

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, 2014 and 2013

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

**TABLE OF CONTENTS**

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	<b>Page</b>
Report of Independent Certified Public Accountants	1 - 2
Financial Statements:	
Statements of Financial Position as of September 30, 2014 and 2013	3
Statements of Activities for the years ended September 30, 2014 and 2013	4
Statement of Functional Expenses for the year ended September 30, 2014	5
Statement of Functional Expenses for the year ended September 30, 2013	6
Statements of Cash Flows for the years ended September 30, 2014 and 2013	7
Notes to Financial Statements	8 - 22



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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, 2014 and 2013, 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, 2014 and 2013, 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 17, 2015

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statements of Financial Position**  
**As of September 30, 2014 and 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,961,745	\$ 8,217,612
Short-term pledges receivable, net (Note 4)	-	205,706
Beneficial interest in third-party trust (Note 5)	1,034,524	1,034,524
Accounts receivable, net (Note 2)	5,045,656	10,267,012
Prepaid expenses and other current assets	1,998,577	2,025,742
Total current assets	<u>13,040,502</u>	<u>21,750,596</u>
Beneficial interest in third-party trust (Note 5)	1,066,581	2,134,708
Investments (Note 3)	40,982,916	23,656,458
Investments - other (Note 3)	323,338	323,338
Fixed assets, net (Note 6)	2,230,700	1,975,311
Other assets	251,934	183,926
Total assets	<u>\$ 57,895,971</u>	<u>\$ 50,024,337</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 2,132,495	\$ 1,688,090
Short-term grants and fellowships payable, net (Note 7)	2,547,120	2,147,044
Deferred support and refundable advances (Note 2)	7,166,426	13,321,993
Total current liabilities	<u>11,846,041</u>	<u>17,157,127</u>
Long-term grants and fellowships payable, net (Note 7)	-	53,468
Other long-term liabilities	1,739,583	1,681,719
Total liabilities	<u>13,585,624</u>	<u>18,892,314</u>
Commitments (Note 12)		
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	27,938,749	23,555,115
Designated for specific operating purposes (Note 2)	10,881,005	-
Total unrestricted	<u>38,819,754</u>	<u>23,555,115</u>
Temporarily restricted (Note 8)	5,143,351	7,236,209
Permanently restricted	347,242	340,699
Total net assets	<u>44,310,347</u>	<u>31,132,023</u>
Total liabilities and net assets	<u>\$ 57,895,971</u>	<u>\$ 50,024,337</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, 2014 and 2013**

	2014				2013			
	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)	\$ 5,422,392	\$ 2,933,282	\$ 6,543	\$ 8,362,217	\$ 5,997,106	\$ 1,085,845	\$ 3,211	\$ 7,086,162
Special events, net of direct donor benefit expenses of \$12,821,563 and \$9,508,912 in 2014 and 2013, respectively	26,713,840	2,155,425	-	28,869,265	15,322,189	945,186	-	16,267,375
Planned giving	1,719,088	-	-	1,719,088	1,236,833	-	-	1,236,833
Total grants and contributions	33,855,320	5,088,707	6,543	38,950,570	22,556,128	2,031,031	3,211	24,590,370
Government funding	7,391,835	-	-	7,391,835	4,641,817	-	-	4,641,817
Investment return (Note 3)	1,407,112	40,550	-	1,447,662	713,496	20,742	-	734,238
Change in value of beneficial interest in third-party trust (Note 5)	-	(33,603)	-	(33,603)	-	(29,887)	-	(29,887)
Other revenues	4,612	-	-	4,612	6,383	-	-	6,383
Net assets released from restrictions	7,188,512	(7,188,512)	-	-	3,278,835	(3,278,835)	-	-
Total revenues	49,847,391	(2,092,858)	6,543	47,761,076	31,196,659	(1,256,949)	3,211	29,942,921
<b>EXPENSES</b>								
Program services:								
Research	11,853,943	-	-	11,853,943	8,157,695	-	-	8,157,695
TREAT Asia	6,754,069	-	-	6,754,069	6,013,057	-	-	6,013,057
GMT initiative	2,388,615	-	-	2,388,615	2,472,397	-	-	2,472,397
Public policy	2,234,243	-	-	2,234,243	2,046,107	-	-	2,046,107
Public information	3,643,195	-	-	3,643,195	3,432,973	-	-	3,432,973
Total program services	26,874,065	-	-	26,874,065	22,122,229	-	-	22,122,229
Supporting services:								
Fundraising	5,232,325	-	-	5,232,325	5,118,865	-	-	5,118,865
Management and general	2,476,362	-	-	2,476,362	2,321,908	-	-	2,321,908
Total supporting services	7,708,687	-	-	7,708,687	7,440,773	-	-	7,440,773
Total expenses	34,582,752	-	-	34,582,752	29,563,002	-	-	29,563,002
Change in net assets	15,264,639	(2,092,858)	6,543	13,178,324	1,633,657	(1,256,949)	3,211	379,919
Net assets, beginning of year	23,555,115	7,236,209	340,699	31,132,023	21,921,458	8,493,158	337,488	30,752,104
Net assets, end of year	\$ 38,819,754	\$ 5,143,351	\$ 347,242	\$ 44,310,347	\$ 23,555,115	\$ 7,236,209	\$ 340,699	\$ 31,132,023

*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, 2014**

	Program Services					Supporting Services				
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	Total
Grants and awards	\$ 5,482,076	\$ 3,275,924	\$ 875,445	\$ 294,939	\$ -	\$ 9,928,384	\$ -	\$ -	\$ -	\$ 9,928,384
Salaries and benefits	1,391,858	1,775,926	734,185	833,511	1,790,952	6,526,432	1,896,967	1,159,463	3,056,430	9,582,862
Program technical support	370,303	230,878	242,413	236,379	5,265	1,085,238	-	-	-	1,085,238
Professional fees	144,346	137,247	40,611	361,871	803,086	1,487,161	1,049,134	283,762	1,332,896	2,820,057
Supplies, printing, postage and shipping	3,512,698	100,976	7,778	16,154	328,904	3,966,510	891,323	12,741	904,064	4,870,574
Occupancy and telecommunication	419,402	310,234	131,488	122,503	160,161	1,143,788	328,403	212,010	540,413	1,684,201
Travel, conferences and meetings	141,505	626,278	234,933	236,992	178,541	1,418,249	693,869	21,705	715,574	2,133,823
Depreciation and amortization	83,151	60,844	26,010	23,884	31,110	224,999	58,199	41,773	99,972	324,971
Other	308,604	235,762	95,752	108,010	345,176	1,093,304	314,430	744,908	1,059,338	2,152,642
Total expenses	<u>\$ 11,853,943</u>	<u>\$ 6,754,069</u>	<u>\$ 2,388,615</u>	<u>\$ 2,234,243</u>	<u>\$ 3,643,195</u>	<u>\$ 26,874,065</u>	<u>\$ 5,232,325</u>	<u>\$ 2,476,362</u>	<u>\$ 7,708,687</u>	<u>\$ 34,582,752</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, 2013**

	Program Services					Supporting Services				
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	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
<b>Total expenses</b>	<b>\$ 8,157,695</b>	<b>\$ 6,013,057</b>	<b>\$ 2,472,397</b>	<b>\$ 2,046,107</b>	<b>\$ 3,432,973</b>	<b>\$ 22,122,229</b>	<b>\$ 5,118,865</b>	<b>\$ 2,321,908</b>	<b>\$ 7,440,773</b>	<b>\$ 29,563,002</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,178,324	\$ 379,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(707,472)	(26,222)
Change in value of beneficial interest in third-party trust	33,603	29,887
Donated securities	(199,065)	(19,442)
Depreciation and amortization	324,971	415,252
Permanently restricted contributions	(6,543)	(3,211)
Bad debt expense	555,355	461,151
Changes in operating assets and liabilities:		
Short-term and long-term pledges receivable	215,851	(2,067)
Short-term and long-term accounts receivable	4,655,856	(7,003,058)
Beneficial interest in third-party trust	1,034,524	1,034,524
Prepaid expenses and other assets	(40,843)	(1,235,269)
Accounts payable and accrued expenses	444,405	(44,650)
Short-term and long-term grants and fellowships payable	346,608	487,390
Deferred support and refundable advances	(6,155,567)	7,893,648
Other long-term liabilities	<u>57,864</u>	<u>919,835</u>
Net cash provided by operating activities	<u>13,737,871</u>	<u>3,287,687</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(33,736,393)	(9,821,485)
Sale of investments	17,316,472	9,227,075
Purchase of fixed assets	<u>(580,360)</u>	<u>(501,956)</u>
Net cash used in investing activities	<u>(17,000,281)</u>	<u>(1,096,366)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	<u>6,543</u>	<u>3,211</u>
Net cash provided by financing activities	<u>6,543</u>	<u>3,211</u>
(Decrease) increase in cash and cash equivalents	(3,255,867)	2,194,532
Cash and cash equivalents, beginning of year	<u>8,217,612</u>	<u>6,023,080</u>
Cash and cash equivalents, end of year	<u>\$ 4,961,745</u>	<u>\$ 8,217,612</u>

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

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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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, New York, 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, finding a cure for HIV/AIDS, is funded primarily through grants awarded to teams of scientists working collaboratively under the auspices of the amfAR Research Consortium on HIV Eradication (“ARCHE”). Since its inception in 2010, ARCHE funding has supported the work of 86 research teams pursuing cure-focused studies at 51 institutions on five continents. In February 2014, amfAR launched the Countdown to a Cure for AIDS (“C2C”), a research initiative aimed at developing the scientific basis for a cure for HIV by 2020. In support of C2C, amfAR

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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plans to strategically invest \$100 million in cure research over the next six years. Additionally, through the Mathilde Krim Fellowships in Basic Biomedical Research, amfAR is helping to cultivate the next generation of AIDS researchers by awarding grants to talented young investigators seeking innovative treatment and prevention solutions to HIV/AIDS. In FY2014, amfAR awarded 34 research grants and fellowships, and amfAR-funded researchers generated 49 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 18 pediatric and 21 adult sites in 12 countries throughout the region. 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 FY2014, the network launched a multi-site clinical study in Asia that will address obstacles to treating hepatitis C in people co-infected with HIV. The study will be implemented at four partner HIV treatment centers: Cipto Mangunkusumo General Hospital in Jakarta, Indonesia; the HIV-NAT/Thai Red Cross AIDS Research Center in Bangkok, Thailand; the National Hospital for Tropical Diseases in Hanoi, Vietnam; and the University of Malaya Medical Centre in Kuala Lumpur, Malaysia. Additionally, TREAT Asia continues to strive to improve the quality of healthcare for infants and children living with HIV across Asia. The TREAT Asia Studies to Evaluate Resistance, Pediatrics (TASER-P) completed core activities of a three-year study of adolescents resistant to first-line antiretrovirals (ARVs) in FY2014. The preliminary analysis has provided insights into how to improve long-term ARV management in children and adolescents. In FY2014, TREAT Asia scientists produced a record 28 publications in peer-reviewed medical journals, and TREAT Asia team members and network partners participated in satellite sessions and symposia at the 11<sup>th</sup> International Congress on AIDS in Asia and the Pacific (ICAAP) and the 20<sup>th</sup> International AIDS Conference (IAC).

### **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 has helped expand access to HIV education and prevention services; supported advocacy aimed at increasing funding for prevention and treatment services; and worked to end the stigma, discrimination, and violence that threaten the lives of GMT and fuel the spread of HIV/AIDS. In FY2014, with support from the Elton John AIDS Foundation, Aids Fonds, and Arcus, amfAR made 32 awards to community-led groups and researchers in Africa, Asia and the Pacific, the Caribbean, and Latin America. Since 2009, amfAR's GMT Initiative has provided capacity strengthening support to over half its grantee partners. In FY2014, with funding from the Johnson & Johnson Corporate Contributions Group, the GMT Initiative developed a system to work with grantee partners in formally analyzing this technical support program. amfAR also published two "Lessons From the Front Lines" reports in FY2014. One was an impact analysis outlining some of the most successful community-led research studies GMT grantee partners have implemented to improve HIV testing, treatment, and awareness. The other, produced in collaboration with Global Action for Trans Equality ("GATE"), reviewed transgender health and rights issues, examining the challenges faced by 10 grantee partners—many of which were led by transgender individuals—and assessing their progress.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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### 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 April 2014, amfAR organized a Congressional briefing in Washington, D.C., to review recent progress in the fight against AIDS in both research and policy, discuss the impact of human rights issues on the global AIDS response, and to chart a roadmap for ending the pandemic. Additionally, amfAR produced a special report with AVAC outlining the need for a new approach to tracking data to guide the key decisions that shape the global response to the HIV/AIDS epidemic. The report, titled “Data Watch: Closing a Persistent Gap in the AIDS Response,” updates amfAR’s and AVAC’s 2012 “Action Agenda to End AIDS,” which made the case for a more businesslike approach to ending the epidemic and proposed a multi-year plan with concrete strategies, targets, and timelines. Other policy publications produced in FY2014, including issue briefs, opinion pieces, infographics, and special reports, addressed important topics such as funding for AIDS research and U.S. and global HIV/AIDS programs, Medicaid expansion’s effect on HIV health services in the U.S., and HIV prevention among key populations, specifically transgender individuals and black 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 pandemic. The Foundation publishes a wide range of educational materials including its biannual newsletter, *Innovations*; the *TREAT Asia Report*; 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 FY2014, including *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *CNN*, *Bloomberg News*, and *The Huffington Post*, and news agencies such as *The Associated Press* and *Reuters*.

## 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 (“US 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. amfAR classifies its unrestricted net assets as follows:

Undesignated – Net assets which are available for amfAR’s general use and day-to-day operations.

Designated for specific operating purposes – Net assets that are designated by amfAR for specific operating purposes.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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amfAR's Board of Trustees has designated certain unrestricted net assets for the C2C program, following is the related activity for the year ended September 30, 2014:

	<u>2014</u>
Balance, beginning of year	\$ -
Designations	12,050,401
Utilizations	<u>(1,169,396)</u>
Balance, end of year	<u>\$ 10,881,005</u>

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.

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.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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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.
- 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. 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 FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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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.

### 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, 2014 and 2013, amfAR received commitments of \$6,776,865 and \$9,748,593, respectively, from the auction of unique experiences where amfAR has not substantially fulfilled its responsibility to the donor. These amounts are reflected within deferred support and refundable advances on the accompanying financial statements. Of these amounts, \$1,699,414 and \$6,391,026, remain unpaid and are included within accounts receivable, net as of September 30, 2014 and 2013, 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, 2014 or 2013.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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### **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, 2014 and 2013 was \$930,000 and \$364,500, 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, 2014 and 2013, is \$393,132 and \$411,739, respectively, of which \$0 and \$13,826, 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, 2014 and 2013.

### **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.

### **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, 2014, 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 2011, 2012, 2013 and 2014 are still open to audit for both federal and state purposes.

### **Use of Estimates**

The preparation of financial statements in conformity with US 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.



# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

### 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, 2014 and 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Mutual funds - equity	\$ 9,431,331	\$ 10,259,999	\$ 5,219,026	\$ 5,804,157
Mutual funds - fixed income	4,891,674	5,008,690	4,036,890	4,083,112
Money market funds	840,688	840,688	805,371	805,371
Government securities	13,788,126	13,743,856	6,181,206	6,230,235
Corporate bonds	8,027,899	7,968,117	4,094,372	4,044,551
Equities	<u>2,696,383</u>	<u>3,161,566</u>	<u>2,305,974</u>	<u>2,689,032</u>
	<u>\$ 39,676,101</u>	<u>\$ 40,982,916</u>	<u>\$ 22,642,839</u>	<u>\$ 23,656,458</u>

amfAR's investments in certificates of deposit of \$323,338 as of September 30, 2014 and 2013 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, 2014 and 2013, is as follows:

	2014	2013
Interest and dividends	\$ 740,190	\$ 708,016
Realized gains	485,275	272,382
Unrealized gains/(losses)	<u>222,197</u>	<u>(246,160)</u>
	<u>\$ 1,447,662</u>	<u>\$ 734,238</u>

### 4. PLEDGES RECEIVABLE, NET

Pledges receivable totaled \$0 and \$205,706 at September 30, 2014 and 2013, respectively, net of allowances for doubtful accounts of \$0 and \$10,145, respectively. At September 30, 2013, pledges receivable were not time discounted or risk adjusted as the pledges were due in fiscal 2014.

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

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**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 \$2,101,105 and \$3,169,232 at September 30, 2014 and 2013, respectively. The following table summarizes the changes in fair values associated with Level 3 assets for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
<b>Balance, beginning of year</b>	\$ 3,169,232	\$ 4,233,643
Disbursements	(1,034,524)	(1,034,524)
Unrealized loss	<u>(33,603)</u>	<u>(29,887)</u>
<b>Balance, end of year</b>	<u>\$ 2,101,105</u>	<u>\$ 3,169,232</u>

**6. FIXED ASSETS, NET**

Fixed assets, net at September 30, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Computer hardware	\$ 1,249,350	\$ 1,193,927
Computer software	1,071,358	1,007,466
Office equipment	309,029	305,895
Furniture and fixtures	513,088	469,454
Leasehold improvements	2,210,687	2,101,499
Construction in progress	<u>378,067</u>	<u>78,000</u>
Total	5,731,579	5,156,241
Less: Accumulated depreciation and amortization	<u>(3,500,879)</u>	<u>(3,180,930)</u>
Fixed assets, net	<u>\$ 2,230,700</u>	<u>\$ 1,975,311</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.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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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.

Grants and fellowships payable at September 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
	<u>Short-Term</u>	<u>Short-Term</u>
Basic science	\$ 2,734,854	\$ 2,062,250
TREAT Asia	181,303	83,223
GMT Initiative	158,462	369,071
Public policy	<u>22,501</u>	<u>82,500</u>
	3,097,120	2,597,044
Less: Reserve for estimated unexpended grants and fellowships	<u>(550,000)</u>	<u>(450,000)</u>
Grants and fellowships payable, net	<u>\$ 2,547,120</u>	<u>\$ 2,147,044</u>
	<u>Long-Term</u>	<u>Long-Term</u>
Basic science	<u>\$ -</u>	<u>\$ 53,468</u>

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**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, 2014 and 2013, are for the following:

	<b>Temporarily Restricted Net Assets as of September 30, 2013</b>	<b>Temporarily Restricted Contributions in Fiscal 2014</b>	<b>Temporarily Restricted Other in Fiscal 2014</b>	<b>Net Assets Released from Restrictions in Fiscal 2014</b>	<b>Temporarily Restricted Net Assets as of September 30, 2014</b>
Time restrictions	\$ 3,169,232	\$ -	\$ (33,603)	\$ (1,034,524)	\$ 2,101,105
Purpose restrictions:					
Research	1,356,238	4,672,417	-	(4,989,989)	1,038,666
TREAT Asia	1,950,978	66,290	-	(934,732)	1,082,536
GMT Initiative	-	100,000	-	(80,400)	19,600
Public policy	548,709	250,000	-	(148,867)	649,842
Public information	107,865	-	-	-	107,865
Endowment income	<u>103,187</u>	<u>-</u>	<u>40,550</u>	<u>-</u>	<u>143,737</u>
	<u>\$ 7,236,209</u>	<u>\$ 5,088,707</u>	<u>\$ 6,947</u>	<u>\$ (7,188,512)</u>	<u>\$ 5,143,351</u>
	<b>Temporarily Restricted Net Assets as of September 30, 2012</b>	<b>Temporarily Restricted Contributions in Fiscal 2013</b>	<b>Temporarily Restricted Other in Fiscal 2013</b>	<b>Net Assets Released from Restrictions in Fiscal 2013</b>	<b>Temporarily Restricted Net Assets as of September 30, 2013</b>
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>

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**9. PUBLIC SUPPORT**

Public support (excluding special events and planned giving) for the years ended September 30, 2014 and 2013, is as follows:

	<b>2014</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Corporate contributions	\$ 431,149	\$ 107,500	\$ -	\$ 538,649
Individual contributions	623,839	199,617	5,043	828,499
Foundation contributions	332,673	2,244,000	1,500	2,578,173
Grants	1,510,622	-	-	1,510,622
Direct response	2,147,867	382,165	-	2,530,032
Workplace campaigns	376,242	-	-	376,242
Total	<u>\$ 5,422,392</u>	<u>\$ 2,933,282</u>	<u>\$ 6,543</u>	<u>\$ 8,362,217</u>

  

	<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>

**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:

	<b>2014</b>	<b>2013</b>
Fundraising	\$ 631,272	\$ 609,723
Public policy	41,261	44,821
Public information	339,635	344,827
	<u>\$ 1,012,168</u>	<u>\$ 999,371</u>

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

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2014 and 2013

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### 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 \$531,595 and \$476,058 for the years ended September 30, 2014 and 2013, respectively, calculated using a two-for-one match of employee contributions.

### 12. COMMITMENTS

#### Conditional Grants

amfAR's Board approved certain conditional grants with a period of performance in future fiscal years. 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, 2014 and 2013, under these grants totaled \$5,812,190 and \$4,533,950, 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:

Year ending September 30,	
2015	\$ 1,589,472
2016	1,430,770
2017	1,064,906
2018	1,043,018
2019	1,043,018
2020 and subsequent years	<u>8,794,073</u>
	<u>\$ 14,965,257</u>

Rent expense for the years ended September 30, 2014 and 2013, was \$1,259,416 and \$1,265,195, 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 \$1,526,258 and \$1,535,854 existed at September 30, 2014 and 2013, respectively, and has been recorded on the statement of financial position within 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.

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 143,737	\$ 347,242	\$ 490,979

The following presents the changes in endowment net assets for the fiscal year ended September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 103,187	\$ 340,699	\$ 443,886
Contributions	-	-	6,543	6,543
Interest and dividends from the endowment	-	12,674	-	12,674
Realized and unrealized gains	-	27,876	-	27,876
Appropriation of endowment income for expenditure	-	-	-	-
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 143,737</u>	<u>\$ 347,242</u>	<u>\$ 490,979</u>

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

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

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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>

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, 2014 financial statements for subsequent events through March 17, 2015, 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.