

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
AIDS Project Los Angeles
and APLA Dental Services

We have audited the accompanying consolidated statement of financial position of AIDS Project Los Angeles and APLA Dental Services (a nonprofit organization) as of June 30, 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information is derived from the June 30, 2007 consolidated financial statements of AIDS Project Los Angeles and APLA Dental Services, and in our report dated September 19, 2007, we expressed an unqualified opinion on those consolidated financial statements.

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 significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIDS Project Los Angeles and APLA Dental Services as of June 30, 2008, and the changes in its net assets and its cash flows for the year 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 September 24, 2008, on our consideration of AIDS Project Los Angeles and APLA Dental Services' internal control over financial reporting and 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 controls over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal controls 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 read in conjunction with this report in considering the results of our audit.

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To the Board of Directors of
AIDS Project Los Angeles
and APLA Dental Services

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of AIDS Project Los Angeles and APLA Dental Services taken as a whole. The accompanying Schedule of Expenditures of Federal and Nonfederal 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 Nonprofit 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 consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as whole.

Green Hasson & Janks LLP

September 24, 2008
Los Angeles, California

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2008

With Summarized Totals at June 30, 2007

ASSETS	2008			Total	2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Cash and Cash Equivalents	\$ 327,247	\$ 510,255	\$ -	\$ 837,502	\$ 1,984,151
Investments	4,857,274	-	261,273	5,118,547	3,936,915
Accounts Receivable (Net)	170,380	-	-	170,380	206,945
Contributions Receivable (Net)	83,545	83,420	-	166,965	75,000
Grants Receivable	1,436,764	-	-	1,436,764	1,107,425
Medi-Cal Receivable	283,966	-	-	283,966	235,429
Prepaid Expenses and Other Assets	634,633	-	-	634,633	663,073
Inventory	182,501	-	-	182,501	110,815
Split Interest Agreement	39,809	-	-	39,809	66,434
Property and Equipment (Net)	778,562	-	-	778,562	677,533
TOTAL ASSETS	\$ 8,794,681	\$ 593,675	\$ 261,273	\$ 9,649,629	\$ 9,063,720
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 862,360	\$ -	\$ -	\$ 862,360	\$ 685,706
Accrued Expenses	329,310	-	-	329,310	259,908
Deferred Revenue	231,781	-	-	231,781	274,990
Notes Payable	519,490	-	-	519,490	529,490
TOTAL LIABILITIES	1,942,941	-	-	1,942,941	1,750,094
NET ASSETS:					
Unrestricted:					
Undesignated	5,357,518	-	-	5,357,518	5,196,892
Board Designated	1,494,222	-	-	1,494,222	1,421,114
Total Unrestricted Net Assets	6,851,740	-	-	6,851,740	6,618,006
Temporarily Restricted	-	593,675	-	593,675	434,347
Permanently Restricted	-	-	261,273	261,273	261,273
TOTAL NET ASSETS	6,851,740	593,675	261,273	7,706,688	7,313,626
TOTAL LIABILITIES AND NET ASSETS	\$ 8,794,681	\$ 593,675	\$ 261,273	\$ 9,649,629	\$ 9,063,720

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2008
With Summarized Totals for the Year Ended June 30, 2007

	2008			Total	2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT:					
Fundraising Events	\$ 6,924,689	\$ -	\$ -	\$ 6,924,689	\$ 6,766,705
Less: Cost of Direct Donor Benefit	875,808	-	-	875,808	975,351
<i>TOTAL FUNDRAISING EVENTS</i>	6,048,881	-	-	6,048,881	5,791,354
Grants	6,701,665	-	-	6,701,665	5,709,363
Contributions	2,195,384	1,060,214	-	3,255,598	3,377,198
Medi-Cal Waiver	1,050,188	-	-	1,050,188	990,234
Contributed Goods and Services	942,869	-	-	942,869	885,564
Dental Income	150,844	-	-	150,844	140,167
Investment Income	276,409	-	-	276,409	250,325
Other Income	131,000	-	-	131,000	133,153
Net Assets Released from Program Restrictions	900,886	(900,886)	-	-	-
<i>TOTAL REVENUE AND SUPPORT</i>	18,398,126	159,328	-	18,557,454	17,277,358
EXPENSES:					
Program Services	13,051,334	-	-	13,051,334	11,433,847
Management and General	1,465,567	-	-	1,465,567	1,549,159
Fundraising	3,647,491	-	-	3,647,491	3,630,384
<i>TOTAL EXPENSES</i>	18,164,392	-	-	18,164,392	16,613,390
<i>CHANGE IN NET ASSETS</i>	233,734	159,328	-	393,062	663,968
Net Assets - Beginning of Year	6,618,006	434,347	261,273	7,313,626	6,649,658
<i>NET ASSETS - END OF YEAR</i>	<u>\$ 6,851,740</u>	<u>\$ 593,675</u>	<u>\$ 261,273</u>	<u>\$ 7,706,688</u>	<u>\$ 7,313,626</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

AIDS PROJECT LOS ANGELES AND APLA DENTAL SERVICES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008

With Summarized Totals for the Year Ended June 30, 2007

	2008								2007 Total
	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total	
	Client Support	Education	Government Affairs		Management and General	Fundraising			
Salaries and Wages	\$ 3,615,260	\$ 1,722,949	\$ 282,700	\$ 5,620,909	\$ 695,483	\$ 514,877	\$ 1,210,360	\$ 6,831,269	\$ 6,177,601
Payroll Taxes and Employee Benefits	826,592	347,214	52,734	1,226,540	120,795	98,375	219,170	1,445,710	1,171,647
TOTAL PERSONNEL EXPENSES	4,441,852	2,070,163	335,434	6,847,449	816,278	613,252	1,429,530	8,276,979	7,349,248
Professional and Contract Services	544,646	418,120	56,049	1,018,815	202,461	1,334,091	1,536,552	2,555,367	2,311,044
Occupancy	867,412	206,633	15,980	1,090,025	75,595	162,635	238,230	1,328,255	1,198,166
Temporary Help	54,953	236,707	1,899	293,559	9,628	712,216	721,844	1,015,403	892,904
Food Supplies	846,728	-	-	846,728	-	-	-	846,728	567,576
Attendant and Skilled Nursing Care	726,401	-	-	726,401	-	-	-	726,401	613,531
Staff and Volunteer Training, Development and Travel	83,754	341,821	32,387	457,962	83,625	55,256	138,881	596,843	394,956
Supplies and Equipment									
Rental and Maintenance	381,842	85,608	4,367	471,817	42,184	76,354	118,538	590,355	293,219
Printing and Duplicating	86,370	212,693	1,413	300,476	4,568	264,066	268,634	569,110	689,508
Promotions and Outreach	86,193	132,365	428	218,986	2,549	173,853	176,402	395,388	412,121
Support to Other Organizations	257,398	55,363	53,087	365,848	904	365	1,269	367,117	479,621
Postage and Delivery	14,532	69,482	227	84,241	2,365	214,033	216,398	300,639	372,860
Legal and Accounting	-	-	-	-	166,437	-	166,437	166,437	503,319
Insurance	69,899	40,009	3,993	113,901	20,240	12,062	32,302	146,203	147,463
Depreciation	72,798	33,482	3,477	109,757	17,618	7,767	25,385	135,142	230,154
Communications	60,912	28,191	4,049	93,152	16,564	7,477	24,041	117,193	147,700
Reserves and Other	12,217	-	-	12,217	4,551	14,064	18,615	30,832	10,000
TOTAL 2008 FUNCTIONAL EXPENSES	\$ 8,607,907	\$ 3,930,637	\$ 512,790	\$ 13,051,334	\$ 1,465,567	\$ 3,647,491	\$ 5,113,058	\$ 18,164,392	
TOTAL 2007 FUNCTIONAL EXPENSES	\$ 7,947,756	\$ 2,960,817	\$ 525,274	\$ 11,433,847	\$ 1,549,159	\$ 3,630,384	\$ 5,179,543		\$ 16,613,390

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

With Summarized Totals for the Year Ended June 30, 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 393,062	\$ 663,968
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	135,142	230,154
Split Interest Agreement	26,625	(29,183)
Amortization of Note Payable through Service Credits	(10,000)	(20,000)
Bad Debt Expense	18,564	10,000
Reserves and Other	12,268	-
Loss on Disposal of Property and Equipment	-	435
(Increase) Decrease in:		
Accounts Receivable	36,565	34,764
Contributions Receivable	(122,797)	95,000
Grants Receivable	(329,339)	445,992
Medi-Cal Receivable	(48,537)	21,684
Prepaid Expenses and Other Assets	28,440	(32,965)
Inventory	(71,686)	(12,913)
Increase (Decrease) in:		
Accounts Payable	176,654	110,255
Accrued Expenses	69,402	(92,858)
Deferred Revenue	(43,209)	143,009
	271,154	1,567,342
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(236,171)	(164,103)
Purchase of Investments	(1,181,632)	(3,784,027)
	(1,417,803)	(3,948,130)
NET CASH USED IN INVESTING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,146,649)	(2,380,788)
Cash and Cash Equivalents - Beginning of Year	1,984,151	4,364,939
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 837,502	\$ 1,984,151

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

AIDS PROJECT LOS ANGELES AND APLA DENTAL SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended June 30, 2008

NOTE 1 - NATURE OF ORGANIZATION

AIDS Project Los Angeles (APLA), one of the largest non-profit AIDS service organizations in the United States, provides bilingual direct services, health and prevention education and leadership on HIV/AIDS-related policy and legislation. APLA is a community-based, volunteer-supported organization with local, national and global reach.

HISTORY

Founded in October 1982, APLA was given its name by four friends who were frightened by the sudden deaths in their communities and enraged at an unresponsive government. APLA has grown from a telephone hotline, operated from a closet, to a provider of comprehensive social services, prevention and government advocacy through nine locations across Los Angeles County.

HIV PREVENTION

Since the beginning of the epidemic, APLA has produced innovative prevention programs to reduce HIV infection rates through individual, group and community-level activities. APLA's current prevention work includes community organizing, peer health education, research and evaluation, mobilizing HIV prevention leadership through summits and conferences, and social marketing campaigns that appear on Web sites and in magazines, on billboards and in multimedia campaigns.

PROGRAMS AND DIRECT SERVICES

APLA's programs and services enhance the health and quality of life of people living with HIV disease. The people APLA serves reflect the populations living with HIV in Los Angeles County. Most are people of color who live at or below the poverty level and face multiple challenges to their physical and mental health. Included within APLA is APLA Dental Services (a nonprofit organization) which was incorporated on September 16, 2004. APLA Dental Services provides comprehensive dental services to people with HIV/AIDS throughout Los Angeles County, regardless of their ability to pay.

GOVERNMENT AFFAIRS

APLA's policy work comprises a wide range of activities to educate the public, elected officials and policy-makers about the critical needs of people living with HIV/AIDS. These efforts include grassroots trainings and communications, policy position papers, informing and educating decision-makers at all levels of government, public speaking and testimony, and working with coalitions of other advocates to achieve high-quality care, treatment and prevention services.

AIDS PROJECT LOS ANGELES AND APLA DENTAL SERVICES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of APLA and APLA Dental Services (the organization) after elimination of all inter-company transactions and balances.

(b) BASIS OF PRESENTATION

The financial statements have been prepared on the accrual basis of accounting.

(c) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the organization are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted Net Assets.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions. As of June 30, 2008, the organization has \$6,851,740 of unrestricted net assets.
- **Unrestricted Board Designated Net Assets.** These are comprised of resources, which the board of directors has established as being designated as an operating reserve. For purposes of complying with net assets accounting, this fund is included in unrestricted net assets at June 30, 2008 with a balance of \$1,494,222.
- **Temporarily Restricted Net Assets.** The organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from program or capital restrictions. As of June 30, 2008, APLA has \$593,675 in temporarily restricted net assets.

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) **ACCOUNTING** (continued)

- **Permanently Restricted Net Assets.** Net assets subject to donor-imposed stipulations that are maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes. The organization has \$261,273 of permanently restricted net assets at June 30, 2008.

(d) **CASH AND CASH EQUIVALENTS**

For financial statement purposes, the organization considers all highly liquid investments with an initial maturity of three months or less, when purchased, to be cash and cash equivalents.

The organization maintains its temporary cash investments in bank deposit accounts and other investment accounts which, at times, may exceed federally insured limits.

(e) **ACCOUNTS RECEIVABLE**

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due.

(f) **CONTRIBUTIONS RECEIVABLE**

Unconditional contributions, including pledges, recorded at estimated net realizable value, are recognized as revenues in the period received. The organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) GRANTS RECEIVABLE

Revenue from government grants is recorded to the extent of the expenses incurred under the grant for cost reimbursement grants, or services provided for fee-for-service grants. Any difference between expenses incurred or services provided and the total funds received under the grants are recorded as receivables from the granting agencies to the extent of the grant awards. Any funds received in excess of expenditures are recorded as deferred revenue.

(h) INVENTORY

Inventory consists primarily of food items, most of which are canned and non-perishable. Purchased inventory is stated at the lower or cost or market. Inventory purchased at below market prices from the Los Angeles Regional Food Bank and donated inventory are stated at the wholesale price.

(i) INVESTMENTS

The organization values its investments at fair value. Income and gains or losses (including investments bought, sold and held during the year) are reflected in the statement of activities.

(j) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, if purchased or at fair value at the date of donation if donated. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is recorded as expense as incurred; significant renewals and betterments are capitalized. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$500 and the useful life is greater than one year. The estimated useful lives of property and equipment are as follows:

Furniture, Fixtures and Equipment	3 - 7 Years
Leasehold Improvements	Shorter of Asset Life or Lease Term

At times the State of California and other government agencies provide grants for the purchase of assets that are used by the organization in program services. These assets are not capitalized by the organization. The State of California and local government agencies have a reversionary interest in such assets.

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) LONG-LIVED ASSETS

The organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No such impairment losses have been recognized during the year ended June 30, 2008.

(l) INCOME TAXES

The organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the code) as a charitable organization whereby only unrelated business income, as defined by Section 512(a)(1) of the code, is subject to Federal income tax.

(m) DONATED MATERIALS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the year ended June 30, 2008, in-kind donations consist of the following:

Food Supplies	\$ 539,492
Volunteer Hours	223,934
Legal Services	119,333
Airline Vouchers	50,110
Furniture & Equipment	<u>10,000</u>
TOTAL IN-KIND DONATIONS	<u>\$ 942,869</u>

The organization receives a significant amount of contributed time from volunteers who assist in various programs that does not meet the recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. The hours contributed is estimated by management to be approximately 40,000 hours.

**AIDS PROJECT LOS ANGELES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) FUNCTIONAL ALLOCATION

The cost of providing the organization's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited by a method that best measures the relative degree of benefit. The organization uses payroll hours and full time equivalents to allocate indirect costs.

(o) 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 reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented.

(p) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of APLA for the year ended June 30, 2007 from which the summarized information was derived.

(q) NEW ACCOUNTING PRONOUNCEMENT

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken, or expected to be taken, on a tax return. FIN 48 was initially effective for fiscal years beginning after December 15, 2006. The implementation date for non-public corporations for FIN 48 has been delayed and is now effective for fiscal years beginning after December 15, 2007. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to net assets. The organization expects to adopt FIN 48 effective July 1, 2008 and has not currently determined the impact of FIN 48 on the accompanying consolidated financial statements.

**AIDS PROJECT LOS ANGELES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 are \$253,380 which consist of amounts due from third parties. As of June 30, 2008, \$83,000 has been established as an allowance for doubtful accounts.

Included in accounts receivable is an amount due from HIV/AIDS Legal Services Alliance, Inc. (HALSA). HALSA was incorporated in July 2001 and became a 501(c)(3) not-for-profit organization on January 1, 2002. The program services performed by HALSA were previously performed by the staff of APLA and several other community based organizations. At the time of incorporation, APLA contributed \$100,000 to the agency and two members of APLA senior management served on HALSA's initial board of directors.

To assist in the transition and help ensure the long-term financial viability of HALSA, APLA agreed to loan HALSA the cash flow necessary for operations, as well as provide administrative support to the agency. At June 30, 2003, the amount loaned to HALSA was \$268,993. APLA and HALSA entered into an agreement to repay the entire amount over five years with the final payment due at December 31, 2008. The agreement was renegotiated as of January 1, 2008, which extends the term of the loan to July 1, 2012. The new agreement allows for partial debt forgiveness over the term of the loan if all payments are made on a timely basis.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

The total amount of contributions receivable at June 30, 2008 is \$166,965, net of an allowance of \$19,964 for doubtful accounts.

NOTE 5 - GRANTS RECEIVABLE

The total amount of grants receivable at June 30, 2008 of \$1,436,764 consists of grants from government agencies which are deemed fully collectible within one year.

NOTE 6 - INVESTMENTS

Investments at June 30, 2008 are valued at fair value and consist of certificates of deposit of \$5,118,547 with maturity dates in excess of three months from the date of issuance. All certificates of deposit held by the organization are within federally insured limits. Investment income for the year ended June 30, 2008 consists of \$276,409 of interest income.

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008**

NOTE 7 - SPLIT INTEREST AGREEMENT

APLA holds a remainder interest in an irrevocable charitable remainder trust created on April 24, 1995 naming APLA as a beneficiary of 7.5% of 80% of the remaining value of the trust. As of June 30, 2008, APLA's charitable remainder trust value is \$39,809 which represents APLA's interest in the fair value of the trust assets at June 30, 2008. The trust calls for annual income distributions to be paid to the beneficiaries.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 consist of the following:

Leasehold Improvements	\$ 1,397,559
Equipment	1,290,060
Furniture and Fixtures	129,836
Construction in Progress	55,428
Donated Assets	<u>10,000</u>
 TOTAL	 2,882,883
 Less: Accumulated Depreciation	 <u>(2,104,321)</u>
 NET PROPERTY AND EQUIPMENT	 <u><u>\$ 778,562</u></u>

Depreciation expense for the year ended June 30, 2008 was \$135,142. Construction in progress includes costs incurred for the planning, design and construction of a new facility in South Los Angeles to be opened in 2009. The new building will consist of a dental clinic operated by APLA Dental Services and a Necessities of Life food pantry, both of which will serve low-income people living with HIV/AIDS. The estimated cost to complete the construction is approximately \$800,000.

NOTE 9 - ACCRUED EXPENSES

Accrued expenses at June 30, 2008 consist of the following:

Accrued Vacation	\$ 264,683
Other Accrued Expenses	32,872
Retirement Plan Payable	23,355
Accrued Interest Payable	<u>8,400</u>
 TOTAL ACCRUED EXPENSES	 <u><u>\$ 329,310</u></u>

**AIDS PROJECT LOS ANGELES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008**

NOTE 10 - NOTES PAYABLE

Notes payable at June 30, 2008 consist of the following:

State of California Department of Housing and Community Development for the Pre-Payment of a Long-Term Lease Agreement on a Residential Facility for Persons with AIDS; Secured by APLA's Leasehold Interest in the Property, Bearing Interest at 3% per Annum, Unpaid Balance of Principal and Interest Due July 2025 \$ 280,000

City of Los Angeles Community Redevelopment Agency for the Renovation of a Residential Facility for Persons with AIDS; Secured by APLA's Leasehold Interest in the Property, Non-Interest Bearing, Unpaid Principal Balance Due August 2031 239,490

TOTAL NOTES PAYABLE \$ 519,490

In 1991, APLA borrowed \$280,000 from the Department of Housing and Community Development of the State of California (the State). With the proceeds from this loan, APLA prepaid a 40-year lease in the amount of \$207,288 for a residential apartment building that provides housing to persons living with HIV/AIDS. The remaining \$72,712 was spent on leasehold improvements to the property. The remaining balance of the lease of \$139,621 and the unamortized leasehold improvements totaling \$51,002 are currently being amortized over a 40-year term of the lease. Upon maturity of the note and in accordance with the terms of the prepaid lease agreement, another organization (the lessor) will provide APLA with the principal amount due on the note payable, which APLA will, in turn, remit to the State. Due to the uncertainty of collection of the receivable, it has not been recorded in the accompanying consolidated financial statements.

The Community Redevelopment Agency (the City) loan is a "service repayment loan" and reduces at a rate of \$10,000 a year based upon the subject property being used to provide low-income housing to people living with HIV/AIDS. No principal or interest is due prior to maturity as long as the property continues to be used for the intended purpose. Due to the nature of the service credits, APLA recognizes such amounts after receiving approval from the City.

Future minimum payments, by year, and in the aggregate, under these notes consist of the following:

Years Ending June 30	Service Credits	Payments	Total
2009	\$ 10,000	\$ -	\$ 10,000
2010	10,000	-	10,000
2011	10,000	-	10,000
2012	10,000	-	10,000
2013	10,000	-	10,000
Thereafter	<u>189,490</u>	<u>280,000</u>	<u>469,490</u>
TOTAL	<u>\$ 239,490</u>	<u>\$ 280,000</u>	<u>\$ 519,490</u>

**AIDS PROJECT LOS ANGELES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008**

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The organization leases office space and office equipment under operating lease agreements that expire at various dates through March 2013. Future minimum annual lease payments as of June 30, 2008 are as follows:

Years Ending June 30	
2009	\$ 878,795
2010	848,604
2011	738,805
2012	386,280
2013	<u>298,315</u>
TOTAL	<u>\$ 3,150,799</u>

Rent expense for the year ended June 30, 2008 totaled \$910,687.

(b) LEGAL MATTERS

In the ordinary course of business, the organization may become subject to certain lawsuits and other potential legal actions. In the opinion of the management, such matters will not have a material effect on the financial position of the organization.

(c) GRANTS AND CONTRACTS

The organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The organization has a provision of \$12,217 for the possible disallowance of program costs on its financial statements; however, the ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 consist of \$593,675 for specific programs conducted by the organization.

**AIDS PROJECT LOS ANGELES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008**

NOTE 13 - SUPPORT TO OTHER ORGANIZATIONS

It is the policy of the board of directors to support other service organizations whose goals are compatible with and whose services supplement those of the organization. In this regard, during the year ended June 30, 2008, APLA contributed \$367,117 to other service organizations.

NOTE 14 - RELATED PARTY TRANSACTIONS

(a) AIDS ACTION COUNCIL

AIDS Action is a national organization that has addressed the needs of people who are at risk for and living with HIV infection, and the organizations that serve them. AIDS Action has two arms with separate but complimentary functions: AIDS Action Foundation, a registered 501(c)(3) and AIDS Action Council, a registered 501(c)(4). AIDS Action Council is a membership organization consisting of community-based organizations, local health departments and clinics, service providers, and health educators, including APLA. The executive director of APLA currently serves as treasurer on the AIDS Action Council Board of Directors. During the year ended June 30, 2008, APLA made payments to AIDS Action Council of \$50,000 for membership dues.

(b) LEGAL SERVICES

Two members of the APLA Board of Directors are partners at law firms that have contributed pro-bono legal services to APLA during the year ended June 30, 2008 in the amount of \$108,240.

(c) EVENT PRODUCTION

APLA engaged the services of a production company, in which a Board member is a principal, to produce a fundraising event held in June 2008.

NOTE 15 - EMPLOYEE BENEFIT PLAN

In July 2007, the organization implemented a voluntary retirement plan which includes a discretionary employer matching provision. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The organization incurred matching expenses of \$142,071 for the year ended June 30, 2008.

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE 16 - ALLOCATION OF JOINT COSTS

Through certain fundraising events, the organization incurred joint costs of \$2,393,412 to expand HIV/AIDS awareness, to inform the public of the HIV/AIDS health crisis and to raise funds. Of those costs, \$1,820,294 was allocated to fundraising expenses and \$573,118 was allocated to program services.

**AIDS PROJECT LOS ANGELES
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SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2008

**AIDS PROJECT LOS ANGELES
AND APLA DENTAL SERVICES**

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2008

Agency - Program Grant Title	Contract Number	Federal CFDA Number	Governmental Revenue		Program Expenditures from Governmental Revenue
			Federal	Nonfederal	
FEDERAL AWARDS					
MAJOR AWARDS					
U.S. Department of Health and Human Services:					
Pass-through, County of Los Angeles, Office of AIDS Program & Policy:					
HIV/AIDS Case Management, Home-Based Services	H-204620	93.914	\$ 405,824	\$ -	\$ 405,824
HIV/AIDS Oral Health Care (Dental Services)	H-204505-16&17	93.914	985,780	-	985,780
HIV/AIDS Mental Health, Psycho Therapy Services	H-210815-17&18	93.914	269,056	-	269,056
HIV/AIDS Nutrition Support Services	H-700241-4&5	93.914	405,106	-	405,106
HIV/AIDS Treatment Education Services	H-209099-15	93.914	74,197	-	74,197
			2,139,963	-	2,139,963
Health Care Finance Administration:					
Pass-through State Department of Health and Human Services - AIDS Medi-Cal Waiver Program (*)					
	03-76049	N/A	525,094	525,094	1,050,188
TOTAL MAJOR AWARDS			2,665,057	525,094	3,190,151
NON-MAJOR AWARDS					
Department of Housing and Urban Development:					
Pass-through Housing Opportunities for Persons with AIDS Program of the City of Los Angeles:					
Housing Case Management	112268	14.241	294,310	-	294,310
Supportive Services in Permanent Housing	112268	14.241	99,931	-	99,931
Other Supportive Services	112268	14.241	172,181	-	172,181
Housing Information Services Clearinghouse	106873	14.241	4,617	-	4,617
			571,039	-	571,039
U.S. Department of Health and Human Services:					
HIV Prevention Services for Racial/-Ethnic Minority Population					
	U65/CCU924536-04	93.943	729,041	-	729,041
Pass-through County of Los Angeles Center for Disease Control and Prevention					
HIV/AIDS Health Education Risk Reduction Comprehensive Risk Counseling and Services					
	H-700940-17	93.940	693,816	-	693,816
U.S. Department of Health and Human Services					
Pass-through, County of Los Angeles, Office of AIDS Program & Policy:					
HIV/AIDS Case Management Services	H-21084917&18	93.917	423,012	-	423,012
HIV/AIDS Peer Support - Training Services	H-700260-4	93.917	67,789	-	67,789
HIV/AIDS Client Advocacy	H-700937-4	93.943	256,292	-	256,292
			747,093	-	747,093
Pass-through State of California Department of Health Services					
AIDS Case Management Program					
	07-65181	93.917	790,853	-	790,853
Federal Emergency Management Agency:					
Pass-through Local Services Board of Federal Emergency Management Agency - Emergency Food & Shelter Program Phase XXV					
	069500-001	83.523	127,800	-	127,800
National Institute of Health Subcontract:					
University of California, San Francisco NIH					
	4315sc	93.942	129,816	-	129,816
Social Security Administration:					
Pass-through Goodwill Industries of Southern California Social Security Benefits Planning Assistance & Outreach					
	7715-5916	96.008	137,037	-	137,037
State of California Department of Mental Health					
Pass-through Los Angeles County Department of Mental Health - Mental Health Services					
	DMH-02269	N/A	-	120,893	120,893

See Independent Auditors' Report

**AIDS PROJECT LOS ANGELES
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**SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2008**

	Contract Number	Federal CFDA Number	Governmental Revenue		Program Expenditures from Governmental Revenue
			Federal	Nonfederal	
NON-MAJOR AWARDS (continued)					
City of West Hollywood	2007-2008	N/A	\$ -	\$ 192,377	\$ 192,377
City of Los Angeles HIV Prevention Program	C - 110590	N/A	-	41,824	41,824
California HIV/AIDS Research Project (CHRP) Network, Intervention to Reduce Negative Impact MA on Latino MSM	MU05-APLA-502	N/A	-	15,504	15,504
Sex, Drugs and HIV: Among MSM	2008-EGB-D2235B-APLA-MM	N/A	-	22,913	22,913
Pre-Exposure Prophylaxis Survey	PR07 - APLA - 812	N/A	-	14,230	14,230
HIV Latino MSMW	1568 G JB379	N/A	-	18,497	18,497
Network for AIDS Research in Los Angeles (NARLA)	CH07-APLA-609	N/A	-	86,371	86,371
Medi-Cal Part D: Implementation, Impact HIV/AIDS Policy	CRO6 - APLA-741	N/A	-	70,581	70,581
IDEA Award - Sexual Health Communications: Young Gay Men & Their Friends	ID05-APLA-036	N/A	-	20,763	20,763
RAND Corporation - Evaluation of Treatment Advocacy Involving Patients in HIV Care	9920070055	93.361	31,254	-	31,254
TOTAL NON-MAJOR AWARDS			3,957,749	603,953	4,561,702
TOTAL FEDERAL AND NONFEDERAL AWARDS			\$ 6,622,806	\$ 1,129,047	\$ 7,751,853

Summary of Significant Accounting Policies

1 Basis of Accounting - The Schedule of Expenditures of Federal and Nonfederal Awards has been reported on the accrual basis of accounting.

2 APLA is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

(*This contract is a fee for service contract. The amount represents expenditures for fiscal year 2008.