

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, 2012 and 2011

**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 statements of financial position of The Foundation for AIDS Research (a New York not-for-profit corporation also known as “amfAR”) as of September 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of amfAR’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of amfAR’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Foundation for AIDS Research as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

New York, New York  
April 9, 2013

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statements of Financial Position**  
**As of September 30, 2012 and 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,023,080	\$ 6,731,386
Short-term pledges receivable, net (Note 4)	203,639	496,940
Beneficial interest in third-party trust (Note 5)	1,034,524	1,034,524
Accounts receivable, net	3,725,105	2,949,128
Prepaid expenses and other current assets	781,172	513,157
Total current assets	<u>11,767,520</u>	<u>11,725,135</u>
Long-term pledges receivable, net (Note 4)	-	14,265
Beneficial interest in third-party trust (Note 5)	3,199,119	4,247,828
Investments (Note 3)	23,016,384	20,785,048
Investments - other (Note 3)	323,338	323,338
Fixed assets, net (Note 6)	1,888,607	548,947
Other assets	193,227	359,753
Total assets	<u>\$ 40,388,195</u>	<u>\$ 38,004,314</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,732,740	\$ 1,894,670
Short-term grants and fellowships payable, net (Note 7)	1,463,963	1,321,309
Deferred support and refundable advances	5,428,345	3,003,684
Total current liabilities	<u>8,625,048</u>	<u>6,219,663</u>
Long-term grants and fellowships payable, net (Note 7)	249,159	72,913
Other long-term liabilities	761,884	271,653
Total liabilities	<u>9,636,091</u>	<u>6,564,229</u>
Commitments (Note 12)		
<b>NET ASSETS</b>		
Unrestricted	21,921,458	20,620,666
Temporarily restricted (Note 8)	8,493,158	10,486,272
Permanently restricted	337,488	333,147
Total net assets	<u>30,752,104</u>	<u>31,440,085</u>
Total liabilities and net assets	<u>\$ 40,388,195</u>	<u>\$ 38,004,314</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, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE								
Grants and contributions:								
Public support (Note 9)	\$ 5,163,622	\$ 1,612,149	\$ 4,341	\$ 6,780,112	\$ 5,039,968	\$ 1,991,021	\$ 5,978	\$ 7,036,967
Special events, net of direct donor benefit expenses of \$6,888,845 and \$5,678,988 in 2012 and 2011, respectively	10,915,076	691,744	-	11,606,820	11,294,579	756,003	-	12,050,582
Planned giving	2,807,746	54,632	-	2,862,378	2,173,924	11,703	-	2,185,627
Total grants and contributions	18,886,444	2,358,525	4,341	21,249,310	18,508,471	2,758,727	5,978	21,273,176
Government funding	5,008,478	-	-	5,008,478	5,432,260	-	-	5,432,260
Investment return (Note 3)	1,963,564	52,107	-	2,015,671	411,437	(2,705)	-	408,732
Change in value of beneficial interest in third-party trust	-	(14,185)	-	(14,185)	-	50,340	-	50,340
Other revenues	19,623	-	-	19,623	719	-	-	719
Net assets released from restrictions	4,389,561	(4,389,561)	-	-	3,582,469	(3,582,469)	-	-
Total revenues	30,267,670	(1,993,114)	4,341	28,278,897	27,935,356	(776,107)	5,978	27,165,227
EXPENSES								
Program services:								
Research	8,725,334	-	-	8,725,334	7,535,631	-	-	7,535,631
TREAT Asia	5,740,985	-	-	5,740,985	5,915,105	-	-	5,915,105
GMT initiative	2,046,655	-	-	2,046,655	1,958,990	-	-	1,958,990
Public policy	2,317,793	-	-	2,317,793	1,619,849	-	-	1,619,849
Public information	3,159,567	-	-	3,159,567	2,819,324	-	-	2,819,324
Total program services	21,990,334	-	-	21,990,334	19,848,899	-	-	19,848,899
Supporting services:								
Fundraising	4,754,301	-	-	4,754,301	4,464,849	-	-	4,464,849
Management and general	2,222,243	-	-	2,222,243	1,977,160	-	-	1,977,160
Total supporting services	6,976,544	-	-	6,976,544	6,442,009	-	-	6,442,009
Total expenses	28,966,878	-	-	28,966,878	26,290,908	-	-	26,290,908
Change in net assets	1,300,792	(1,993,114)	4,341	(687,981)	1,644,448	(776,107)	5,978	874,319
Net assets, beginning of year	20,620,666	10,486,272	333,147	31,440,085	18,976,218	11,262,379	327,169	30,565,766
Net assets, end of year	\$ 21,921,458	\$ 8,493,158	\$ 337,488	\$ 30,752,104	\$ 20,620,666	\$ 10,486,272	\$ 333,147	\$ 31,440,085

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, 2012**

	Program Services					Supporting Services				
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	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
Total expenses	<u>\$ 8,725,334</u>	<u>\$ 5,740,985</u>	<u>\$ 2,046,655</u>	<u>\$ 2,317,793</u>	<u>\$ 3,159,567</u>	<u>\$ 21,990,334</u>	<u>\$ 4,754,301</u>	<u>\$ 2,222,243</u>	<u>\$ 6,976,544</u>	<u>\$ 28,966,878</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, 2011**

	Program Services					Supporting Services				
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	Total
Grants and awards	\$ 3,125,468	\$ 2,561,037	\$ 852,896	\$ 155,000	\$ -	\$ 6,694,401	\$ -	\$ -	\$ -	\$ 6,694,401
Salaries and benefits	1,122,398	1,726,744	568,515	702,224	1,516,023	5,635,904	1,816,746	994,360	2,811,106	8,447,010
Program technical support	202,149	120,316	155,215	237,331	5,435	720,446	-	-	-	720,446
Professional fees	65,898	191,227	26,026	138,695	516,179	938,025	910,879	273,549	1,184,428	2,122,453
Supplies, printing, postage and shipping	2,327,220	52,291	12,509	29,790	310,307	2,732,117	752,620	12,570	765,190	3,497,307
Occupancy and telecommunication	322,214	297,811	87,872	92,677	134,485	935,059	251,402	186,305	437,707	1,372,766
Travel, conferences and meetings	129,016	750,027	191,272	170,329	128,115	1,368,759	437,952	24,499	462,451	1,831,210
Depreciation and amortization	60,147	54,082	16,440	16,315	24,710	171,694	43,707	34,935	78,642	250,336
Other	181,121	161,570	48,245	77,488	184,070	652,494	251,543	450,942	702,485	1,354,979
Total expenses	<u>\$ 7,535,631</u>	<u>\$ 5,915,105</u>	<u>\$ 1,958,990</u>	<u>\$ 1,619,849</u>	<u>\$ 2,819,324</u>	<u>\$ 19,848,899</u>	<u>\$ 4,464,849</u>	<u>\$ 1,977,160</u>	<u>\$ 6,442,009</u>	<u>\$ 26,290,908</u>

*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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (687,981)	\$ 874,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	(1,241,709)	367,852
Change in value of beneficial interest in third-party trust	14,185	(50,340)
Donated securities	(115,843)	-
Depreciation and amortization	301,791	250,338
Permanently restricted contributions	(4,341)	(5,978)
Amortization of discount to present value for pledges receivable	(29)	(799)
Bad debt expense	126,457	262,332
Changes in operating assets and liabilities:		
Short-term and long-term pledges receivable	307,595	87,875
Short-term and long-term accounts receivable	(902,434)	(744,286)
Beneficial interest in third-party trust	1,034,524	1,034,524
Prepaid expenses and other assets	(101,489)	94,361
Accounts payable and accrued expenses	(161,930)	250,443
Short-term and long-term grants and fellowships payable	318,900	820,458
Deferred support and refundable advances	2,424,661	323,786
Other long-term liabilities	490,231	(69,121)
Net cash provided by operating activities	<u>1,802,588</u>	<u>3,495,764</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(9,888,688)	(18,123,140)
Sale of investments	9,014,904	10,593,526
Purchase of fixed assets	(1,641,451)	(327,728)
Purchase of investments - other	-	(323,338)
Net cash used in investing activities	<u>(2,515,235)</u>	<u>(8,180,680)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	4,341	5,978
Net cash provided by financing activities	<u>4,341</u>	<u>5,978</u>
Decrease in cash and cash equivalents	(708,306)	(4,678,938)
Cash and cash equivalents, beginning of year	<u>6,731,386</u>	<u>11,410,324</u>
Cash and cash equivalents, end of year	<u>\$ 6,023,080</u>	<u>\$ 6,731,386</u>

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



# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2012 and 2011

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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 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. The Foundation is also supporting collaborative teams of researchers pursuing a cure for HIV/AIDS through the amfAR Research Consortium on HIV Eradication

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

### September 30, 2012 and 2011

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(ARCHE), which was launched in 2010. In June 2012, a think tank organized by amfAR in San Francisco brought together 12 scientists involved in various aspects of HIV cure research, along with 2 bioethicists, to explore the potential for an HIV cure in infants and children. Some surprising, potentially game-changing, results were reported. In total, amfAR awarded 37 research grants and fellowships in 2012 that led to important advances in our understanding of HIV/AIDS. In addition, amfAR-funded researchers generated 40 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 22 pediatric sites throughout the region, as well as 21 adult sites and 17 labs. The program's accomplishments include creating the region's first adult and pediatric HIV observational databases, which are generating critical information on disease and treatment patterns across the continent. 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. 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. In 2012, TREAT Asia produced a record 14 abstracts and 8 publications. The network also continued to expand its work with men who have sex with men (MSM), hosting three workshops on the "test and treat" approach for preventing HIV transmission and increasing uptake of HIV testing and treatment services among MSM in Thailand. In addition, TREAT Asia continued its partnership with ViiV Healthcare, aiming to improve access and optimize the quality of healthcare for infants and children living with HIV across Asia.

#### **GMT Initiative (formerly MSM 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 its MSM Initiative. The program was recently renamed The GMT Initiative to better reflect the diversity of the people it serves. 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 2012 amfAR made awards to 52 grassroots groups in Africa, Asia and the Pacific, the Caribbean, Eastern Europe and Central Asia, and Latin America. In November 2011, amfAR published a *Fundraising Toolkit* for GMT-led advocacy in low- and middle-income countries, offering general tips on fundraising and information about who is funding GMT groups. The toolkit is available in English, Russian, and Spanish. With the Johns Hopkins Bloomberg School of Public Health, amfAR also published *Achieving an AIDS-Free Generation for Gay Men and Other MSM*, a new report providing the most comprehensive analysis to date of HIV-related funding and programming for this population.

#### **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

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

### September 30, 2012 and 2011

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protect the civil rights of all people affected by HIV/AIDS. In June 2012, amfAR held a briefing in Washington, D.C., bringing together researchers at the cutting edge of scientific discovery to discuss a range of novel approaches being explored (including stem cells, gene therapy, medications, and immune response modifications such as therapeutic vaccines) in the search for a cure for HIV/AIDS. Other Capitol Hill briefings in 2012 focused on combination prevention approaches and the research agenda needed to end the HIV epidemic. At the International AIDS Conference, amfAR released an “Action Agenda to End AIDS,” developed with AVAC to identify five major short-term priorities for global AIDS programs together with realistic, annual targets that must be achieved through 2015. The Foundation also released several issue briefs in 2012 on the importance of funding AIDS research and U.S. and global HIV/AIDS programs, and continued its advocacy on behalf of vulnerable populations including MSM.

#### **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 epidemic. The Foundation publishes a wide range of educational materials including its newsletter, *Innovations*, the *TREAT Asia Report*, and a monthly e-mail newsletter, as well as 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, 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 2012, 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, 2012 and 2011

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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. Unrealized gains and losses are determined by comparing cost to fair value at the beginning and end of the period.

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

September 30, 2012 and 2011

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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 \$500, which include furniture, fixtures, equipment, computer hardware and software, and leasehold improvements, are recorded at cost or fair value at date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 7 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.

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2012 and 2011**

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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.

**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, 2012 or 2011.

**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, 2012 and 2011 was \$246,801 and \$133,056, 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, 2012 and 2011, is \$358,394 and \$316,635, respectively, of which \$25,000 and \$187,435, respectively, relates to special events. 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 in the amount of \$0 and \$244,130 for the years ended September 30, 2012 and 2011, respectively.

**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, 2012, 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 2009, 2010, 2011 and 2012 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, 2012 and 2011:

	<b>2012</b>		<b>2011</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Mutual funds - equity	\$ 3,065,705	\$ 3,261,517	\$ 4,542,581	\$ 4,361,042
Mutual funds - fixed income	5,233,725	5,420,704	1,673,774	1,573,363
Money market funds	936,569	936,569	347,477	347,477
Government securities	7,619,922	7,898,682	9,583,209	9,726,990
Corporate bonds	3,261,654	3,438,154	2,785,295	2,767,406
Equities	1,840,108	2,060,758	2,222,735	2,008,770
	<u>\$ 21,957,683</u>	<u>\$ 23,016,384</u>	<u>\$ 21,155,071</u>	<u>\$ 20,785,048</u>

amfAR's investments in certificates of deposit of \$323,338 as of September 30, 2012, and 2011 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

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disclosures are not provided. Investment return for the years ended September 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 773,962	\$ 776,584
Realized gains	405,010	148,444
Unrealized gains / (losses)	<u>836,699</u>	<u>(516,296)</u>
	<u>\$ 2,015,671</u>	<u>\$ 408,732</u>

**4. PLEDGES RECEIVABLE, NET**

Pledges receivable at September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 213,682	\$ 521,448
One to five years	-	15,000
More than five years	<u>-</u>	<u>-</u>
	213,682	536,448
Less: Discount to present value	<u>-</u>	<u>(29)</u>
	213,682	536,419
Less: Allowance for doubtful pledges	<u>(10,043)</u>	<u>(25,214)</u>
Pledges receivable, net	<u>\$ 203,639</u>	<u>\$ 511,205</u>

Pledges receivable are time discounted and risk adjusted at .13% at September 30, 2011 and are not discounted at September 30, 2012 as they are all due in fiscal 2013.

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

The fair market 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 market value of \$4,233,643 and \$5,282,352 at September 30, 2012 and 2011, respectively.

The following table summarizes the changes in fair values associated with Level 3 assets for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<b>Balance, beginning of year</b>	\$ 5,282,352	\$ 6,266,536
Disbursements	(1,034,524)	(1,034,524)
Unrealized (losses) gains	<u>(14,185)</u>	<u>50,340</u>
<b>Balance, end of year</b>	<u>\$ 4,233,643</u>	<u>\$ 5,282,352</u>



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**6. FIXED ASSETS, NET**

Fixed assets, net at September 30, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Computer hardware	\$ 1,096,414	\$ 1,087,485
Computer software	1,005,776	814,875
Office equipment	242,387	236,509
Furniture and fixtures	385,863	385,347
Leasehold improvements	781,297	781,297
Construction in progress	<u>1,378,838</u>	<u>-</u>
Total	4,890,575	3,305,513
Less: Accumulated depreciation and amortization	<u>(3,001,968)</u>	<u>(2,756,566)</u>
Fixed assets, net	<u>\$ 1,888,607</u>	<u>\$ 548,947</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.

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.

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Grants and fellowships payable at September 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
	<u>Short-Term</u>	<u>Short-Term</u>
Basic science	\$ 1,253,733	\$ 1,004,380
TREAT Asia	220,026	385,764
GMT Initiative	324,235	341,165
Public policy	<u>115,969</u>	<u>40,000</u>
	1,913,963	1,771,309
Less: Reserve for estimated unexpended grants and fellowships	<u>(450,000)</u>	<u>(450,000)</u>
Grants and fellowships payable, net	<u>\$ 1,463,963</u>	<u>\$ 1,321,309</u>
	<u>Long-Term</u>	<u>Long-Term</u>
Basic science	<u>\$ 249,159</u>	<u>\$ 72,913</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, 2012 and 2011, are for the following:

	<u>Restricted Net Assets as of September 30, 2011</u>	<u>Restricted Contributions in Fiscal 2012</u>	<u>Restricted Other in Fiscal 2012</u>	<u>Released from Restrictions in Fiscal 2012</u>	<u>Restricted Net Assets as of September 30, 2012</u>
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	<u>131,209</u>	<u>-</u>	<u>52,107</u>	<u>-</u>	<u>183,316</u>
	<u>\$ 10,486,272</u>	<u>\$ 2,358,525</u>	<u>\$ 37,922</u>	<u>\$ (4,389,561)</u>	<u>\$ 8,493,158</u>

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	Temporarily Restricted Net Assets as of September 30, 2010	Temporarily Restricted Contributions in Fiscal 2011	Temporarily Restricted Other in Fiscal 2011	Net Assets Released from Restrictions in Fiscal 2011	Temporarily Restricted Net Assets as of September 30, 2011
Time restrictions	\$ 6,325,334	\$ -	\$ 50,340	\$ (1,071,752)	\$ 5,303,922
Purpose restrictions:					
Research	2,105,175	746,570	-	(987,608)	1,864,137
TREAT Asia	1,397,780	1,114,411	-	(732,684)	1,779,507
GMT Initiative	444,392	757,596	-	(595,166)	606,822
Public policy	647,919	140,150	-	(95,259)	692,810
Public information	107,865	-	-	-	107,865
Endowment income (loss)	233,914	-	(2,705)	(100,000)	131,209
	<u>\$ 11,262,379</u>	<u>\$ 2,758,727</u>	<u>\$ 47,635</u>	<u>\$ (3,582,469)</u>	<u>\$ 10,486,272</u>

**9. PUBLIC SUPPORT**

Public support (excluding special events and planned giving) for the years ended September 30, 2012 and 2011, is as follows:

	<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>

	<b>2011</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Corporate contributions	\$ 470,795	\$ 293,565	\$ -	\$ 764,360
Individual contributions	667,482	581,200	4,378	1,253,060
Foundation contributions	636,003	1,108,926	1,600	1,746,529
Direct response	2,871,524	7,330	-	2,878,854
Workplace campaigns	388,831	-	-	388,831
Other contributions	5,333	-	-	5,333
Total	<u>\$ 5,039,968</u>	<u>\$ 1,991,021</u>	<u>\$ 5,978</u>	<u>\$ 7,036,967</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>2012</u>	<u>2011</u>
Fundraising	\$ 676,154	\$ 682,348
Public policy	44,336	42,288
Public information	314,063	293,500
	<u>\$ 1,034,553</u>	<u>\$ 1,018,136</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 \$429,229 and \$378,184 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, under these grants totaled \$5,154,244 and \$4,075,402, 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>	
2013	\$ 1,621,072
2014	1,613,794
2015	1,586,597
2016	1,435,253
2017	1,081,062
2018 and subsequent years	<u>11,063,472</u>
	<u>\$ 18,401,250</u>

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Office rent expense for the year ended September 30, 2012 and 2011, was \$1,129,950 and \$944,138, 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 \$607,130 and \$165,606 existed at September 30, 2012 and 2011, 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, 2012:

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

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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 losses	-	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>

The following presents information relative to amfAR's endowment net asset composition by type of fund as of September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 131,209</u>	<u>\$ 333,147</u>	<u>\$ 464,356</u>

The following presents the changes in endowment net assets for the fiscal year ended September 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 233,914	\$ 327,169	\$ 561,083
Contributions	-	-	5,978	5,978
Interest and dividends from the endowment	-	25,764	-	25,764
Realized and unrealized losses	-	(28,469)	-	(28,469)
Appropriation of endowment income for expenditure	-	(100,000)	-	(100,000)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 131,209</u>	<u>\$ 333,147</u>	<u>\$ 464,356</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, 2012 financial statements for subsequent events through April 9, 2013, 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.