

**DESERT AIDS PROJECT, INC.**  
**PALM SPRINGS, CALIFORNIA**

**INDEPENDENT AUDITORS' REPORT,**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2011 AND 2010**



LUND & GUTTRY LLP / CERTIFIED PUBLIC ACCOUNTANTS  
39700 BOB HOPE DRIVE • SUITE 309 • P.O. Box 250 • RANCHO MIRAGE, CA 92270-0250  
Telephone (760) 568-2242 • Fax (760) 346-8891  
www.lundandguttery.com

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Desert AIDS Project, Inc.  
Palm Springs, California

We have audited the accompanying statement of financial position of Desert AIDS Project, Inc. (a nonprofit corporation) as of June 30, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Desert AIDS Project, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Organization's 2010 financial statements and, in our report dated September 28, 2010, we expressed an unqualified opinion on those financial statements.

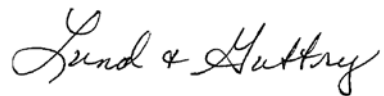
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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 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 Desert AIDS Project, Inc. as of June 30, 2011 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 reports dated September 27, 2011 on our consideration of Desert AIDS Project, Inc. internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The reports are an integral part of the audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Independent Auditors' Report  
(continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Desert AIDS Project, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 27, 2011

**DESERT AIDS PROJECT, INC**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2011**

**WITH COMPARATIVE TOTALS FOR JUNE 30, 2010**

**ASSETS**

	2011			2010
	Unrestricted	Temporarily Restricted	Total	(Memorandum Only)
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 951,329	\$ 87,206	\$ 1,038,535	\$ 1,658,305
Investments - Note 19	1,965,008	-	1,965,008	1,402,510
Accounts receivable, net - Note 2	980,900	-	980,900	1,108,576
Pledges receivable - Note 4	-	294,290	294,290	297,716
Inventory	142,077	-	142,077	77,818
Prepaid expenses	232,602	(993)	231,609	354,915
Receivable from other funds	-	107,337	107,337	94,707
Total current assets	<u>4,271,916</u>	<u>487,840</u>	<u>4,759,756</u>	<u>4,994,547</u>
<b>PROPERTY AND EQUIPMENT, NET - Note 3</b>	<u>4,446,117</u>	<u>-</u>	<u>4,446,117</u>	<u>4,507,302</u>
<b>OTHER ASSETS</b>				
Art collection - Note 5	61,997	1,044,600	1,106,597	1,019,947
Deposits and other	126,027	-	126,027	85,160
Debt service reserve - Note 9	257,462	-	257,462	257,462
Charitable remainder trusts receivable - Note 7	-	394,208	394,208	316,817
Investment - insurance policy - Note 8	450,503	-	450,503	409,836
Total other assets	<u>895,989</u>	<u>1,438,808</u>	<u>2,334,797</u>	<u>2,089,222</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,614,022</u>	<u>\$ 1,926,648</u>	<u>\$ 11,540,670</u>	<u>\$ 11,591,071</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 206,092	\$ -	\$ 206,092	\$ 315,798
Accrued payroll and vacation	310,358	-	310,358	311,389
Deferred income	44,610	-	44,610	53,468
Related party payable - Note 6	29,428	-	29,428	23,139
Payable to other funds	107,337	-	107,337	94,707
Bonds payable - current portion - Note 9	121,666	-	121,666	116,667
Loans payable - current portion - Note 10	7,362	-	7,362	7,362
Line of credit - Note 11	-	-	-	-
Total current liabilities	<u>826,853</u>	<u>-</u>	<u>826,853</u>	<u>922,530</u>
<b>LONG-TERM LIABILITIES</b>				
Bonds payable - net of current portion and bond discount - Note 9	2,417,220	-	2,417,220	2,540,510
Loans payable - net of current portion - Note 10	1,227	-	1,227	8,588
Total long term liabilities	<u>2,418,447</u>	<u>-</u>	<u>2,418,447</u>	<u>2,549,098</u>
<b>NET ASSETS</b>				
Unrestricted - undesignated	4,310,490	-	4,310,490	4,696,912
Unrestricted - board designated - Note 19	2,058,232	-	2,058,232	1,670,819
Temporarily restricted - Note 12	-	1,926,648	1,926,648	1,751,712
Total net assets	<u>6,368,722</u>	<u>1,926,648</u>	<u>8,295,370</u>	<u>8,119,443</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,614,022</u>	<u>\$ 1,926,648</u>	<u>\$ 11,540,670</u>	<u>\$ 11,591,071</u>

(The accompanying notes are an integral part of these financial statements)

**DESERT AIDS PROJECT, INC**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>			<u>2010</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>(Reclassified Memorandum Only)</u>
<b>SUPPORT AND REVENUES</b>				
Support:				
Contributions	\$ 780,145	\$ 3,668	\$ 783,813	\$ 517,496
Fundraising/special events	1,667,191	55,669	1,722,860	1,583,650
Fundraising/thrift shop	3,643,299	-	3,643,299	3,273,431
Bequests	14,901	157,392	172,293	187,748
Other non-cash contributions	54,229	-	54,229	-
Net assets released from restrictions	131,127	(131,127)	-	-
Total support	<u>6,290,892</u>	<u>85,602</u>	<u>6,376,494</u>	<u>5,562,325</u>
Revenue:				
Program revenue, net				
Grants	3,975,248	-	3,975,248	4,705,116
Fees for services	913,693	-	913,693	1,724,793
Donated art collection - Note 5	-	89,100	89,100	955,500
Interest income	52,335	234	52,569	36,133
Investment (loss) gain - net	302,300	-	302,300	22,498
Other income - Note 14	128,499	-	128,499	143,501
Total revenue	<u>5,372,075</u>	<u>89,334</u>	<u>5,461,409</u>	<u>7,587,541</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>11,662,967</u>	<u>174,936</u>	<u>11,837,903</u>	<u>13,149,866</u>
<b>EXPENSES</b>				
Program services:				
Education/prevention	225,797	-	225,797	229,398
Social services	1,503,897	-	1,503,897	1,688,373
Case management	1,113,082	-	1,113,082	1,628,945
Medical services	1,949,635	-	1,949,635	1,681,657
Dental services	465,267	-	465,267	451,713
Total program services	<u>5,257,678</u>	<u>-</u>	<u>5,257,678</u>	<u>5,680,086</u>
Supporting services:				
Fundraising/special events	1,492,702	-	1,492,702	1,222,507
Fundraising/thrift shop	2,960,078	-	2,960,078	2,512,631
Management and general	1,749,966	-	1,749,966	1,743,512
Public policy and marketing	201,552	-	201,552	210,665
Total supporting services	<u>6,404,298</u>	<u>-</u>	<u>6,404,298</u>	<u>5,689,315</u>
<b>TOTAL EXPENSES</b>	<u>11,661,976</u>	<u>-</u>	<u>11,661,976</u>	<u>11,369,401</u>
<b>INCREASE IN NET ASSETS</b>	<u>991</u>	<u>174,936</u>	<u>175,927</u>	<u>1,780,465</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>6,367,731</u>	<u>1,751,712</u>	<u>8,119,443</u>	<u>6,338,978</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 6,368,722</u>	<u>\$ 1,926,648</u>	<u>\$ 8,295,370</u>	<u>\$ 8,119,443</u>

(The accompanying notes are an integral part of these financial statements)

**DESERT AIDS PROJECT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES - PROGRAM SERVICES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	2011					Totals	2010 (Memorandum Only)
	Education/ Prevention	Social Services	Case Management	Medical Services	Dental Services		
Salaries	\$ 55,377	\$ 579,098	\$ 449,118	\$ 1,090,527	\$ 251,421	\$ 2,425,541	\$ 2,281,116
Employee benefits	46,657	86,435	79,687	173,515	28,042	414,336	396,550
Payroll taxes	<u>3,966</u>	<u>40,896</u>	<u>33,221</u>	<u>72,698</u>	<u>18,059</u>	<u>168,840</u>	<u>168,231</u>
Total salaries and related expenses	<u>106,000</u>	<u>706,429</u>	<u>562,026</u>	<u>1,336,740</u>	<u>297,522</u>	<u>3,008,717</u>	<u>2,845,897</u>
Advertising	9,019	-	-	800	-	9,819	17,065
Auto/travel	7,340	5,639	4,770	14,025	457	32,231	26,399
Bad debt	-	-	7,953	34,787	-	42,740	401,507
Direct client expenses	17,364	572,429	374,545	62,621	114,237	1,141,196	1,462,671
Depreciation and amortization	18,386	76,354	28,503	81,824	15,271	220,338	212,159
Dues, fees and licenses	-	86	90	5,785	70	6,031	4,274
Insurance	5,523	16,624	7,438	57,982	3,985	91,552	76,049
Interest	3,959	13,259	5,932	17,030	3,179	43,359	42,196
Miscellaneous	1,143	14,574	2,822	7,652	409	26,600	21,296
Office	3,779	18,242	21,958	50,698	5,230	99,907	86,266
Postage and printing	4,181	3,647	2,721	8,758	404	19,711	20,914
Professional services	24,177	5,622	57,762	169,420	10,657	267,638	197,749
Property taxes	1,186	3,972	1,777	5,102	953	12,990	16,651
Rent - Note 13	6,478	8,293	6,607	3,915	194	25,487	27,082
Repairs and maintenance	8,902	32,892	13,885	45,829	7,322	108,830	118,592
Seminars and workshops	1,504	2,075	81	7,167	108	10,935	15,665
Telephone and utilities	<u>6,856</u>	<u>23,760</u>	<u>14,212</u>	<u>39,500</u>	<u>5,269</u>	<u>89,597</u>	<u>87,654</u>
Total other expenses	<u>119,797</u>	<u>797,468</u>	<u>551,056</u>	<u>612,895</u>	<u>167,745</u>	<u>2,248,961</u>	<u>2,834,189</u>
TOTAL PROGRAM SERVICES	<u>\$ 225,797</u>	<u>\$ 1,503,897</u>	<u>\$ 1,113,082</u>	<u>\$ 1,949,635</u>	<u>\$ 465,267</u>	<u>\$ 5,257,678</u>	<u>\$ 5,680,086</u>

(The accompanying notes are an integral part of these financial statements)

**DESERT AIDS PROJECT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	2011				Totals	2010
	Fundraising/ Special Events	Fundraising/ Thrift Shop	Management and General	Public Policy and Marketing		(Memorandum Only)
Salaries	\$ 384,963	\$ 869,564	\$ 830,181	\$ 104,311	\$ 2,189,019	\$ 1,909,106
Employee benefits	52,615	213,927	145,321	15,558	427,421	353,167
Payroll taxes	<u>27,954</u>	<u>63,787</u>	<u>53,677</u>	<u>7,517</u>	<u>152,935</u>	<u>135,714</u>
Total salaries and related expenses	<u>465,532</u>	<u>1,147,278</u>	<u>1,029,179</u>	<u>127,386</u>	<u>2,769,375</u>	<u>2,397,987</u>
Advertising	74,079	160,050	-	57,214	291,343	220,046
Auto/travel	23,024	77,673	16,119	101	116,917	108,459
Bad debt	-	-	16,748	-	16,748	684
Direct client expenses	-	-	-	-	-	490
Depreciation and amortization	10,262	24,278	141,229	1,409	177,178	170,958
Dues, fees and licenses	3,175	2,817	22,888	1,118	29,998	36,882
Event costs	671,020	71	6,781	2,293	680,165	623,698
Insurance	2,678	12,613	41,019	368	56,678	47,511
Interest	2,136	-	92,944	293	95,373	114,770
Investment fees	640	-	24,975	-	25,615	17,017
Miscellaneous	66,856	146,673	30,829	426	244,784	241,199
Office supplies and expense	29,162	132,095	65,380	8,837	235,474	197,272
Postage and printing	70,159	6,073	6,583	336	83,151	25,795
Professional services	58,991	7,165	82,262	100	148,518	153,499
Property taxes	795	898	8,806	88	10,587	13,224
Rent - Note 13	131	955,449	747	18	956,345	893,365
Repairs and Maintenance	6,677	87,562	90,428	551	185,218	178,771
Seminars and workshops	844	163	9,844	180	11,031	14,840
Telephone and utilities	<u>6,541</u>	<u>199,220</u>	<u>63,205</u>	<u>834</u>	<u>269,800</u>	<u>232,848</u>
Total other expenses	<u>1,027,170</u>	<u>1,812,800</u>	<u>720,787</u>	<u>74,166</u>	<u>3,634,923</u>	<u>3,291,328</u>
TOTAL SUPPORTING SERVICES	<u>\$ 1,492,702</u>	<u>\$ 2,960,078</u>	<u>\$ 1,749,966</u>	<u>\$ 201,552</u>	<u>\$ 6,404,298</u>	<u>\$ 5,689,315</u>

(The accompanying notes are an integral part of these financial statements)

**DESERT AIDS PROJECT, INC.**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>	<u>2010</u> (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 175,927	\$ 1,780,465
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	397,515	383,117
Net investment gain	(302,300)	(22,498)
Donated land	(45,000)	-
(Increase) Decrease in:		
Accounts receivable	127,676	882,053
Prepaid expenses	123,306	(94,407)
Pledges and charitable remainder trusts receivable	(73,965)	537,284
Inventory	(64,259)	(77,818)
Art collection	(86,650)	(955,500)
Deposits and other assets	(40,867)	18,630
Receivable from other funds	(12,630)	9,083
Investment - insurance policy	(40,667)	(409,836)
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(109,706)	142,394
Accrued payroll and vacation	(1,031)	19,686
Deferred income	(8,858)	(50,199)
Related party payable	6,289	23,139
Payable to other funds	12,630	(9,083)
Net cash provided by operating activities	<u>57,410</u>	<u>2,176,510</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(291,330)	(201,877)
Principal payments on short-term debt	(7,361)	(9,276)
Principal payments on long-term debt	(118,291)	(108,067)
Net cash used for capital financing activities	<u>(416,982)</u>	<u>(319,220)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in investments	(260,198)	(539,346)
Advances from line of credit	-	250,000
Payments to lines of credit	-	(800,000)
Net cash used for investing activities	<u>(260,198)</u>	<u>(1,089,346)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(619,770)</u>	<u>767,944</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,658,305</u>	<u>890,361</u>
<b>END OF YEAR</b>	<u>\$ 1,038,535</u>	<u>\$ 1,658,305</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	<u>\$ 150,366</u>	<u>\$ 156,966</u>

(The accompanying notes are an integral part of these financial statements)

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Desert AIDS Project, Inc (DAP) is a non-profit organization that was formed in 1984. The mission is to meet the evolving medical and social service needs of people living with HIV/AIDS by providing direct services and advocacy, while working to prevent new infections through education and outreach. The principal areas of service are the Greater Coachella Valley of the County of Riverside and the County of San Bernardino. At the discretion of the Board of Directors, service may be provided outside the principal areas of service.

**Financial Statement Presentation**

DAP 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, based upon the existence or absence of donor-imposed restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**Unrestricted Funds - Undesignated** – These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Organization, as well as all property and equipment of the Organization.

**Unrestricted Funds – Board Designated** – These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Organization. The Board of Directors have designated funds for an endowment of the Organization. (See Note 19)

**Temporarily Restricted Funds** – These funds represent those resources that are received with temporary 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 for 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 restrictions.

**Permanently Restricted Funds** – These funds represent those resources that are subject to permanent restriction by the donor requiring that the principal be invested and only the income be used for operations. The Organization did not have any permanently restricted funds at June 30, 2011 and 2010.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase.

Investments

Investments are valued at their fair values.

Property and Equipment

Property and equipment are recorded at cost or fair market value at the date of purchase or donation and are depreciated on the straight-line method over the estimated useful lives ranging from 5 – 40 years. Expenditures for maintenance and repairs are charged to operations as incurred. The costs of betterments, which materially extend the useful lives of assets, are capitalized. It is DAP's current policy to capitalize property and equipment over \$5,000.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value.

Pledges Receivable

Pledges are recorded as receivables and recognized as revenue in the year made. Pledges receivable over a period of more than one year are discounted on a net present value rate of 2%. Management has deemed all pledges receivable to be fully collectible and therefore does not require any allowance for uncollectible pledges receivable.

Income Taxes

DAP is a not-for-profit corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service as other than a private foundation. DAP may be subject to tax on income from any unrelated business operations. DAP does not currently have any unrelated business operations.

DAP's Form 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2011, 2010 and 2009 are subject to examination by the IRS, generally for three years after they were filed.

Grant Revenue

Grants from federal, state and local governmental agencies included in program revenue are on a cost-reimbursement basis and, therefore, revenue is recorded as expenses are incurred, using the accrual basis of accounting.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Accrued Vacation

The Organization has accrued a liability for earned but unused vacation and personal time available to the employees.

Fair Value of Instruments

The carrying values of DAP's financial instruments are considered to approximate the fair value. Cash, accounts receivable, accounts payable and accrued expenses are settled so close to the balance sheet date that the fair value does not differ significantly from the stated amount.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Services

A substantial number of unpaid volunteers have made significant contributions of their time. For the years ended June 30, 2011 and 2010 total hours were 92,907 and 85,525 respectively, to develop programs and assist with fundraising activities. The value of donated volunteer services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services.

Memorandum 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the prior year, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2010 amounts in order to conform to the 2011 presentation.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses, including volunteer and training services that are common to several functions, are allocated by various statistical bases.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The Organization's principal programs and services are comprised of:

Education/Prevention – This program provides HIV education to the Organization's principal areas of service including, but not limited to, schools, the general public, businesses and government agencies. Anonymous HIV testing is provided in addition to risk assessment counseling, HIV prevention transmission and education.

Social Services – This program provides housing assistance to the HIV infected population residing in the San Bernardino/Riverside Eligible Metropolitan Area. Additionally, direct client expenses in this area include food and transportation. Through the Mental Health Department, services provided include counseling/psychotherapy, substance abuse assessment and referrals and wellness programs.

Case Management – Case management is the point of entry for new clients and includes mental and physical assessments as well as assessment of basic needs. Case managers coordinate all program services available at DAP and in the community for HIV infected and affected persons.

Medical Services – This program provides primary health care, including drug therapy assistance to the HIV infected population residing primary in the Coachella Valley, through the Wells Fargo HIV Health Center. In-home health services are provided to those eligible, allowing HIV infected persons in the mid-to-later stages of the disease to remain at home, rather than requiring lengthy hospital stays.

Dental Services – This program provides restorative and preventative care, including dental hygienist services, as well as oral health education, to the low-income, HIV-infected population residing in the Coachella Valley. In addition, specialty dental services, including dental surgery, caps and bridges are provided through contracted specialist and labs.

Supporting Services – Expenses for fund raising, including special events and thrift shop, together with communication and marketing costs and management and general expenses are identified separately and reported under supporting services.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**2. ACCOUNTS RECEIVABLE**

Accounts receivable consist of amounts due from local government agencies under various contracts with the Organization which were earned, but not received, as of June 30, 2011 and 2010, and fees for services, net of allowances for uncollectible amounts.

	<u>2011</u>	<u>2010</u>
Grants and other contracts	\$ 669,863	\$ 722,976
Fees for service	758,065	708,888
Other receivables	<u>9,189</u>	<u>32,485</u>
	1,437,117	1,464,349
Less: allowance for uncollectible amounts	<u>(456,217)</u>	<u>(355,773)</u>
	<u>\$ 980,900</u>	<u>\$ 1,108,576</u>

**3. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Building improvements	\$ 1,113,946	\$ 916,432
Furniture and fixtures	162,649	162,649
Equipment	497,415	476,934
Clinical/social services build out	534,683	534,683
Donated land	55,288	10,288
Dental clinic	188,500	188,500
Signage	69,077	69,077
Community services wing	750,224	750,224
Serenity Garden	107,526	107,526
Revivals	104,275	72,563
Administration build out	368,922	368,922
Exterior hardscape/safety renovation	720,657	720,657
Dog park improvements	38,409	38,409
Sunrise building	2,320,000	2,320,000
Sunrise land	580,000	580,000
Sunrise building – other capitalized cost	406,992	406,992
Vehicles	115,692	104,115
Construction in process	<u>30,046</u>	<u>-</u>
	8,164,301	7,827,971
Less: accumulated depreciation	<u>(3,718,184)</u>	<u>(3,320,669)</u>
	<u>\$ 4,446,117</u>	<u>\$ 4,507,302</u>

**4. PLEDGES RECEIVABLE**

Pledges receivable amounted to \$294,290 and \$297,716 at June 30, 2011 and 2010, respectively. All pledges are current and due within one year.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**5. ART COLLECTION**

Fine art donated to the Organization and considered inexhaustible, is recorded at estimated fair value at the date of the gift. At June 30, 2011, the art collection included paintings and similar objects with individual values ranging from \$100 to \$55,000. During prior fiscal years certain pieces of fine art were written down \$20,500 from the original donated amount of \$84,977 to \$64,447 to more reasonably reflect the current fair market value, as estimated by management. During this fiscal year a piece of artwork with a recorded value of \$2,450 was sold and removed from the collection. Unrestricted art collection at June 30, 2011 and 2010 amounted to \$61,997 and \$64,447, respectively.

During the years ended June 30, 2011 and 2010, the Organization received a collection of artwork valued at \$89,100 and \$955,500 respectively. The artwork is donor restricted in that the Organization must retain the artwork for 3 years before they can sell it. Temporarily restricted art collection at June 30, 2011 and 2010 amounted to \$1,044,600 and \$955,500 respectively.

**6. RELATED PARTY RECEIVABLE (PAYABLE)**

DAP is the sole owner of Vista Sunrise Inc. (formerly operating as Coachella Valley AIDS Consortium) a 501(c)(3) organization. DAP formed Vista Sunrise Inc. to be the Managing General Partner of Vista Sunrise Apartments, L.P. (a California Limited Partnership). Vista Sunrise Apartments, L.P. ("Partnership") is the owner and operator of an 80-unit low income housing project for people living with HIV/AIDS called the Rick Weiss Apartments, located adjacent to the Desert AIDS Project.

Vista Sunrise Inc. has delegated its substantial management duties of the Rick Weiss Apartments to McCormack Baron Ragan Management Services, Inc. ("MBR"), a management company with extensive experience in the management of low-income projects. MBR is affiliated with MBA Urban Development Co., the development general partner of the Partnership. The Board of Vista Sunrise Inc. provides oversight to determine that the delegated management duties are being adequately performed by MBR. Vista Sunrise Inc. is operated by members of the Board of Directors of DAP. Vista Sunrise Inc. does not maintain an office or place of business separate from DAP, nor has it hired separate, paid staff members. These financial statements do not include any consolidated financial information from Vista Sunrise Inc. DAP has spent a great deal of staff time and expenses for architectural, legal and other costs pertaining to the above project.

The balances at June 30, 2011 and 2010 were payable in the amount of \$29,428 and 23,139 respectively.

**7. CHARITABLE REMAINDER TRUSTS RECEIVABLE**

As of June 30, 2010 DAP was named in three irrevocable trusts. During the year ended June 30, 2011, DAP received final payment on one of these charitable remainder trusts. As of June 30, 2011 DAP is named in two irrevocable trusts. Total outstanding charitable remainder trusts receivable at June 30, 2011 and 2010 amounted to \$394,208 and \$316,817, respectively.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**8. INVESTMENT – INSURANCE POLICY**

During the year ended June 30, 2010, DAP invested in a life insurance policy in the amount of \$1,000,000 on the life of a donor who has executed a gift agreement worth \$1,000,000 as a “life settlement contract”. The investment is reported at the total costs incurred by DAP to keep the policy in force. Upon the death of the insured a gain or loss will be recognized based on the difference between the life insurance proceeds and the carrying value of the contract. As of June 30, 2011 and 2010 the investment had a value of \$450,503 and \$409,836, respectively.

**9. BONDS PAYABLE**

On April 26, 2001, the Organization purchased the Sunrise building, (with an effective date of April 1, 2001), for \$2,900,000, plus loan costs of \$363,149, borrowing fees of \$49,388, and establishment of a debt service reserve of \$257,463, for a total cost of \$3,570,000. To finance this purchase the Organization entered into an agreement with the ABAG Finance Authority for Nonprofit Corporations in connection with issuance of \$3,570,000 aggregate principle amount of the ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds. The bonds were issued pursuant to the Indenture, dated April 1, 2001, by and between the ABAG Finance Authority for Nonprofit Corporations and U.S. Bank Trust National Association.

The bonds are to be repaid over 25 years with the final payment due March 1, 2025, with a variable interest rate ranging from 3.25% - 5.25% and a bond discount of \$49,388, which is being amortized over the life of the bonds. The final 25<sup>th</sup> year payment of \$257,463 has been deposited into a bond reserve account and amounted to \$257,462 at June 30, 2011 and 2010. Interest on the bond totaled \$138,733 and \$148,744 for the years ending June 30, 2011 and 2010, respectively.

Bond covenants outlined in the Regulatory Agreement have to be met each year unless a waiver of those covenants is obtained. The Organization was in compliance with all covenants at June 30, 2011. Following is a summary of the bonds payable at June 30:

	<u>2011</u>	<u>2010</u>
Bonds payable through March 1, 2025	\$2,570,000	\$ 2,688,291
Less: un-amortized bond discount	<u>(31,114)</u>	<u>(31,114)</u>
Net amount	2,538,886	2,657,177
Less current portion	<u>(121,666)</u>	<u>(116,667)</u>
Bonds payable, less current portion	<u>\$ 2,417,220</u>	<u>\$ 2,540,510</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**9. BONDS PAYABLE – (Continued)**

The following are the principal maturities on bonds payable at June 30, 2011:

2012	\$ 121,666
2013	126,667
2014	133,333
2015	141,667
2016	148,333
Thereafter	<u>1,898,334</u>
	<u>\$ 2,570,000</u>

Amounts derived from the payments made by the Organization pursuant to the Loan Agreement, and from certain other limited sources provided for and described in the Indenture, are the only sources available for the payment of either principle or interest on the bonds. However, the bonds are being issued pursuant to the Contract of Issuance dated April 1, 2001 and the Regulatory Agreement dated April 1, 2001, by and among the Organization, the Office of Statewide Health Planning and Development of the State of California, and the ABAG Finance Authority for Nonprofit Corporations. The ABAG Finance Authority for Nonprofit Corporations is not obligated to pay the principle amount of, or any of the interest of the bonds, except from such amounts derived. Neither the faith and credit nor the taxing powers of the State of California are pledged to the payment of the principal amount of, or interest on the bonds, nor does it have the power to commit the faith and credit of the taxing powers of the State of California or any subdivision thereof to payment of the principle amount of or interest in the bonds.

Based upon the above described facts, and examination, the Attorney General of the State of California is further of the opinion that the Contract of Insurance and the Regulatory Agreement have been duly authorized, executed and delivered by the Office, and assuming due authorization, execution, and delivery by other parties thereto, constitute valid and binding agreements of the Office, subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws affecting creditors rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

**10. LOANS PAYABLE**

DAP has financed the purchase of three vehicles. The loans require monthly payments of \$1,263 maturing through August 2012.

The following are the principal maturities on loans payable at June 30, 2011:

2012	\$ 7,362
2013	<u>1,227</u>
Total	<u>\$ 8,589</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**11. LINE OF CREDIT**

The Organization has an available line of credit of \$1,000,000 with Wells Fargo Bank at June 30, 2011 and 2010. The line was secured by a blanket UCC Filing on the business assets of DAP. Advances under the line of credit accrue interest at LIBOR plus 3.6% and mature December 10, 2011. There was no outstanding balance on the line of credit as of June 30, 2011 and 2010.

In March 2011 the Organization opened a new line of credit for \$500,000 with Wells Fargo Bank. The line is secured by a blanket UCC Filing on the business assets of DAP. Interest accrues on the outstanding principal balance at the greater of a floating rate equal to the Index plus 1%, or the floor rate of 4% and matures April 5, 2012. There was no outstanding balance on the line of credit as of June 30, 2011.

**12. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Building improvements	\$ 82,591	\$ 82,364
Partners for life – 100 Women	110,959	99,315
Pledges receivable (note 5)	294,290	297,716
Charitable remainder trusts receivable (note 7)	394,208	316,817
Art collection (note 4)	<u>1,044,600</u>	<u>955,500</u>
	<u>\$ 1,926,648</u>	<u>\$ 1,751,712</u>

**13. LEASED FACILITIES**

DAP has entered into ten non-cancelable operating leases for the leasing of the Revivals Thrift Shops in Palm Springs, Cathedral City, Palm Desert (2 locations), San Diego, a donation site in Rancho Mirage and the Gallery in Palm Springs; along with a retail processing center, the health clinic in San Bernardino and the DAP Indio office. The monthly rent payments range from \$1,363 to \$31,439 per month through September 2019. The following summarizes annual commitments including options to extend, as of June 30, 2011 under the terms of these leases:

Year ended	
<u>June 30,</u>	
2012	\$ 1,076,930
2013	1,113,908
2014	1,144,959
2015	1,019,257
2016	529,953
Thereafter	<u>1,088,679</u>
	<u>\$ 5,973,686</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**13. LEASED FACILITIES – (Continued)**

Total rent expense of \$981,831 and \$920,447 for the years ended June 30, 2011 and 2010 respectively, are included in the accompanying statement of functional expenses-program services and statement of functional expenses-supporting services.

**14. RENTAL INCOME**

DAP has entered into two lease agreements to lease space in its Sunrise building. One lease is with Laboratory Corporation of America for three years with monthly rental income of \$1,741, expiring December 31, 2011 unless renewed or terminated. The base rent shall be adjusted at each annual anniversary, January 1, by 1.5%. The other lease is an exclusive lease to Walgreen Co. for a pharmacy as a convenience and benefit to the DAP clients. The lease has a twenty five-year term that expires November 2027 with monthly rental income of \$3,675. Minimum future rental income to be received on these two leases is as follows:

<u>Year ended June 30,</u>	
2012	\$ 54,858
2013	44,100
2014	44,100
2015	44,100
2016	44,100
Thereafter	<u>503,475</u>
	<u>\$ 734,733</u>

DAP also has entered into a lease agreement with the County of Riverside for the use of DAP property to operate a medical clinic. The lease provides for annual payments in the amount of \$50,000, adjusted annually for increases in the Consumer Price Index, through May 2062. Minimum future rental income to be received on this lease is as follows:

<u>Year ended June 30,</u>	
2012	\$ 50,000
2013	50,000
2014	50,000
2015	50,000
2016	50,000
Thereafter	<u>2,295,833</u>
	<u>\$ 2,545,833</u>

Rental income under the above lease agreements for the year ending June 30, 2011 and 2010 totaled \$125,668 and \$115,340, respectively. These amounts are reported with other income in the accompanying statement of activities.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**15. CONCENTRATION OF CREDIT RISK**

All bank and investment accounts are fully insured by either the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation, or backed by the United States government. Noninterest bearing accounts at the bank are fully guaranteed by the FDIC and up to \$250,000 on all interest bearing accounts. Given the existing size of DAP's operations, it is not unusual for this limit to be exceeded on a periodic basis. Management is aware of this matter and evaluates alternatives for safeguarding cash while at the same time maximizing operational performance.

**16. CONCENTRATION OF REVENUE**

The Organization received 34% of its revenue from grants, which are funded by governmental sources. As of June 30, 2011, approximately 47% of the accounts receivable are generated from grant revenue. Government grant funding mainly comes from the federal Ryan White program. This program is approved by Congress through 2014. With any federal funding, there is always the possibility of the program not being continued after that date. The Organization's strategic plan has anticipated decreased Ryan White funding and is in the process of implementing a variety of programs to enable the continuation of services into the future.

**17. EMPLOYEES' 401(k) PLAN**

Eligible employees who have attained age 21 and three months of service may participate in the DAP 401(k) Profit Sharing plan. This plan replaced the DAP 403(B) Tax Deferred Annuity Plan and became effective on January 1, 2008. The funds in the 403(B) plan all became 100% vested at date of rollover. Employees may contribute 1% to 50% of their compensation with a maximum allowed by the internal revenue service. Employees are always 100% vested in their contributions to the plan.

DAP makes a dollar-for-dollar discretionary matching contribution up to 7% of an employee's annual salary for those who are employed on the last day of the plan year or who have completed 500 hours of service. DAP's 401 (k) plan contributions are vested as follows:

<u>Years of Vesting Service</u>	<u>Vesting Percentage</u>
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
5 or more	100%

The plan also allows for elective profit sharing contributions by DAP.

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**17. EMPLOYEES' 401(k) PLAN – (Continued)**

Amounts contributed to employees' 401(k) and 403(B) plans by DAP were \$175,475 and \$141,808 for the years ended June 30, 2011 and 2010, respectively. Plan forfeitures in the 401(k) plan are used to reduce employer contributions or to pay administrative expenses of the plan.

The 401(K) plan is intended to satisfy all of the requirements for a qualified retirement plan under the appropriate provisions of the Internal Revenue Code, ERISA and other applicable federal and state laws. DAP is the Plan Administrator with the Board Treasurer acting as its agent for the Plan. Participants exercise control over some or all of the investments in their plan accounts. This limits the liability of the fiduciaries for losses resulting from investment decisions made by the participants.

**18. FAIR VALUE MEASUREMENTS**

DAP applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation 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.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

At June 30, 2011 and 2010, all marketable securities are measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets). Fair value for marketable securities at June 30, 2011 and 2010, was \$1,965,008 and \$1,402,510, respectively (see Note 19).

**DESERT AIDS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**19. BOARD DESIGNATED NET ASSETS AND INVESTMENTS**

The Board of Directors have designated funds for an endowment of the Organization. The total endowment at June 30, 2011 consists of \$2,058,232 consists of cash (\$93,224) and investments (\$1,965,008). Investments consist of the following at June 30, 2011:

	Fair Market Value	Cost	Unrealized Gain at 6/30/11
Government obligations	\$ 216,183	\$ 213,690	\$ 2,493
Corporate obligations	201,003	198,622	2,381
International obligations, equities and mutual funds	524,197	434,988	89,209
Mutual Funds	62,915	60,918	1,997
Fund and equity investments	691,902	560,996	130,906
Real estate and specialty assets	268,808	268,420	388
	<u>\$ 1,965,008</u>	<u>\$ 1,737,634</u>	<u>\$ 227,374</u>

The total endowment at June 30, 2010 consists of \$1,670,819 consists of cash (\$268,309) and investments (\$1,402,510). Investments consist of the following at June 30, 2010:

	Fair Market Value	Cost	Unrealized Gain (loss) at 6/30/10
Government obligations	\$ 201,833	\$ 198,542	\$ 3,291
Corporate obligations	221,670	215,214	6,456
International obligations & equities	228,984	235,455	(6,471)
Mutual Funds and other	99,559	94,151	5,408
Fund and equity investments	568,395	593,823	(25,428)
Real estate and specialty assets	82,069	97,978	(15,909)
	<u>\$ 1,402,510</u>	<u>\$ 1,435,163</u>	<u>\$ (32,653)</u>

**20. SUBSEQUENT EVENTS**

The Organization evaluated all potential subsequent events as of September 27, 2011 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2011 or as of September 27, 2011 that require disclosure to the financial statements.

**SUPPLEMENTARY INFORMATION**



LUND & GUTTRY LLP / CERTIFIED PUBLIC ACCOUNTANTS  
39700 BOB HOPE DRIVE • SUITE 309 • P.O. Box 250 • RANCHO MIRAGE, CA 92270-0250  
Telephone (760) 568-2242 • Fax (760) 346-8891  
www.lundandguttery.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Desert AIDS Project, Inc.  
Palm Springs, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Desert AIDS Project, Inc., as of and for the year ended June 30, 2011, which collectively comprise the Desert AIDS Project, Inc.'s basic financial statements and have issued our report thereon dated September 27, 2011. 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 Desert AIDS Project, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Desert AIDS Project, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Desert AIDS Project, Inc.'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.

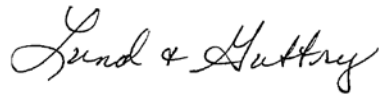
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 Desert AIDS Project, Inc'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*.

We noted certain matters that we reported to management of Desert AIDS Project, Inc., in a separate letter dated September 27, 2011.

This report is intended solely for the information and use of management, board of directors, others within the entity, 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.

A handwritten signature in cursive script that reads "Lend & Guttry".

September 27, 2011



LUND & GUTTRY LLP / CERTIFIED PUBLIC ACCOUNTANTS  
39700 BOB HOPE DRIVE • SUITE 309 • P.O. Box 250 • RANCHO MIRAGE, CA 92270-0250  
Telephone (760) 568-2242 • Fax (760) 346-8891  
www.lundandguttery.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS**  
**APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL**  
**OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Desert AIDS Project, Inc.  
Palm Springs, California

Compliance

We have audited the compliance of Desert AIDS Project, Inc., with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Desert AIDS Project, Inc.'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 Desert AIDS Project, Inc.'s management. Our responsibility is to express an opinion on Desert AIDS Project, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with 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 Desert AIDS Project, Inc.'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 of Desert AIDS Project, Inc.'s compliance with those requirements.

In our opinion, Desert AIDS Project, Inc, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

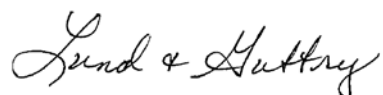
### Internal Control Over Compliance

Management of Desert AIDS Project, Inc., is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Desert AIDS Project, Inc's internal control over compliance with the 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 Desert AIDS Project, Inc'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 and correct, 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, board of directors, others within the entity, 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.



September 27, 2011

**DESERT AIDS PROJECT, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

<u>Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>County of Riverside Health Services Agency</u>		
Department of Mental Health		
Substance Abuse Education/Mental Health	93.959	\$ 34,867
Department of HIV/AIDS		
HIV Care Program	93.917	210,000
<u>Riverside Community Health Agency</u>		
HIV Education / Prevention	93.978	38,250
HIV Anonymous Test Site	93.940	25,000
<u>San Bernardino County Department of Public Health</u>		
Part A, Ryan White HIV/AIDS Treatment Modernization Act	93.914	2,920,918
Ryan White HIV/AIDS Program - Minority AIDS Initiative	93.914	135,302
<u>Housing Authority, County of Riverside</u>		
Housing Opportunities for Persons with AIDS	14.241	298,956
<u>Riverside County Economic Development Agency</u>		
Community Development Block Grant Program	14.253	70,000
<u>City of Palm Springs</u>		
Community Development Block Grant Program	14.253	71,540
<u>City of Palm Desert</u>		
Community Development Block Grant Program	14.253	21,000
<u>Miscellaneous Grants</u>		
Emergency Food & Shelter Program - Riverside	97.024	<u>21,660</u>
		<u>\$ 3,847,493</u>

**DESERT AIDS PROJECT, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Desert AIDS Project, Inc. and is presented on the accrual basis of accounting. The information in this 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.

**DESERT AIDS PROJECT, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**A. Summary Of Audit Results**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Desert AIDS Project, Inc.
2. No deficiencies relating to the audit of the financial statements are reported in the Report on Compliance and Internal Controls Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Desert AIDS Project, Inc. were disclosed during the audit.
4. No deficiencies relating to the audit of major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance with OMB Circular A-133.
5. There were no audit findings relative to the major federal award programs for Desert AIDS Project, Inc.
6. The programs tested as major programs are:

<u>Program Name</u>	<u>CFDA#</u>
Part A, Ryan White HIV/AIDS Treatment Modernization Act – Primary Medical Care	93.914
Part A, Ryan White HIV/AIDS Treatment Modernization Act – Dental	93.914
Riverside County – Housing Authority - Housing Opportunities for People with AIDS	14.241

7. The threshold used for distinguishing between Type A and B programs was \$300,000.
8. Desert AIDS Project, Inc. qualified as a low-risk auditee.

**B. Findings – Financial Statements Audit**

None

**C. Findings And Questioned Costs – Major Federal Award Programs Audit**

There were no findings and questioned costs for the year ended June 30, 2011

**DESERT AIDS PROJECT, INC.**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**FEDERAL COMPLIANCE**

There were no prior year findings and questioned costs for the year ended June 30, 2010.