

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, 2016 and 2015

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

**TABLE OF CONTENTS**

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	<b>Page(s)</b>
Report of Independent Certified Public Accountants	1 - 2
Financial Statements:	
Statements of Financial Position as of September 30, 2016 and 2015	3
Statements of Activities for the years ended September 30, 2016 and 2015	4
Statement of Functional Expenses for the year ended September 30, 2016	5
Statement of Functional Expenses for the year ended September 30, 2015	6
Statements of Cash Flows for the years ended September 30, 2016 and 2015	7
Notes to Financial Statements	8 - 22

## 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, 2016 and 2015, 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, 2016 and 2015, 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

February 22, 2017

**THE FOUNDATION FOR AIDS RESEARCH**  
**Statements of Financial Position**  
**As of September 30, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 21,651,323	\$ 18,387,580
Short-term pledges receivable, net (Note 4)	464,693	369,693
Beneficial interest in third-party trust (Note 5)	36,797	1,034,524
Accounts receivable, net (Note 2)	9,959,486	6,118,590
Prepaid expenses and other current assets	<u>3,048,671</u>	<u>2,826,754</u>
Total current assets	35,160,970	28,737,141
Beneficial interest in third-party trust (Note 5)	-	34,613
Investments (Note 3)	42,064,454	39,666,715
Investments - other (Note 3)	323,338	323,338
Fixed assets, net (Note 6)	2,976,566	2,288,934
Other assets	<u>248,333</u>	<u>200,352</u>
Total assets	<u>\$ 80,773,661</u>	<u>\$ 71,251,093</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,412,592	\$ 3,435,700
Short-term grants and fellowships payable, net (Note 7)	2,729,663	2,898,842
Deferred support and refundable advances (Note 2)	<u>10,727,662</u>	<u>10,067,061</u>
Total current liabilities	16,869,917	16,401,603
Long-term grants and fellowships payable, net (Note 7)	244,303	150,710
Other long-term liabilities	<u>2,020,261</u>	<u>1,660,158</u>
Total liabilities	<u>19,134,481</u>	<u>18,212,471</u>
Commitments and contingencies (Note 12)		
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	40,237,483	34,051,451
Designated for specific operating purposes (Note 2)	<u>17,978,416</u>	<u>14,823,120</u>
Total unrestricted	58,215,899	48,874,571
Temporarily restricted (Note 8)	3,060,748	3,808,811
Permanently restricted	<u>362,533</u>	<u>355,240</u>
Total net assets	<u>61,639,180</u>	<u>53,038,622</u>
Total liabilities and net assets	<u>\$ 80,773,661</u>	<u>\$ 71,251,093</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, 2016 and 2015**

	2016				2015			
	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)	\$ 4,438,605	\$ 2,658,749	\$ 7,293	\$ 7,104,647	\$ 4,370,545	\$ 2,763,464	\$ 7,998	\$ 7,142,007
Special events, net of direct donor benefit expenses of \$14,128,344 and \$12,681,463 in 2016 and 2015, respectively	22,370,612	469,771	-	22,840,383	21,500,168	2,533,611	-	24,033,779
Planned giving	3,095,589	1,900,000	-	4,995,589	4,526,623	569,090	-	5,095,713
Total grants and contributions	29,904,806	5,028,520	7,293	34,940,619	30,397,336	5,866,165	7,998	36,271,499
Government funding	13,063,451	-	-	13,063,451	10,220,999	-	-	10,220,999
Investment return (Note 3)	2,481,417	40,902	-	2,522,319	104,434	(5,941)	-	98,493
Change in value of beneficial interest in third-party trust (Note 5)	-	2,183	-	2,183	-	2,556	-	2,556
Other revenues	10,517	-	-	10,517	16,651	-	-	16,651
Net assets released from restrictions (Note 8)	5,819,668	(5,819,668)	-	-	7,197,320	(7,197,320)	-	-
Total revenues	51,279,859	(748,063)	7,293	50,539,089	47,936,740	(1,334,540)	7,998	46,610,198
<b>EXPENSES</b>								
Program services:								
Research	20,306,002	-	-	20,306,002	15,282,648	-	-	15,282,648
TREAT Asia	5,276,103	-	-	5,276,103	5,820,593	-	-	5,820,593
GMT initiative	1,737,688	-	-	1,737,688	2,365,247	-	-	2,365,247
Public policy	2,162,183	-	-	2,162,183	2,045,870	-	-	2,045,870
Public information	3,892,270	-	-	3,892,270	4,259,732	-	-	4,259,732
Total program services	33,374,246	-	-	33,374,246	29,774,090	-	-	29,774,090
Supporting services:								
Fundraising (Note 10)	6,054,303	-	-	6,054,303	5,653,227	-	-	5,653,227
Management and general	2,509,982	-	-	2,509,982	2,454,606	-	-	2,454,606
Total supporting services	8,564,285	-	-	8,564,285	8,107,833	-	-	8,107,833
Total expenses	41,938,531	-	-	41,938,531	37,881,923	-	-	37,881,923
Change in net assets	9,341,328	(748,063)	7,293	8,600,558	10,054,817	(1,334,540)	7,998	8,728,275
Net assets, beginning of year	48,874,571	3,808,811	355,240	53,038,622	38,819,754	5,143,351	347,242	44,310,347
Net assets, end of year	\$ 58,215,899	\$ 3,060,748	\$ 362,533	\$ 61,639,180	\$ 48,874,571	\$ 3,808,811	\$ 355,240	\$ 53,038,622

*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, 2016**

	Program Services					Supporting Services				
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	Total
Grants and awards	\$ 6,558,844	\$ 2,468,525	\$ 1,087,074	\$ 234,816	\$ -	\$ 10,349,259	\$ -	\$ -	\$ -	\$ 10,349,259
Salaries and benefits	2,274,106	1,519,607	408,012	938,874	1,945,836	7,086,435	2,141,014	1,260,321	3,401,335	10,487,770
Program technical support	729,908	157,821	16,779	276,091	6,379	1,186,978	-	-	-	1,186,978
Professional fees	235,213	288,877	28,319	203,447	792,913	1,548,769	1,342,020	269,124	1,611,144	3,159,913
Supplies, printing, postage and shipping	8,677,415	27,323	21,581	7,237	313,557	9,047,113	996,161	9,911	1,006,072	10,053,185
Occupancy and telecommunication	762,374	191,601	70,049	94,048	153,564	1,271,636	354,848	166,543	521,391	1,793,027
Travel, conferences and meetings	247,930	416,002	30,535	296,811	217,168	1,208,446	867,787	12,978	880,765	2,089,211
Depreciation and amortization	213,264	53,046	19,604	26,094	40,703	352,711	63,324	46,520	109,844	462,555
Equipment, subscription and dues	291,806	71,415	26,732	46,125	136,360	572,438	98,462	60,233	158,695	731,133
Administrative fees	9,630	2,780	920	1,315	1,893	16,538	3,458	622,505	625,963	642,501
Other	305,512	79,106	28,083	37,325	283,897	733,923	187,229	61,847	249,076	982,999
Total expenses	<u>\$ 20,306,002</u>	<u>\$ 5,276,103</u>	<u>\$ 1,737,688</u>	<u>\$ 2,162,183</u>	<u>\$ 3,892,270</u>	<u>\$ 33,374,246</u>	<u>\$ 6,054,303</u>	<u>\$ 2,509,982</u>	<u>\$ 8,564,285</u>	<u>\$ 41,938,531</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, 2015**

	Program Services					Supporting Services				
	Research	TREAT Asia	GMT Initiative	Public Policy	Public Information	Total	Fundraising	Management and General	Total	Total
Grants and awards	\$ 5,330,808	\$ 2,833,778	\$ 1,231,676	\$ 131,920	\$ -	\$ 9,528,182	\$ -	\$ -	\$ -	\$ 9,528,182
Salaries and benefits	1,731,780	1,687,283	737,368	916,583	1,909,094	6,982,108	2,136,863	1,188,594	3,325,457	10,307,565
Program technical support	589,898	128,746	97,439	251,097	6,110	1,073,290	-	-	-	1,073,290
Professional fees	99,331	103,133	22,475	250,769	1,152,697	1,628,405	1,196,825	261,672	1,458,497	3,086,902
Supplies, printing, postage and shipping	6,295,928	73,859	5,837	11,515	296,504	6,683,643	965,282	11,277	976,559	7,660,202
Occupancy and telecommunication	535,592	251,646	107,819	102,451	164,671	1,162,179	314,179	188,019	502,198	1,664,377
Travel, conferences and meetings	283,795	540,022	77,909	280,377	209,644	1,391,747	725,986	18,674	744,660	2,136,407
Depreciation and amortization	126,538	58,987	25,500	23,738	38,336	273,099	58,610	44,423	103,033	376,132
Equipment, subscription and dues	165,404	77,866	34,253	52,261	135,190	464,974	113,309	55,380	168,689	633,663
Administrative fees	9,686	5,084	2,020	1,838	2,974	21,602	4,222	628,462	632,684	654,286
Other	113,888	60,189	22,951	23,321	344,512	564,861	137,951	58,105	196,056	760,917
Total expenses	<u>\$ 15,282,648</u>	<u>\$ 5,820,593</u>	<u>\$ 2,365,247</u>	<u>\$ 2,045,870</u>	<u>\$ 4,259,732</u>	<u>\$ 29,774,090</u>	<u>\$ 5,653,227</u>	<u>\$ 2,454,606</u>	<u>\$ 8,107,833</u>	<u>\$ 37,881,923</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,600,558	\$ 8,728,275
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gains)/losses on investments	(1,221,433)	1,498,750
Change in value of beneficial interest in third-party trust	(2,183)	(2,556)
Donated securities	(135,714)	(631,638)
Depreciation and amortization	462,555	376,132
Permanently restricted contributions	(7,293)	(7,998)
Bad debt expense	305,327	33,229
Changes in operating assets and liabilities:		
Short-term and long-term pledges receivable	(95,000)	(369,693)
Short-term and long-term accounts receivable	(4,146,223)	(1,181,163)
Beneficial interest in third-party trust	1,034,523	1,034,524
Prepaid expenses and other assets	(269,898)	(776,595)
Accounts payable and accrued expenses	(23,108)	1,303,205
Short-term and long-term grants and fellowships payable	(75,586)	502,432
Deferred support and refundable advances	660,601	2,975,635
Other long-term liabilities	360,103	(79,425)
Net cash provided by operating activities	<u>5,447,229</u>	<u>13,403,114</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(10,723,656)	(12,457,715)
Sale of investments	9,683,064	12,906,804
Purchase of fixed assets	(1,150,187)	(434,366)
Net cash (used in)/provided by investing activities	<u>(2,190,779)</u>	<u>14,723</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	7,293	7,998
Net cash provided by financing activities	<u>7,293</u>	<u>7,998</u>
Increase in cash and cash equivalents	3,263,743	13,425,835
Cash and cash equivalents, beginning of year	<u>18,387,580</u>	<u>4,961,745</u>
Cash and cash equivalents, end of year	<u>\$ 21,651,323</u>	<u>\$ 18,387,580</u>

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

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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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, treating, and curing 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, healthcare professionals, and the public amfAR’s programmatic activities include the following:

#### **Research**

amfAR supports research projects that explore novel approaches to scientifically sound but untested hypotheses in all areas of research on HIV/AIDS, funding goal-oriented grants and fellowships that often lack the preliminary data required for support from traditional grant-makers. The Foundation plays a vital role in HIV/AIDS research, identifying critical gaps in knowledge and providing essential seed money that enables scientists to test the merits of new concepts or technologies, which can subsequently be validated through large-scale studies. amfAR’s top research priority is the pursuit of a cure for HIV/AIDS. In 2014 amfAR launched the Countdown to a Cure for AIDS, a research initiative aimed at developing the scientific basis for a cure by the end of 2020. To that end, amfAR initiated a multi-year \$100 million investment strategy designed to advance a range of scientific approaches with the potential to achieve HIV remission or cure. Additionally, amfAR’s Mathilde Krim Fellowships in Basic Biomedical Research program supports the development of outstanding young researchers who have demonstrated a commitment to

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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preventing, treating, and curing HIV/AIDS. In total, amfAR awarded 24 research grants and fellowships in 2016 that led to important advances in our understanding of HIV/AIDS. In addition, amfAR-funded researchers generated 64 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 19 pediatric and 21 adult sites throughout the region. Established in 2003, the TREAT Asia HIV Observational Database continues to generate critical information on disease and treatment patterns across the continent. Data collected and analyzed in a parallel pediatric database is helping to inform treatment and care for children and adolescents living with HIV. TREAT Asia also manages the Asia-Pacific region of the International Epidemiologic Databases to Evaluate AIDS, a global collaboration established by the U.S. National Institute of Allergy and Infectious Diseases. TREAT Asia scientists produced a record 34 publications in peer-reviewed medical journals in 2016. 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 2016, the network hosted a series of think tanks to identify and address gaps in the management of HIV in Asia focusing on three areas: *HIV and cardiovascular disease*, *HIV and liver disease*, and *HIV and drug resistance*. It also conducted training for doctors, patients, and treatment advocates from six countries in South and Southeast Asia on treating Hepatitis C and HIV co-infection with a class of drugs known as direct-acting antivirals.

### **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") in low- and middle-income countries worldwide. In 2016, the GMT Initiative continued to support three major implementation science studies aimed at determining the most effective ways of identifying GMT individuals who are HIV positive, putting them on treatment, and ensuring that they remain on treatment so that their virus is fully suppressed. The amfAR-supported teams are performing research in Yangon, Myanmar; Lima, Peru; and Bangkok, Thailand. In addition, amfAR supported four researchers from Paraguay, Indonesia, Brazil, and South Africa undergoing five months of graduate-level public health study at the Center for LGBT Health Research of the Graduate School of Public Health at the University of Pittsburgh as part of an HIV Scholars Program.

### **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 2016, the Foundation produced special reports and infographics on multiple critical issues such as the declining purchasing power of the NIH's HIV/AIDS research dollars, the role of health plans and health care purchasers in moving the nation toward ending the domestic HIV epidemic, the significant advances in global HIV/AIDS treatment and prevention made possible by the U.S. President's Emergency Plan for AIDS Relief ("PEPFAR"), and the need for better data on key populations to guide HIV resource allocation.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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### 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 policymakers 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 2016, including The New York Times, Forbes, The Advocate, CBS Radio, Reuters, Bloomberg News, and the South China Morning 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 ("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's Board of Trustees for specific operating purposes.

amfAR's Board of Trustees has designated certain unrestricted net assets for the C2C program. The following schedule represents the related activity for the year ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 14,823,120	\$ 10,881,005
Designations	4,343,214	4,667,010
Utilizations	<u>(1,187,918)</u>	<u>(724,895)</u>
Balance, end of year	<u>\$ 17,978,416</u>	<u>\$ 14,823,120</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.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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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 and cash equivalents. amfAR maintains its cash and cash equivalents in various bank deposit accounts, which, at times, may exceed federally insured limits. amfAR does not anticipate nor has it experienced any losses in such accounts.

### **Investments**

Investments in debt and equity securities, mutual funds and money market funds are carried at fair 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 return 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.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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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 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

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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### 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 and refundable advances in the accompanying Statements of Financial Position.

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, 2016 and 2015, amfAR had balances pertaining to donor commitments of \$7,892,529 and \$6,578,382, 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 in the Statements of Financial Position. Of these amounts, \$2,050,738 and \$1,271,388, remain unpaid and are included within accounts receivable, net as of September 30, 2016 and 2015, respectively. Additionally, amfAR has received payment for event sponsorships, ticket and table sales and other items pertaining to future events in the amount of \$2,321,137 and \$2,954,203 as September 30, 2016 and 2015, respectively, that is also included in deferred support and refundable advances in the Statements of Financial Position. amfAR has also received financial commitments of \$3,563,333 for event sponsorships in subsequent years that is not currently due and accordingly has not been recognized in the accompanying financial statements.

### 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 Statements 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 did not have any conditional pledges at September 30, 2016 or 2015.

### 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, 2016 and 2015 was \$175,000 and \$940,000, respectively.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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### **Donated Goods and Services**

Certain donated professional services for technical advisory 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 met the criteria for recognition. The value of donated services reflected in the accompanying financial statements for the years ended September 30, 2016 and 2015, is \$286,412 and \$321,697, respectively. 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, 2016 and 2015.

### **Grants and Awards**

amfAR's grants and awards are generally awarded for a period of 1 to 4 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 measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

amfAR is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. 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 was nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ended September 30, 2013, 2014, 2015, and 2016 are still open to audit for both federal and state purposes. amfAR has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

### **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; allocation of expenses amongst functional categories and useful lives of fixed assets. Actual results could differ from those estimates.



# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

### 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, 2016 and 2015:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 310,902	\$ 310,902	\$ 333,953	\$ 333,953
Mutual funds - equity	8,638,390	8,998,268	9,503,351	9,250,782
Mutual funds - fixed income	5,892,013	5,816,776	5,328,550	5,123,164
Government securities	15,243,089	15,470,902	13,107,572	13,205,961
Corporate bonds	7,512,336	7,668,607	8,428,799	8,391,180
Equities	<u>2,948,544</u>	<u>3,798,999</u>	<u>2,964,441</u>	<u>3,361,675</u>
	<u>\$ 40,545,274</u>	<u>\$ 42,064,454</u>	<u>\$ 39,666,666</u>	<u>\$ 39,666,715</u>

amfAR's investments in certificates of deposit of \$323,338 as of September 30, 2016 and 2015 are classified as Investments – other in the accompanying Statements 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, 2016 and 2015, is as follows:

	2016	2015
Interest and dividends	\$ 1,300,886	\$ 1,597,243
Realized losses	(192,052)	(69,064)
Unrealized gains/(losses)	<u>1,413,485</u>	<u>(1,429,686)</u>
	<u>\$ 2,522,319</u>	<u>\$ 98,493</u>

### 4. PLEDGES RECEIVABLE, NET

Pledges receivable totaled \$464,693 and \$369,693 at September 30, 2016 and 2015, respectively, net of allowances for doubtful accounts of \$25,000 and \$20,000, respectively. At September 30, 2016, pledges receivable were not time discounted or risk adjusted as the pledges were due in fiscal 2017.

### 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

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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\$36,797 and \$1,069,137 at September 30, 2016 and 2015, respectively. The following table summarizes the changes in fair values associated with Level 3 assets for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<b>Balance, beginning of year</b>	\$ 1,069,137	\$ 2,101,105
Disbursements	(1,034,523)	(1,034,524)
Unrealized gain	<u>2,183</u>	<u>2,556</u>
<b>Balance, end of year</b>	<u>\$ 36,797</u>	<u>\$ 1,069,137</u>

**6. FIXED ASSETS, NET**

Fixed assets, net at September 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Computer hardware	\$ 1,495,226	\$ 1,525,423
Computer software	1,166,193	1,151,177
Office equipment	304,196	309,029
Furniture and fixtures	736,772	588,101
Leasehold improvements	2,542,490	2,215,917
Construction in progress	<u>624,352</u>	<u>343,737</u>
Total	6,869,229	6,133,384
Less: Accumulated depreciation and amortization	<u>(3,892,663)</u>	<u>(3,844,450)</u>
Fixed assets, net	<u>\$ 2,976,566</u>	<u>\$ 2,288,934</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.

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
	<u>Short-Term</u>	<u>Short-Term</u>
Research	\$ 3,737,986	\$ 3,676,116
TREAT Asia	150,707	70,391
GMT Initiative	234,369	147,334
Public policy	<u>106,601</u>	<u>5,001</u>
	4,229,663	3,898,842
Less: Reserve for estimated unexpended grants and fellowships	<u>(1,500,000)</u>	<u>(1,000,000)</u>
Grants and fellowships payable, net	<u>\$ 2,729,663</u>	<u>\$ 2,898,842</u>
	<u>Long-Term</u>	<u>Long-Term</u>
Research	\$ 239,435	\$ -
GMT Initiative	<u>4,868</u>	<u>150,710</u>
	<u>\$ 244,303</u>	<u>\$ 150,710</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, 2016 and 2015, are for the following:

	<u>Temporarily Restricted Net Assets as of September 30, 2015</u>	<u>Temporarily Restricted Contributions in Fiscal 2016</u>	<u>Temporarily Restricted Other in Fiscal 2016</u>	<u>Net Assets Released from Restrictions in Fiscal 2016</u>	<u>Temporarily Restricted Net Assets as of September 30, 2016</u>
Time restrictions	\$ 1,069,137	\$ -	\$ 2,183	\$ (1,034,523)	\$ 36,797
Purpose restrictions:					
Research	1,274,563	4,923,520	-	(4,383,697)	1,814,386
TREAT Asia	692,534	-	-	(396,448)	296,086
GMT Initiative	-	5,000	-	(5,000)	-
Public policy	526,916	100,000	-	-	626,916
Public information	107,865	-	-	-	107,865
Endowment income	<u>137,796</u>	<u>-</u>	<u>40,902</u>	<u>-</u>	<u>178,698</u>
	<u>\$ 3,808,811</u>	<u>\$ 5,028,520</u>	<u>\$ 43,085</u>	<u>\$ (5,819,668)</u>	<u>\$ 3,060,748</u>

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

	Temporarily Restricted Net Assets as of September 30, 2014	Temporarily Restricted Contributions in Fiscal 2015	Temporarily Restricted Other in Fiscal 2015	Net Assets Released from Restrictions in Fiscal 2015	Temporarily Restricted Net Assets as of September 30, 2015
Time restrictions	\$ 2,101,105	\$ -	\$ 2,556	\$ (1,034,524)	\$ 1,069,137
Purpose restrictions:					
Research	1,038,666	5,258,417	-	(5,022,520)	1,274,563
TREAT Asia	1,082,536	602,748	-	(992,750)	692,534
GMT Initiative	19,600	5,000	-	(24,600)	-
Public policy	649,842	-	-	(122,926)	526,916
Public information	107,865	-	-	-	107,865
Endowment income	143,737	-	(5,941)	-	137,796
	<u>\$ 5,143,351</u>	<u>\$ 5,866,165</u>	<u>\$ (3,385)</u>	<u>\$ (7,197,320)</u>	<u>\$ 3,808,811</u>

**9. PUBLIC SUPPORT**

Public support for the years ended September 30, 2016 and 2015, is as follows:

	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Corporate contributions	\$ 295,191	\$ 275,000	\$ -	\$ 570,191
Individual contributions	466,928	1,043,970	6,993	1,517,891
Foundation contributions	341,525	1,141,100	300	1,482,925
Grants	974,532	-	-	974,532
Direct response	2,093,025	198,679	-	2,291,704
Workplace campaigns	267,404	-	-	267,404
Total	<u>\$ 4,438,605</u>	<u>\$ 2,658,749</u>	<u>\$ 7,293</u>	<u>\$ 7,104,647</u>

	<b>2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Corporate contributions	\$ 191,848	\$ 265,000	\$ -	\$ 456,848
Individual contributions	481,140	645,462	6,318	1,132,920
Foundation contributions	455,053	1,400,220	1,680	1,856,953
Grants	935,019	-	-	935,019
Direct response	2,019,283	452,782	-	2,472,065
Workplace campaigns	288,202	-	-	288,202
Total	<u>\$ 4,370,545</u>	<u>\$ 2,763,464</u>	<u>\$ 7,998</u>	<u>\$ 7,142,007</u>

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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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>2016</u>	<u>2015</u>
Fundraising	\$ 615,097	\$ 625,211
Public policy	43,924	44,507
Public information	<u>228,497</u>	<u>232,562</u>
	<u>\$ 887,518</u>	<u>\$ 902,280</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 \$576,213 and \$540,527 for the years ended September 30, 2016 and 2015, respectively, calculated using a two-for-one match of employee contributions.

### 12. COMMITMENTS AND CONTINGENCIES

#### Conditional Grants

amfAR's Board of Trustees 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, 2016 and 2015, under these grants totaled \$28,855,472 and \$11,917,317, respectively.

#### Litigation

amfAR, in the normal course of its operations, may be a party to legal proceedings and complaints. While it is not feasible to predict the ultimate outcomes of such matters, management of amfAR is not aware of any claims or contingencies that would have a material adverse effect on amfAR's financial position, changes in net assets or cash flows.

# THE FOUNDATION FOR AIDS RESEARCH

## Notes to Financial Statements

September 30, 2016 and 2015

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### 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,

2017	\$ 1,706,682
2018	1,770,619
2019	1,682,125
2020	1,342,483
2021	1,234,657
2022 and subsequent years	<u>7,612,760</u>
	<u>\$ 15,349,326</u>

Rent expense for the years ended September 30, 2016 and 2015, was \$1,251,196 and \$1,200,344, 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 \$1,838,533 and \$1,513,794 existed at September 30, 2016 and 2015, respectively, and has been recorded on the accompanying 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.

### 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 FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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The following presents information relative to amfAR's endowment net asset composition by type of fund as of September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 178,698	\$ 362,533	\$ 541,231

The following presents the changes in endowment net assets for the fiscal year ended September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 137,796	\$ 355,240	\$ 493,036
Contributions	-	-	7,293	7,293
Interest and dividends from the endowment	-	25,849	-	25,849
Realized and unrealized losses	-	15,053	-	15,053
Appropriation of endowment income for expenditure	-	-	-	-
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 178,698</u>	<u>\$ 362,533</u>	<u>\$ 541,231</u>

The following presents information relative to amfAR's endowment net asset composition by type of fund as of September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 137,796	\$ 355,240	\$ 493,036

The following presents the changes in endowment net assets for the fiscal year ended September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 143,737	\$ 347,242	\$ 490,979
Contributions	-	-	7,998	7,998
Interest and dividends from the endowment	-	23,177	-	23,177
Realized and unrealized losses	-	(29,118)	-	(29,118)
Appropriation of endowment income for expenditure	-	-	-	-
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 137,796</u>	<u>\$ 355,240</u>	<u>\$ 493,036</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.

**THE FOUNDATION FOR AIDS RESEARCH**  
**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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**14. SUBSEQUENT EVENTS**

amfAR evaluated its September 30, 2016 financial statements for subsequent events through February 22, 2017, 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.