy, Immunology and Transplantation Research	93.855	1568 G KB982	276,612
			<hr/>
			\$ 972,022

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

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, 2010, and have issued our report thereon dated April 27, 2011. 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 April 27, 2011.

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 Moskowitz & Finkelstein LLP

Long Beach, California

April 27, 2011

AIDS RESEARCH ALLIANCE

(A NONPROFIT CALIFORNIA CORPORATION)

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

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, 2010. 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, 2010.

AIDS RESEARCH ALLIANCE

(A NONPROFIT CALIFORNIA CORPORATION)

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

INTERNAL CONTROL OVER COMPLIANCE

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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-1. 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 with governance.

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

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 Droskail & Finkelstein LLP

Long Beach, California
April 27, 2011

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

For the year ended December 31, 2010

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of AIDS Research Alliance.
2. No instances of significant deficiencies relating to the audit of the financial statements, which would be required to be reported in the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of AIDS Research Alliance, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal programs are reported in the "Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." The deficiency is not reported as a material weakness.
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

NONE

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

2010-1

Significant Deficiency

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

For the year ended December 31, 2010

Condition:

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

Criteria:

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

Effect:

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

Auditor's Recommendation:

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

Organization's Response:

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

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

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

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

For the year ended December 31, 2010

D. Prior year Findings and Questioned Costs:

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.

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.