

Financial Statements Together with  
Report of Independent Certified Public Accountants

**THE FOUNDATION FOR AIDS RESEARCH**  
(formerly known as The American Foundation for AIDS Research)

September 30, 2013 and 2012

**THE FOUNDATION FOR AIDS RESEARCH**  
(formerly known as The American Foundation for AIDS Research)

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of  
**The Foundation for AIDS Research:**

We have audited the accompanying financial statements of The Foundation for AIDS Research (a New York not-for-profit corporation also known as “amfAR”), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to amfAR’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of amfAR’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Foundation for AIDS Research as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

New York, New York

March 14, 2014

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statements of Financial Position**  
**As of September 30, 2013 and 2012**

<b>ASSETS</b>	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,217,612	\$ 6,023,080
Short-term pledges receivable, net (Note 4)	205,706	203,639
Beneficial interest in third-party trust (Note 5)	1,034,524	1,034,524
Accounts receivable, net (Note 2)	10,267,012	3,725,105
Prepaid expenses and other current assets	<u>2,025,742</u>	<u>781,172</u>
Total current assets	21,750,596	11,767,520
Beneficial interest in third-party trust (Note 5)	2,134,708	3,199,119
Investments (Note 3)	23,656,458	23,016,384
Investments - other (Note 3)	323,338	323,338
Fixed assets, net (Note 6)	1,975,311	1,888,607
Other assets	<u>183,926</u>	<u>193,227</u>
Total assets	<u>\$ 50,024,337</u>	<u>\$ 40,388,195</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,688,090	\$ 1,732,740
Short-term grants and fellowships payable, net (Note 7)	2,147,044	1,463,963
Deferred support and refundable advances (Note 2)	<u>13,321,993</u>	<u>5,428,345</u>
Total current liabilities	17,157,127	8,625,048
Long-term grants and fellowships payable, net (Note 7)	53,468	249,159
Other long-term liabilities	<u>1,681,719</u>	<u>761,884</u>
Total liabilities	<u>18,892,314</u>	<u>9,636,091</u>
Commitments (Note 12)		
 <b>NET ASSETS</b>		
Unrestricted	23,555,115	21,921,458
Temporarily restricted (Note 8)	7,236,209	8,493,158
Permanently restricted	<u>340,699</u>	<u>337,488</u>
Total net assets	<u>31,132,023</u>	<u>30,752,104</u>
Total liabilities and net assets	<u>\$ 50,024,337</u>	<u>\$ 40,388,195</u>

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

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statements of Activities**  
**For the years ended September 30, 2013 and 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>								
Grants and contributions:								
Public support (Note 9)	\$ 5,997,106	\$ 1,085,845	\$ 3,211	\$ 7,086,162	\$ 5,163,622	\$ 1,612,149	\$ 4,341	\$ 6,780,112
Special events, net of direct donor benefit expenses of \$9,508,912 and \$6,888,845 in 2013 and 2012, respectively	15,322,189	945,186	-	16,267,375	10,915,076	691,744	-	11,606,820
Planned giving	1,236,833	-	-	1,236,833	2,807,746	54,632	-	2,862,378
Total grants and contributions	22,556,128	2,031,031	3,211	24,590,370	18,886,444	2,358,525	4,341	21,249,310
Government funding	4,641,817	-	-	4,641,817	5,008,478	-	-	5,008,478
Investment return (Note 3)	713,496	20,742	-	734,238	1,963,564	52,107	-	2,015,671
Change in value of beneficial interest in third-party trust	-	(29,887)	-	(29,887)	-	(14,185)	-	(14,185)
Other revenues	6,383	-	-	6,383	19,623	-	-	19,623
Net assets released from restrictions	3,278,835	(3,278,835)	-	-	4,389,561	(4,389,561)	-	-
Total revenues	31,196,659	(1,256,949)	3,211	29,942,921	30,267,670	(1,993,114)	4,341	28,278,897
<b>EXPENSES</b>								
Program services:								
Research	8,157,695	-	-	8,157,695	8,725,334	-	-	8,725,334
TREAT Asia	6,013,057	-	-	6,013,057	5,740,985	-	-	5,740,985
GMT initiative	2,472,397	-	-	2,472,397	2,046,655	-	-	2,046,655
Public policy	2,046,107	-	-	2,046,107	2,317,793	-	-	2,317,793
Public information	3,432,973	-	-	3,432,973	3,159,567	-	-	3,159,567
Total program services	22,122,229	-	-	22,122,229	21,990,334	-	-	21,990,334
Supporting services:								
Fundraising	5,118,865	-	-	5,118,865	4,754,301	-	-	4,754,301
Management and general	2,321,908	-	-	2,321,908	2,222,243	-	-	2,222,243
Total supporting services	7,440,773	-	-	7,440,773	6,976,544	-	-	6,976,544
Total expenses	29,563,002	-	-	29,563,002	28,966,878	-	-	28,966,878
Change in net assets	1,633,657	(1,256,949)	3,211	379,919	1,300,792	(1,993,114)	4,341	(687,981)
Net assets, beginning of year	21,921,458	8,493,158	337,488	30,752,104	20,620,666	10,486,272	333,147	31,440,085
Net assets, end of year	\$ 23,555,115	\$ 7,236,209	\$ 340,699	\$ 31,132,023	\$ 21,921,458	\$ 8,493,158	\$ 337,488	\$ 30,752,104

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

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statement of Functional Expenses**  
**For the year ended September 30, 2013**

	Program Services					Supporting Services				Total
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	
Grants and awards	\$ 4,075,650	\$ 2,581,709	\$ 1,132,282	\$ 207,642	\$ -	\$ 7,997,283	\$ -	\$ -	\$ -	\$ 7,997,283
Salaries and benefits	1,283,793	1,800,304	660,441	846,365	1,654,466	6,245,369	2,041,528	1,046,909	3,088,437	9,333,806
Program technical support	203,690	123,826	265,965	216,132	5,335	814,948	-	-	-	814,948
Professional fees	103,744	155,387	31,013	347,182	437,877	1,075,203	812,888	236,522	1,049,410	2,124,613
Supplies, printing, postage and shipping	1,566,028	125,445	9,661	25,955	374,847	2,101,936	931,252	13,984	945,236	3,047,172
Occupancy and telecommunication	418,608	343,221	114,847	116,228	159,330	1,152,234	311,180	215,013	526,193	1,678,427
Travel, conferences and meetings	124,557	599,079	155,132	175,246	110,605	1,164,619	663,463	10,987	674,450	1,839,069
Depreciation and amortization	107,627	87,178	29,607	28,849	40,109	293,370	68,035	53,847	121,882	415,252
Other	273,998	196,908	73,449	82,508	650,404	1,277,267	290,519	744,646	1,035,165	2,312,432
Total expenses	<u>\$ 8,157,695</u>	<u>\$ 6,013,057</u>	<u>\$ 2,472,397</u>	<u>\$ 2,046,107</u>	<u>\$ 3,432,973</u>	<u>\$ 22,122,229</u>	<u>\$ 5,118,865</u>	<u>\$ 2,321,908</u>	<u>\$ 7,440,773</u>	<u>\$ 29,563,002</u>

*The accompanying notes are an integral part of this financial statement.*

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statement of Functional Expenses**  
**For the year ended September 30, 2012**

	Program Services					Supporting Services				Total
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	
Grants and awards	\$ 3,980,016	\$ 2,721,868	\$ 835,851	\$ 548,609	\$ -	\$ 8,086,344	\$ -	\$ -	\$ -	\$ 8,086,344
Salaries and benefits	1,300,751	1,568,384	617,089	805,602	1,527,496	5,819,322	2,005,029	1,039,799	3,044,828	8,864,150
Program technical support	271,017	131,419	196,987	270,783	5,562	875,768	-	-	-	875,768
Professional fees	92,069	120,367	40,708	241,015	429,999	924,158	786,585	293,466	1,080,051	2,004,209
Supplies, printing, postage and shipping	2,221,365	68,587	24,045	22,158	344,081	2,680,236	848,955	19,292	868,247	3,548,483
Occupancy and telecommunication	422,155	283,289	90,555	109,433	158,445	1,063,877	281,288	217,341	498,629	1,562,506
Travel, conferences and meetings	157,834	660,332	182,241	219,457	162,036	1,381,900	561,264	17,403	578,667	1,960,567
Depreciation and amortization	83,044	55,161	17,815	21,030	30,424	207,474	51,449	42,868	94,317	301,791
Other	197,083	131,578	41,364	79,706	501,524	951,255	219,731	592,074	811,805	1,763,060
<b>Total expenses</b>	<b>\$ 8,725,334</b>	<b>\$ 5,740,985</b>	<b>\$ 2,046,655</b>	<b>\$ 2,317,793</b>	<b>\$ 3,159,567</b>	<b>\$ 21,990,334</b>	<b>\$ 4,754,301</b>	<b>\$ 2,222,243</b>	<b>\$ 6,976,544</b>	<b>\$ 28,966,878</b>

*The accompanying notes are an integral part of this financial statement.*

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statements of Cash Flows**  
For the years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 379,919	\$ (687,981)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(26,222)	(1,241,709)
Change in value of beneficial interest in third-party trust	29,887	14,185
Donated securities	(19,442)	(115,843)
Depreciation and amortization	415,252	301,791
Permanently restricted contributions	(3,211)	(4,341)
Amortization of discount to present value for pledges receivable	-	(29)
Bad debt expense	461,151	126,457
Changes in operating assets and liabilities:		
Short-term and long-term pledges receivable	(2,067)	307,595
Short-term and long-term accounts receivable	(7,003,058)	(902,434)
Beneficial interest in third-party trust	1,034,524	1,034,524
Prepaid expenses and other assets	(1,235,269)	(101,489)
Accounts payable and accrued expenses	(44,650)	(161,930)
Short-term and long-term grants and fellowships payable	487,390	318,900
Deferred support and refundable advances	7,893,648	2,424,661
Other long-term liabilities	919,835	490,231
Net cash provided by operating activities	<u>3,287,687</u>	<u>1,802,588</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(9,821,485)	(9,888,688)
Sale of investments	9,227,075	9,014,904
Purchase of fixed assets	<u>(501,956)</u>	<u>(1,641,451)</u>
Net cash used in investing activities	<u>(1,096,366)</u>	<u>(2,515,235)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	<u>3,211</u>	<u>4,341</u>
Net cash provided by financing activities	<u>3,211</u>	<u>4,341</u>
Increase (decrease) in cash and cash equivalents	2,194,532	(708,306)
Cash and cash equivalents, beginning of year	<u>6,023,080</u>	<u>6,731,386</u>
Cash and cash equivalents, end of year	<u>\$ 8,217,612</u>	<u>\$ 6,023,080</u>

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

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2013 and 2012

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### 1. NATURE OF OPERATIONS

The Foundation for AIDS Research (the “Foundation”) or (“amfAR”) is an international not-for-profit organization incorporated in New York in 1989. amfAR was formed through the unification of two not-for-profit organizations, the AIDS Medical Foundation (“AMF”), incorporated in New York in April 1983, and the National AIDS Research Foundation, incorporated in California in August 1985. First based in California, amfAR transferred its legal domicile to New York in 1989, using the initial incorporation documents of AMF, making it AMF’s legal successor. amfAR has offices in New York, NY, Washington, D.C., and Bangkok, Thailand. On March 7, 2005, the Board of Trustees of the American Foundation for AIDS Research approved a change in legal name to “The Foundation for AIDS Research.” On October 18, 2005, the New York State Department of State approved this change. In addition, the Foundation has secured approval for doing business as (“DBA”) the following:

- American Foundation for AIDS Research
- amfAR
- AIDS Research Foundation

amfAR is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code (the “Code”) and corresponding New York Revenue and Taxation Code sections, and contributions to amfAR are deductible in accordance with the Code.

amfAR is dedicated to ending the global AIDS epidemic through innovative research. The Foundation accomplishes this mission through:

- Research to explore scientific approaches for preventing and treating HIV infection and enhancing the health and survival of people with HIV/AIDS
- International initiatives to facilitate the development and implementation of effective research, treatment, prevention, and education strategies in developing countries
- Public policy analysis and the advocacy of rational and compassionate policies that promote public health and protect the rights of people threatened by HIV/AIDS
- Public information programs to build awareness of the continued threat HIV/AIDS poses and to provide up-to-date medical, scientific, and prevention information to people with HIV/AIDS, health care professionals, and the public

amfAR’s programmatic activities include the following:

#### **Research**

amfAR supports research projects that explore novel approaches to scientifically sound but untested hypotheses in all areas of research on HIV/AIDS, funding goal-oriented grants and fellowships that often lack the preliminary data required for support from traditional grant-makers. The Foundation plays a vital role in HIV/AIDS research, identifying critical gaps in knowledge and providing essential seed money that enables scientists to test the merits of new concepts or technologies, which can subsequently be validated through large-scale studies. amfAR’s top research priority is the pursuit of a cure for HIV/AIDS, primarily through its support for teams of researchers working collaboratively in the amfAR Research Consortium on HIV Eradication (ARCHE), which was launched in 2010. Additionally, amfAR’s Mathilde Krim Fellowships in Basic Biomedical Research allow talented young investigators to conduct investigations under the guidance of experienced scientists, helping to ensure the long-term vitality of AIDS research. In total, amfAR awarded 20 research grants and fellowships in 2013 that led to important advances in our

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

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understanding of HIV/AIDS, including the documentation of the first child to be cured of HIV. In addition, amfAR-funded researchers generated 48 scientific papers in leading peer-reviewed journals.

### **TREAT Asia**

amfAR's TREAT Asia program is a network of hospitals, clinics, and research institutions working with civil society to ensure the safe and effective delivery of HIV/AIDS treatments across Asia and the Pacific. The network currently encompasses 20 pediatric and 23 adult sites throughout the region. In 2013, TREAT Asia marked the 10th anniversary of the TREAT Asia HIV Observational Database, which continues to generate critical information on disease and treatment patterns across the continent. Data collected and analyzed in a parallel pediatric database is helping to inform treatment and care for children and adolescents living with HIV. TREAT Asia also manages the Asia-Pacific region of the International Epidemiologic Databases to Evaluate AIDS, a global collaboration established by the U.S. National Institute of Allergy and Infectious Diseases. In 2013, TREAT Asia scientists produced a record 21 publications in peer-reviewed medical journals. Through its research education program, TREAT Asia provides training to help network members strengthen their clinical research skills and boost the quality of care in the region. The network also conducted hepatitis C awareness and treatment education programs in four countries (Nepal, India, Indonesia, and Vietnam) and supported two pediatric care and treatment training seminars in Indonesia. In partnership with ViiV Healthcare, TREAT Asia continues to strive to improve the quality of healthcare for infants and children living with HIV across Asia.

### **GMT Initiative**

Since 2007, amfAR has been serving the HIV-related needs of gay men, other men who have sex with men (MSM), and transgender individuals (collectively, GMT) throughout the developing world. Through small, targeted grants to grassroots groups, amfAR helps expand access to HIV education and prevention services; supports advocacy aimed at increasing funding for prevention and treatment services; and works to end the stigma, discrimination, and violence that threaten the lives of GMT and fuel the spread of HIV/AIDS. In 2013, amfAR made awards to 51 grassroots groups in Africa, Asia and the Pacific, the Caribbean, Eastern Europe and Central Asia, and Latin America. In 2013, the GMT Initiative recruited four additional partners for its "Evidence in Action" project, through which GMT Initiative grantee partners conduct rigorous evaluations of their efforts. The project, launched with six original partners in 2012, is supported by funding from ViiV Healthcare Positive Action and the Elton John AIDS Foundation. With the Center for Public Health and Human Rights at The Johns Hopkins University, amfAR also published "Achieving an AIDS-Free Generation for Gay Men and Other MSM in Southern Africa," a new report providing the first ever comprehensive analysis of the financing and implementation of HIV programs for GMT individuals in six countries— Botswana, Malawi, Namibia, Swaziland, Zambia, and Zimbabwe.

### **Public Policy**

Informed by thorough research and analysis, amfAR is a highly respected advocate of rational and compassionate AIDS-related public policy. Through its Public Policy office, amfAR is engaged in efforts to secure necessary increases in funding for HIV/AIDS research and global HIV/AIDS programs, promote effective implementation of the National HIV/AIDS Strategy, expand access to treatment and care, and protect the civil rights of all people affected by HIV/AIDS. In July 2013, amfAR organized a Congressional briefing in Washington, D.C., to highlight the need to overturn the ban on federal funding for syringe services programs (SSPs) in the face of an alarming increase in injection drug use in the U.S. SSPs are essential for combating the spread of HIV through the sharing of contaminated needles. Additionally, amfAR produced four short films on the wide-ranging public health and economic benefits of SSPs and

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

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launched a new website designed to educate policy makers and the public on the urgent need for these programs. Other Capitol Hill briefings in 2013 focused on developments in HIV vaccine and prevention science, and the latest research on core interventions required to end AIDS. The Foundation also produced issue briefs and fact sheets addressing injection drug use and SSPs, the importance of robust funding for AIDS research and U.S. and global HIV/AIDS programs, and HIV prevention among key populations, including GMT.

### **Public Information**

amfAR translates and disseminates information on important AIDS-related research, treatment, prevention, and policy issues to diverse audiences worldwide in order to increase awareness and knowledge of the pandemic. The Foundation publishes a wide range of educational materials including its biannual newsletter, *Innovations*; the *TREAT Asia Report*; and a monthly e-mail newsletter; and program reports and updates on important HIV/AIDS issues. amfAR also works with the media to raise the public profile of HIV/AIDS, conducts public service advertising campaigns, provides expert commentary on HIV/AIDS-related issues, and engages public figures, HIV/AIDS scientists, and policy makers in communicating the need for continued research to develop new methods of prevention, treatment, and, ultimately, a cure for AIDS. Articles and reports involving amfAR were carried in numerous media outlets in 2013, including *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *the Associated Press*, *Reuters*, *Bloomberg News*, and *The Huffington Post*.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Financial Statement Presentation**

amfAR's financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The significant policies followed are described below.

#### **Net Assets**

Unrestricted Net Assets - the portion of amfAR's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations and are available for amfAR's day-to-day operations.

Temporarily Restricted Net Assets - the portion of amfAR's net assets resulting from contributions and other inflows of assets whose use by amfAR is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of amfAR pursuant to those stipulations.

Permanently Restricted Net Assets - the portion of amfAR's net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of amfAR.

#### **Cash and Cash Equivalents**

Cash equivalents include highly liquid investments with original maturities of three months or less from the date of purchase.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2013 and 2012

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Financial instruments which potentially subject amfAR to concentrations of credit risk, as defined by generally accepted accounting principles consist primarily of cash. amfAR maintains its cash in various bank deposit accounts, which, at times, may exceed federally insured limits. amfAR has not experienced any losses in such accounts.

### **Investments**

Investments in debt and equity securities, mutual funds and money market funds are carried at market value based upon published market prices at the end of the fiscal year or management's estimate of amounts to be realized on settlement. Contributed investments are recorded at fair value at the date of gift.

Gains and losses on the sale of investments are calculated by the specific identification method. Investment income and net gains and losses on the sale of investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by the donor.

### **Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, short-term pledges receivable, accounts receivable, prepaid expenses, other current assets, accounts payable and accrued expenses, short-term grants and fellowships payable and deferred support and refundable advances approximate fair value due to the short-term nature of these financial instruments.

### **Fair Value Measurements**

amfAR follows guidance that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical financial instruments as of the measurement date. The types of investments in Level 1 include listed equities held in the name of amfAR, and exclude listed equities and other securities held directly through commingled funds.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. Also included in Level 2 are investments using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the Statement of Financial Position date or in the near term, which amfAR has determined to be within ninety days.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

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Level 3 - Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instruments. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments, partnerships and similar interests. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the Statement of Financial Position date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by amfAR. amfAR considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to amfAR's perceived risk of that instrument.

### Fixed Assets

Fixed assets purchased in excess of \$1,000, which include furniture, fixtures, equipment, computer hardware and software, and leasehold improvements, are capitalized and recorded at cost or fair value at date of acquisition. If multiple units of the same or a similar item are purchased together, with an individual cost between \$500 and \$1,000 and a total cost of at least \$2,500, the multiple items will be capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 15 years. Amortization of leasehold improvements is provided on a straight-line basis over the shorter of their estimated life or the remaining life of the lease. The estimated useful lives of amfAR's fixed assets are as follows:

Computer hardware	3 years
Computer software	3 to 5 years
Office equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	5 to 15 years

### Government Funding

Grants and contracts from government agencies are recorded based on the terms of the agreements, which generally state that revenue is earned as allowable costs are incurred. Amounts received in advance are recorded as deferred support.

amfAR receives and expends resources in connection with its administration of federal and other governmental grants and contracts. The terms of these agreements generally allow granting agencies the right to audit costs incurred thereunder and, potentially disallow a portion thereof and/or adjust funding on a prospective basis. In the opinion of management, audit adjustments, if any, are not expected to have a significant effect on the accompanying financial statements.

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### Special Events

Revenues and expenses relative to special events are recognized upon occurrence of the respective event, with the exception of revenues from the auction of unique experiences which are recognized once amfAR has substantially fulfilled its responsibility to the donor purchasing the auction item. As of September 30, 2013 and 2012, amfAR received commitments of \$9,748,593 and \$2,702,219, respectively, from the auction of unique experiences where amfAR has not substantially fulfilled its responsibility to the donor and is reflected within deferred support and refundable advances on the accompanying financial statements. Of these amounts, \$6,391,026 and \$100,800, remain unpaid and are included within accounts receivable, net as of September 30, 2013 and 2012, respectively.

### Contributions

Contributions, both cash and in-kind, are recorded at fair value when received. Contributions received with donor stipulations that limit the use of the donated assets are reported as either temporarily restricted or permanently restricted support. When donor restrictions are fulfilled, temporarily restricted net assets are reported in the Statement of Activities as net assets released from restrictions. amfAR records planned giving income (e.g., bequests) at the time it has an established right to such income and the proceeds are measurable. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. amfAR does not have any conditional pledges at September 30, 2013 or 2012.

### Allowances for Doubtful Accounts

amfAR maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make planned payments. Such allowances are based upon several factors including, but not limited to, historical collection experience and the nature of the fundraising activity. amfAR writes off receivables when they are deemed to be uncollectible and any amounts subsequently collected are recorded as income in the period received. The allowance for doubtful accounts for accounts receivable at September 30, 2013 and 2012 was \$364,500 and \$246,801, respectively.

### Donated Goods and Services

Certain donated professional services for technical advisory and special events support have been reflected in the accompanying financial statements as public support and expenses based on the estimated fair value for such services on the date received if they meet the criteria for recognition. The value of donated services reflected in the accompanying financial statements for the years ended September 30, 2013 and 2012, is \$411,739 and \$358,394, respectively, of which \$13,826 and \$25,000, respectively, relates to special events. Additionally, in 2013 amfAR received artwork valued at \$56,250. amfAR also benefits from volunteer time provided; however, such services do not meet the criteria for recognition under US GAAP, and are not reflected in the accompanying financial statements accordingly.

Donated goods that meet the criteria for capitalization are recorded as revenues and assets (at fair value when received) on the accompanying financial statements. amfAR did not receive any donated goods that met the criteria for capitalization during the years ended September 30, 2013 and 2012.

### Grants and Awards

amfAR's grants and awards are generally awarded for a period of 1 to 3 years. Conditional multiyear grants are not reflected in the grants payable balance until the conditions are satisfied. Grants and awards are expensed over their periods of performance.

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**Income Taxes**

amfAR follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and guidance on measurement, classification, interest and penalties, and disclosure. As of September 30, 2013, amfAR does not believe that there are any uncertain tax positions within its financial statements. amfAR has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ended 2010, 2011, 2012 and 2013 are still open to audit for both federal and state purposes.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates and assumptions relate to the determination of allowances for doubtful accounts; the reserve for estimated unexpended grants and fellowships; and useful lives of fixed assets. Actual results could differ from those estimates.

**Allocated Expenses**

amfAR's expenses have been summarized on a functional basis in accordance with generally accepted accounting standards for voluntary health and welfare organizations. Most expenses may be directly identified to their related program or supporting service function, and are recorded accordingly. Indirect expenses have been allocated based on a percentage of each program's direct expenses over total program costs, or other basis considered appropriate given the nature of the expense.

**3. INVESTMENTS**

Investments, which are classified under Level 1 within the fair value hierarchy, consisted of the following at September 30, 2013 and 2012:

	<b>2013</b>		<b>2012</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Mutual funds - equity	\$ 5,219,026	\$ 5,804,157	\$ 3,065,705	\$ 3,261,517
Mutual funds - fixed income	4,036,890	4,083,112	5,233,725	5,420,704
Money market funds	805,371	805,371	936,569	936,569
Government securities	6,181,206	6,230,235	7,619,922	7,898,682
Corporate bonds	4,094,372	4,044,551	3,261,654	3,438,154
Equities	2,305,974	2,689,032	1,840,108	2,060,758
	<u>\$ 22,642,839</u>	<u>\$ 23,656,458</u>	<u>\$ 21,957,683</u>	<u>\$ 23,016,384</u>

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amfAR's investments in certificates of deposit of \$323,338 as of September 30, 2013 and 2012 are classified as Investments – other in the Statement of Financial Position and are carried at amortized cost. These investments do not qualify as securities as defined by the guidance, and as such, fair value disclosures are not provided. Investment return for the years ended September 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 708,016	\$ 773,962
Realized gains	272,382	405,010
Unrealized (losses) / gains	<u>(246,160)</u>	<u>836,699</u>
	<u>\$ 734,238</u>	<u>\$ 2,015,671</u>

**4. PLEDGES RECEIVABLE, NET**

Pledges receivable at September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Amounts due in:		
Less than one year	\$ 215,851	\$ 213,682
One to five years	-	-
More than five years	<u>-</u>	<u>-</u>
	215,851	213,682
Less: Discount to present value	<u>-</u>	<u>-</u>
	215,851	213,682
Less: Allowance for doubtful pledges	<u>(10,145)</u>	<u>(10,043)</u>
Pledges receivable, net	<u>\$ 205,706</u>	<u>\$ 203,639</u>

At September 30, 2013 and 2012, pledges receivable were not time discounted or risk adjusted as the pledges were due in fiscal 2014 and 2013, respectively.

**5. BENEFICIAL INTEREST IN THIRD-PARTY TRUST**

The fair value of the beneficial interest in third-party trust is classified under Level 3 within the fair value hierarchy. The underlying assets of the trust consisted of government securities with a fair value of \$3,169,232 and \$4,233,643 at September 30, 2013 and 2012, respectively.

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The following table summarizes the changes in fair values associated with Level 3 assets for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<b>Balance, beginning of year</b>	\$ 4,233,643	\$ 5,282,352
Disbursements	(1,034,524)	(1,034,524)
Unrealized loss	<u>(29,887)</u>	<u>(14,185)</u>
<b>Balance, end of year</b>	<u>\$ 3,169,232</u>	<u>\$ 4,233,643</u>

**6. FIXED ASSETS, NET**

Fixed assets, net at September 30, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Computer hardware	\$ 1,193,927	\$ 1,096,414
Computer software	1,007,466	1,005,776
Office equipment	305,895	242,387
Furniture and fixtures	469,454	385,863
Leasehold improvements	2,101,499	781,297
Construction in progress	<u>78,000</u>	<u>1,378,838</u>
Total	5,156,241	4,890,575
Less: Accumulated depreciation and amortization	<u>(3,180,930)</u>	<u>(3,001,968)</u>
Fixed assets, net	<u>\$ 1,975,311</u>	<u>\$ 1,888,607</u>

**7. GRANTS AND FELLOWSHIPS PAYABLE, NET**

amfAR provides grants and fellowships to independent not-for-profit organizations through a peer-review process. Grant applications are first reviewed by the Foundation's volunteer scientific advisory committee, which comprises recognized experts in the medical, scientific, and social sciences disciplines relevant to HIV and AIDS.

The scientific advisory committee then sends its evaluations to one of the three committees (research, global initiatives or public policy) of the Foundation's program board, which serves in an advisory capacity to the Board of Trustees. After a program committee has completed its review of the applications, it presents its funding recommendations to amfAR's executive committee and/or the full Board of Trustees for final approval and funding authorization.

Grants and fellowships are payable over a one-to-three-year period, and are revocable at amfAR's option if the recipient's performance or use of funds is not consistent with the terms of the grant or fellowships. In certain cases, the actual amounts paid under grants and fellowship awards may be less than the original award if the recipient does not use the full amount awarded. Therefore, a reserve for unexpended grants and fellowships has been recorded.

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Subawards are grants awarded to not-for-profit organizations to support the costs of collaboration and participation in HIV/AIDS-related research projects for which amfAR has secured restricted funds. Subawards are payable over a one-year period, although advance payments, in full or in part, may be issued following execution of the subaward agreement. Subawards are contingent upon the availability of funds and are revocable if the recipients' performance or use of funds is not consistent with the subaward terms.

Grants and fellowships payable at September 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
	<u>Short-Term</u>	<u>Short-Term</u>
Basic science	\$ 2,062,250	\$ 1,253,733
TREAT Asia	83,223	220,026
GMT Initiative	369,071	324,235
Public policy	82,500	115,969
	<u>2,597,044</u>	<u>1,913,963</u>
Less: Reserve for estimated unexpended grants and fellowships	<u>(450,000)</u>	<u>(450,000)</u>
Grants and fellowships payable, net	<u>\$ 2,147,044</u>	<u>\$ 1,463,963</u>
	<u>Long-Term</u>	<u>Long-Term</u>
Basic science	<u>\$ 53,468</u>	<u>\$ 249,159</u>

**8. RESTRICTIONS ON NET ASSETS**

Permanently restricted net assets are endowed funds, with income on such assets generally allocated to program activities due to donor restrictions. Temporarily restricted net assets at September 30, 2013 and 2012, are for the following:

	<u>Temporarily Restricted Net Assets as of September 30, 2012</u>	<u>Temporarily Restricted Contributions in Fiscal 2013</u>	<u>Temporarily Restricted Other in Fiscal 2013</u>	<u>Net Assets Released from Restrictions in Fiscal 2013</u>	<u>Temporarily Restricted Net Assets as of September 30, 2013</u>
Time restrictions	\$ 4,283,643	\$ -	\$ (29,887)	\$ (1,084,524)	\$ 3,169,232
Purpose restrictions:					
Research	1,524,542	720,245	-	(888,549)	1,356,238
TREAT Asia	1,508,884	1,145,186	-	(703,092)	1,950,978
GMT Initiative	246,199	165,600	-	(411,799)	-
Public policy	638,709	-	-	(90,000)	548,709
Public information	107,865	-	-	-	107,865
Endowment income	<u>183,316</u>	<u>-</u>	<u>20,742</u>	<u>(100,871)</u>	<u>103,187</u>
	<u>\$ 8,493,158</u>	<u>\$ 2,031,031</u>	<u>\$ (9,145)</u>	<u>\$ (3,278,835)</u>	<u>\$ 7,236,209</u>

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	Temporarily Restricted Net Assets as of September 30, 2011	Temporarily Restricted Contributions in Fiscal 2012	Temporarily Restricted Other in Fiscal 2012	Net Assets Released from Restrictions in Fiscal 2012	Temporarily Restricted Net Assets as of September 30, 2012
Time restrictions	\$ 5,303,922	\$ 50,000	\$ (14,185)	\$ (1,056,094)	\$ 4,283,643
Purpose restrictions:					
Research	1,864,137	716,560	-	(1,056,155)	1,524,542
TREAT Asia	1,779,507	950,765	-	(1,221,388)	1,508,884
GMT Initiative	606,822	536,200	-	(896,823)	246,199
Public policy	692,810	90,000	-	(144,101)	638,709
Public information	107,865	15,000	-	(15,000)	107,865
Endowment income	131,209	-	52,107	-	183,316
	<u>\$ 10,486,272</u>	<u>\$ 2,358,525</u>	<u>\$ 37,922</u>	<u>\$ (4,389,561)</u>	<u>\$ 8,493,158</u>

**9. PUBLIC SUPPORT**

Public support (excluding special events and planned giving) for the years ended September 30, 2013 and 2012, is as follows:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Corporate contributions	\$ 351,350	\$ 5,000	\$ -	\$ 356,350
Individual contributions	730,497	166,000	2,711	899,208
Foundation contributions	321,145	914,500	500	1,236,145
Grants	1,438,333	-	-	1,438,333
Direct response	2,694,458	345	-	2,694,803
Workplace campaigns	461,323	-	-	461,323
Total	<u>\$ 5,997,106</u>	<u>\$ 1,085,845</u>	<u>\$ 3,211</u>	<u>\$ 7,086,162</u>

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Corporate contributions	\$ 897,090	\$ 84,021	\$ 100	\$ 981,211
Individual contributions	647,522	296,600	2,741	946,863
Foundation contributions	584,067	1,215,000	1,500	1,800,567
Direct response	2,711,219	1,980	-	2,713,199
Workplace campaigns	323,724	-	-	323,724
Other contributions	-	14,548	-	14,548
Total	<u>\$ 5,163,622</u>	<u>\$ 1,612,149</u>	<u>\$ 4,341</u>	<u>\$ 6,780,112</u>

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### 10. JOINT COSTS

Direct response joint program costs incurred in connection with the mailing of informational materials that included fundraising appeals have been allocated as follows:

	<u>2013</u>	<u>2012</u>
Fundraising	\$ 609,723	\$ 676,154
Public policy	44,821	44,336
Public information	<u>344,827</u>	<u>314,063</u>
	<u>\$ 999,371</u>	<u>\$ 1,034,553</u>

The allocation of costs is based upon the content of the materials, their intended purpose and the audience to whom they are distributed.

### 11. PENSION PLAN

amfAR sponsors a defined contribution plan for employees who elect to participate and have completed two years of service. Eligibility requirements were reduced to 6 months of service effective July 1, 2008. Under the plan, amfAR contributed \$476,058 and \$429,229 for the years ended September 30, 2013 and 2012, respectively, calculated using a two-for-one match of employee contributions.

### 12. COMMITMENTS

#### Conditional Grants

During fiscal 2012, amfAR's Board approved certain conditional grants with a period of performance in fiscal years 2013 and 2014. Those grants were awarded subject to amfAR's availability of funds and the grantee's encumbrance of expenditures. If these conditions are satisfied, expenditures will be recognized and payments will be made over the remaining terms of the grants. Remaining commitments at September 30, 2013 and 2012, under these grants totaled \$4,533,950 and \$5,154,244, respectively.

#### Operating Leases and Other Long-Term Commitments

The approximate future minimum rental commitments required under long-term lease commitments for office space in New York, Washington, D.C. and Bangkok, Thailand, and other long-term commitments are as follows:

<b>Year ending September 30,</b>	
2014	\$ 1,617,555
2015	1,590,358
2016	1,430,770
2017	1,064,906
2018	1,043,018
2019 and subsequent years	<u>9,837,091</u>
	<u>\$ 16,583,698</u>

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Rent expense for the years ended September 30, 2013 and 2012, was \$1,265,195 and \$1,200,802, respectively.

Certain of amfAR's lease agreements include rent escalation clauses. Since the payments are not equal over the term of the leases, the total rental payments are accounted for on a straight-line basis over the life of the leases. Accordingly, a deferred rent liability of approximately \$1,535,854 and \$607,130 existed at September 30, 2013 and 2012, respectively, and has been recorded on the Statement of Financial Position as Other long-term liabilities.

In June 2011, amfAR signed a lease amendment for its office in New York. Under the terms of the amendment, the lease is extended through August 2027. In addition, amfAR signed an irrevocable letter of credit in the amount of \$323,338 in lieu of the existing security deposit.

### 13. ENDOWMENTS

amfAR's endowment consists of donor-restricted endowment funds.

amfAR adopted New York State's version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") or ("NYPMIFA") during the year ended September 30, 2010 and classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by amfAR in a manner consistent with the uses, benefits, purposes and duration for which the endowment is established and the standard of prudence prescribed by NYPMIFA.

In making a determination to appropriate or accumulate, amfAR considers the following factors: (1) the duration and preservation of its endowment fund; (2) the purposes of amfAR and its endowment fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of amfAR; and (7) the investment policy of amfAR.

The following presents information relative to amfAR's endowment net asset composition by type of fund as of September 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 103,187	\$ 340,699	\$ 443,886

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The following presents the changes in endowment net assets for the fiscal year ended September 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 183,316	\$ 337,488	\$ 520,804
Contributions	-	-	3,211	3,211
Interest and dividends from the endowment	-	21,721	-	21,721
Realized and unrealized losses	-	(979)	-	(979)
Appropriation of endowment income for expenditure	-	(100,871)	-	(100,871)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 103,187</u>	<u>\$ 340,699</u>	<u>\$ 443,886</u>

The following presents information relative to amfAR's endowment net asset composition by type of fund as of September 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 183,316</u>	<u>\$ 337,488</u>	<u>\$ 520,804</u>

The following presents the changes in endowment net assets for the fiscal year ended September 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 131,209	\$ 333,147	\$ 464,356
Contributions	-	-	4,341	4,341
Interest and dividends from the endowment	-	15,142	-	15,142
Realized and unrealized gains	-	36,965	-	36,965
Appropriation of endowment income for expenditure	-	-	-	-
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 183,316</u>	<u>\$ 337,488</u>	<u>\$ 520,804</u>

amfAR uses a total return approach for its portfolio, as such, permanently restricted net assets are invested in the same securities as the overall portfolio as described in Note 3.

**14. SUBSEQUENT EVENTS**

amfAR evaluated its September 30, 2013 financial statements for subsequent events through March 14, 2014, the date the financial statements were available to be issued. amfAR is not aware of any subsequent events which would require recognition or disclosure in the financial statements.