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CERTIFIED PUBLIC ACCOUNTANTS, LLP

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HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
HIV & AIDS Legal Services Alliance, Inc.

We have audited the accompanying Statement of Financial Position of HIV & AIDS Legal Services Alliance, Inc. (a nonprofit organization) as of June 30, 2010, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from HIV & AIDS Legal Services Alliance, Inc.'s June 30, 2009 financial statements and, in our report dated January 6, 2010, we expressed an unqualified opinion on those 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HIV & AIDS Legal Services Alliance, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HIV & AIDS Legal Services Alliance, Inc. as of June 30, 2010, 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 October 12, 2010 on our consideration of HIV & AIDS Legal Services Alliance, Inc. internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 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 read in conjunction with this report in considering the results of our audit.

Harrington Group

San Marino, California
October 12, 2010

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2010

With comparative totals at June 30, 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash	\$ 329,058	\$ 40,892
Grants receivable	44,881	169,416
Pledges receivable	-	1,223
Fees receivable	-	16,138
Prepaid expenses	25,483	31,071
Property and equipment (Note 3)	14,106	20,319
Total assets	<u><u>\$ 413,528</u></u>	<u><u>\$ 279,059</u></u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 36	\$ 2,540
Accrued liabilities (Note 4)	10,871	17,313
Note payable (Note 5)	3,589	4,807
Due to APLA (Note 6)	100,703	130,703
Total liabilities	<u>115,199</u>	<u>155,363</u>
Net assets		
Unrestricted	298,329	107,993
Temporarily restricted	-	15,703
Total net assets	<u>298,329</u>	<u>123,696</u>
Total liabilities and net assets	<u><u>\$ 413,528</u></u>	<u><u>\$ 279,059</u></u>

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

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	2010	2009
Revenue and support				
In-kind donations (Note 2)	\$ 1,119,680	\$ -	\$ 1,119,680	\$ 1,073,426
Grants from government agencies (Note 8)	471,945		471,945	603,110
Contributions (Note 9)	306,463	20,000	326,463	126,984
Other grants	91,086		91,086	115,693
Program fees	32,352		32,352	31,249
Special events, net of costs of \$12,764	39,926		39,926	52,717
Debt forgiveness (Note 6)	10,000		10,000	10,000
Other income	805		805	7,605
Net assets released from restrictions	35,703	(35,703)	-	-
	2,107,960	(15,703)	2,092,257	2,020,784
Expenses				
Program services	1,701,645		1,701,645	1,738,860
Management and general	130,762		130,762	128,521
Fund development	85,217		85,217	111,279
	1,917,624		1,917,624	1,978,660
Change in net assets	190,336	(15,703)	174,633	42,124
Net assets, beginning of year	107,993	15,703	123,696	81,572
Net assets, end of year	\$ 298,329	\$ -	\$ 298,329	\$ 123,696

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

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Development</u>	<u>Total Expenses</u>	
				2010	2009
Salaries	\$ 375,236	\$ 62,221	\$ 60,709	\$ 498,166	\$ 552,489
Payroll taxes and benefits	81,307	12,838	12,838	106,983	121,847
Total personnel costs	456,543	75,059	73,547	605,149	674,336
In-kind legal services	1,015,600			1,015,600	978,075
In-kind services - other	104,080			104,080	95,351
Facilities costs	50,206	7,928	7,928	66,062	64,363
Accounting services		32,551		32,551	38,694
Insurance	23,197	7,325		30,522	31,483
Subcontractor expense	9,973	2,003		11,976	19,450
Subscriptions/publications	9,762			9,762	10,820
Office supplies	5,354	846	846	7,046	9,864
Telephones	5,318	840	840	6,998	13,689
Depreciation expense	4,722	746	746	6,214	10,250
Postage	3,449	544	544	4,537	4,580
Staff development	4,428			4,428	5,292
Licenses/memberships/dues	2,252	356	356	2,964	3,224
Equipment purchases	2,796			2,796	5,082
Miscellaneous expenses	1,955	309	309	2,573	3,575
Bank charges		2,154		2,154	1,220
Travel	1,369			1,369	1,641
Printing and duplicating	641	101	101	843	6,561
Advertising				-	1,110
Total 2010 functional expenses	\$ 1,701,645	\$ 130,762	\$ 85,217	\$ 1,917,624	
Total 2009 functional expenses	<u>\$ 1,738,860</u>	<u>\$ 128,521</u>	<u>\$ 111,279</u>		<u>\$ 1,978,660</u>

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

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

STATEMENT OF CASH FLOWS

For the year ended June 30, 2010

With comparative totals for the year ended June 30, 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 174,633	\$ 42,124
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	6,214	10,250
Debt forgiveness	(10,000)	(10,000)
Changes in operating assets and liabilities:		
(Increase) decrease in grants receivable	124,535	(28,220)
Decrease in pledges receivable	1,223	14,277
(Increase) decrease in fees receivable	16,138	(16,138)
(Increase) decrease in prepaid expenses	5,588	(2,348)
Increase (decrease) in accounts payable	(2,504)	2,540
(Decrease) in accrued liabilities	(6,442)	(40,294)
Net cash provided (used) by operating activities	309,385	(27,809)
Cash flows from financing activities:		
Payments to APLA	(20,000)	(20,000)
Proceeds from borrowings on note payable	17,407	28,564
Payments on note payable	(1,218)	(27,071)
Net cash (used) by financing activities	(3,811)	(18,507)
Cash flows from investing activities:		
Purchase of property and equipment	(17,408)	(17,407)
Net cash (used) by investing activities	(17,408)	(17,407)
Net increase (decrease) in cash	288,166	(63,723)
Cash, beginning of year	40,892	104,615
Cash, end of year	\$ 329,058	\$ 40,892
Supplemental disclosure:		
Operating activities reflect interest expense of:	\$ -	\$ 225

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

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization

HIV & AIDS Legal Services Alliance, Inc. (“HALSA”) is one of the nation’s leading HIV legal service providers supporting low-income persons living with HIV/AIDS. Through legal representation, advocacy, and community education, HALSA protects rights, ensures dignity and improves wellness.

HALSA is the primary provider of legal services available to over 66,000 people living with HIV and AIDS in Los Angeles County, offering free assistance to low-income individuals and working-class families who cannot afford an attorney. HALSA is considered the national model for its expertise in the fields of discrimination, privacy, immigration, employment, housing, public benefits, and tax issues; and also builds capacity for HIV law as a support center for legal education and technical assistance to law firms, public-interest law and AIDS service organizations, government agencies, and low-income health clinics.

HALSA’s free legal services save lives, remove barriers of employment, increase access to health care, improve well-being and support independent living. HALSA is a *pioneer in emerging field of public health legal services, which recognizes the impact of effective legal services in improving health outcomes*. In the fiscal year 2009-2010, HALSA provided 22,065 hours of free legal assistance to 1,541 clients—75% were people of color and 21% were women. The average client had a monthly income of \$713. HALSA uses a combination of six staff attorneys, law student interns, a cadre of over 131 pro bono attorneys, and a Lawyer Referral Service panel of more than 20 private law firms to provide legal services and direct representation. HALSA provides services in English, Spanish, and for the deaf.

HALSA was formed in April of 1997 from the existing HIV/AIDS legal programs at Public Counsel, the L.A. Gay and Lesbian Center, AIDS Project Los Angeles, AIDS Service Center, and the L.A. County Bar Association to better serve and coordinate the needs of people living with HIV/AIDS. The collaborative project transitioned to its own nonprofit organization in 2002 and is supported by funds from the L.A. County Department of Public Health, Internal Revenue Service, City of Los Angeles Housing Department, the California Bar Association, and from contributions from individuals, corporations, and foundations.

HALSA provides assistance with:

- Discrimination in housing, workplace, healthcare, and insurance
- Reasonable accommodation on the job
- Housing disputes and evictions
- Powers of attorney and wills
- Medical directives and hospital visitation rights
- Confidentiality and privacy issues
- Public benefits, such as Social Security, disability, and MediCal
- Placement with pro bono attorneys
- IRS tax filings, debt negotiations, and wage garnishments
- Immigration assistance
- Self-help legal workshops
- Training for attorneys, government agencies, and health providers

continued

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

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

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of HALSA are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net 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. These generally result from revenue 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.

Temporarily Restricted. HALSA 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. HALSA had no temporarily restricted net assets at June 30, 2010.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit HALSA to expend all of the income (or other economic benefits) derived from the donated assets. HALSA had no permanently restricted net assets at June 30, 2010.

Grants Receivable and Pledges Receivable

Grants receivable are receivables from governmental agencies. Grant and pledge receivables are deemed fully collectible and expected to be within one year. Therefore, no allowance for doubtful accounts has been provided at June 30, 2010. Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Accounting Standards Codification (“ASC”) 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).
- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

HALSA places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. HASLA has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2010 consists of government contract receivables due from county and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of HALSA’s receivables consist of earned fees from contract programs granted by governmental agencies.

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 computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and one thousand dollars for computers and the useful life is greater than one year.

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Materials and Services

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the year ended June 30, 2010, HALSA recorded in-kind legal services of \$1,015,600 and donated other services of \$104,080. HALSA receives its valuation of donated legal services from the outside association that provides the services. The association only provides the valuation on a calendar year basis. Therefore, the amount reflected above is based on a calendar year. HALSA has consistently reported on the calendar year basis and believes that the difference between the calendar year and fiscal year services would be immaterial.

Income Taxes

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

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by HALSA in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. HALSA's returns for years ended 2009, 2008, and 2007 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

Functional Allocation of Expenses

Costs of providing HALSA's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. HALSA uses staff full-time equivalents to allocate indirect costs.

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.

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 HALSA's financial statements for the year ended June 30, 2009 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through October 12, 2010, the date which the comparative financial statements were available.

3. Property and Equipment

Property and equipment at June 30, 2010 consist of the following:

Equipment	\$ 68,226
Leasehold improvement	<u>11,549</u>
	79,775
Less: accumulated depreciation	<u>(65,669)</u>
	<u>\$ 14,106</u>

4. Accrued Liabilities

Accrued liabilities at June 30, 2010 consist of \$10,871 in accrued vacation.

5. Note payable

The note payable of \$3,589 at June 30, 2010 consists of an unsecured insurance financing agreement with a corporation, at an interest rate of 10.25%, due August 2010.

6. Due to Aids Project Los Angeles ("APLA")

In accordance with an agreement dated January 1, 2008, HALSA made payments to APLA of \$20,000 during the fiscal year ended June 30, 2010, and will pay installments of \$20,000 each year from 2011 to 2012. In accordance with the same agreement, APLA forgave \$10,000 of the debt in the fiscal year ended June 30, 2010, and will provide \$10,000 forgiveness of debt to HALSA in 2011 and \$50,703 in 2012, contingent upon HALSA meeting its payment requirements. The outstanding liability at June 30, 2010 was \$100,703.

continued

HIV & AIDS LEGAL SERVICES ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Due to Aids Project Los Angeles (“APLA”), continued

Maturities and debt forgiveness for the due to APLA liability are as follows:

<u>Year ended June 30,</u>	<u>Payment</u>	<u>Debt Forgiveness</u>
2011	\$20,000	\$10,000
2012	<u>20,000</u>	<u>50,703</u>
	<u>\$40,000</u>	<u>\$60,703</u>

7. Commitments and Contingencies

Obligation Under an Operating Lease

HALSA leases office space and storage under a lease agreement which expires in April, 2011. Future minimum payments due under this lease in the fiscal year ended June 30, 2011 will be \$50,357.

Rent expense under an operating lease for the year ended June 30, 2010 was \$58,547.

Contracts

HALSA’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 ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, HALSA has no provisions for the possible disallowance of program costs on its financial statements.

8. Grants from Government Agencies

Grants from government agencies for the year ended June 30, 2010 consist of the following:

L.A. County Public Health, Office of AIDS Programs and Policy	\$244,409
City of Los Angeles Housing Department, HOPWA	174,972
Internal Revenue Service, Low Income Tax Clinic	<u>52,564</u>
	<u>\$471,945</u>

9. Contributions

For the year ended June 30, 2010, contributions of \$326,463 on the Statement of Activities included a \$250,000 grant from the Watts Health Foundation to advance, foster, and promote health within the underserved HIV/AIDS community. This grant was made available for expenditures incurred through December 31, 2011, and with an option to extend that deadline at the approval of the funder.

ADDITIONAL INFORMATION



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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
HIV & AIDS Legal Services Alliance, Inc.

We have audited the financial statements of HIV & AIDS Legal Services Alliance, Inc. ("HALSA") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 12, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HALSA's internal control over financial reporting as a basis for designing our auditing 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 HALSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HALSA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HALSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within HALSA, 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.

Harrington Group

San Marino, California
October 12, 2010