



**THE AARON DIAMOND AIDS RESEARCH
CENTER FOR THE CITY OF NEW YORK, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Aaron Diamond AIDS Research Center
for the City of New York, Inc.
New York, New York

We have audited the accompanying statements of financial position of The Aaron Diamond AIDS Research Center for the City of New York, Inc. (the "Center") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements described above present fairly, in all material respects, the financial position of The Aaron Diamond AIDS Research Center for the City of New York, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with auditing standards generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
November 1, 2010

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Statements of Financial Position

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 13,750,700	\$ 16,178,333
Grant and contract revenues receivable	1,558,271	2,683,817
Bequest receivable, net	3,365,316	8,423,278
Investments	35,682,669	22,081,428
Property and equipment	5,449,166	6,338,470
Prepaid expenses and other assets	<u>280,260</u>	<u>389,586</u>
	<u>\$ 60,086,382</u>	<u>\$ 56,094,912</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,963,883	\$ 2,814,292
Grant and contract income received in advance	6,164,477	2,085,374
Deferred rent	<u>30,200</u>	<u>35,790</u>
	<u>8,158,560</u>	<u>4,935,456</u>
Commitments and contingency (Note J)		
Net assets:		
Unrestricted:		
Available for operations	26,258,785	20,932,532
Board-designated	<u>12,044,392</u>	<u>11,440,691</u>
Total unrestricted	38,303,177	32,373,223
Temporarily restricted	8,624,645	13,786,233
Permanently restricted	<u>5,000,000</u>	<u>5,000,000</u>
Total net assets	<u>51,927,822</u>	<u>51,159,456</u>
	<u>\$ 60,086,382</u>	<u>\$ 56,094,912</u>

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Statements of Activities

	Year Ended June 30,							
	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Revenue from scientific activities:								
Restricted scientific grants and contracts	\$ 12,423,288	\$ 933,500		\$ 13,356,788	\$ 13,008,681	\$ 1,477,558		\$ 14,486,239
Revenue from clinical trials	142,579			142,579	485,998			485,998
	<u>12,565,867</u>	<u>933,500</u>		<u>13,499,367</u>	<u>13,494,679</u>	<u>1,477,558</u>		<u>14,972,237</u>
Contributions and other revenue:								
Grants from the Irene Diamond Fund		1,025,669		1,025,669		1,483,548		1,483,548
Contributions	75,408	31,010		106,418	468,576	387,720		856,296
Special event (net of direct benefit to donors of \$117,060)	939,790			939,790				
Investment income	2,711,038	394,044		3,105,082	(4,591,932)	(514,660)		(5,106,592)
	<u>3,726,236</u>	<u>1,450,723</u>		<u>5,176,959</u>	<u>(4,123,356)</u>	<u>1,356,608</u>		<u>(2,766,748)</u>
Total support and revenue before net assets released from restrictions	16,292,103	2,384,223		18,676,326	9,371,323	2,834,166		12,205,489
Net assets released from restrictions through:								
Satisfaction of time restrictions	6,453,881	(6,453,881)		0	7,720,366	(7,720,366)		0
Satisfaction of program restrictions	1,091,930	(1,091,930)		0	1,357,501	(1,357,501)		0
Total support and revenue	<u>23,837,914</u>	<u>(5,161,588)</u>		<u>18,676,326</u>	<u>18,449,190</u>	<u>(6,243,701)</u>		<u>12,205,489</u>
Expenses:								
Program:								
Scientific research funded by grants	10,116,083			10,116,083	11,492,765			11,492,765
Research support	1,511,460			1,511,460	994,365			994,365
Research administration	332,434			332,434	300,980			300,980
Facilities - scientific	1,578,055			1,578,055	1,567,826			1,567,826
Total program expense	<u>13,538,032</u>			<u>13,538,032</u>	<u>14,355,936</u>			<u>14,355,936</u>
Management and general:								
General administration	2,446,115			2,446,115	2,310,929			2,310,929
Facilities - management and general	195,775			195,775	187,233			187,233
Total management and general	<u>2,641,890</u>			<u>2,641,890</u>	<u>2,498,162</u>			<u>2,498,162</u>
Depreciation	<u>1,158,301</u>			<u>1,158,301</u>	<u>1,169,650</u>			<u>1,169,650</u>
Fund-raising	<u>569,737</u>			<u>569,737</u>	<u>431,260</u>			<u>431,260</u>
Total expenses	<u>17,907,960</u>			<u>17,907,960</u>	<u>18,455,008</u>			<u>18,455,008</u>
Change in net assets	5,929,954	(5,161,588)		768,366	(5,818)	(6,243,701)		(6,249,519)
Net assets - July 1	<u>32,373,223</u>	<u>13,786,233</u>	<u>\$ 5,000,000</u>	<u>51,159,456</u>	<u>32,379,041</u>	<u>20,029,934</u>	<u>\$ 5,000,000</u>	<u>57,408,975</u>
Net assets - June 30	<u>\$ 38,303,177</u>	<u>\$ 8,624,645</u>	<u>\$ 5,000,000</u>	<u>\$ 51,927,822</u>	<u>\$ 32,373,223</u>	<u>\$ 13,786,233</u>	<u>\$ 5,000,000</u>	<u>\$ 51,159,456</u>

See notes to financial statements

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Statements of Functional Expenses

	Year Ended June 30,							
	2010				2009			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 4,886,299	\$ 1,234,780	\$ 141,547	\$ 6,262,626	\$ 4,334,457	\$ 1,238,191	\$ 136,870	\$ 5,709,518
Employee benefits and payroll taxes	1,903,668	573,095	67,943	2,544,706	1,645,683	532,042	58,854	2,236,579
Laboratory supplies	1,624,544			1,624,544	1,512,079			1,512,079
Core facilities expense	301,172			301,172	209,971			209,971
Animal services	343,481			343,481	294,492			294,492
Professional fees	744,475	544,760	216,000	1,505,235	751,122	470,418	216,000	1,437,540
Office expense	88,684	69,978	20,506	179,168	68,551	57,629	5,410	131,590
Occupancy expense	587,906	96,241		684,147	579,384	91,721		671,105
Insurance expense	233,125	36,905		270,030	230,598	36,505		267,103
Telecommunications	18,291	44,072		62,363	9,710	40,048		49,758
Travel and meetings	292,595	34,338	113,846	440,779	331,502	26,206	5,741	363,449
Books and subscriptions	26,086	1,222	9,895	37,203	21,564		8,385	29,949
Maintenance expenses	418,040	6,499		424,539	418,056	5,402		423,458
Radiation safety and disposal	19,060			19,060	34,239			34,239
Sub-contracts	<u>2,050,606</u>			<u>2,050,606</u>	<u>3,914,528</u>			<u>3,914,528</u>
	<u>13,538,032</u>	<u>2,641,890</u>	<u>569,737</u>	<u>16,749,659</u>	<u>14,355,936</u>	<u>2,498,162</u>	<u>431,260</u>	<u>17,285,358</u>
Depreciation	<u>984,556</u>	<u>173,745</u>		<u>1,158,301</u>	<u>996,924</u>	<u>172,726</u>		<u>1,169,650</u>
	<u>\$ 14,522,588</u>	<u>\$ 2,815,635</u>	<u>\$ 569,737</u>	<u>\$ 17,907,960</u>	<u>\$ 15,352,860</u>	<u>\$ 2,670,888</u>	<u>\$ 431,260</u>	<u>\$ 18,455,008</u>

See notes to financial statements

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Statements of Cash Flows

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 768,366	\$ (6,249,519)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,158,301	1,169,650
Net realized and unrealized (gains) losses on investments	(2,355,283)	5,434,620
Donated securities	(51,892)	
Changes in:		
Grant and contract revenues receivable	1,125,546	(975,170)
Bequest receivable	5,057,962	6,236,818
Prepaid expenses and other assets	109,326	(18,066)
Accounts payable and accrued expenses	(850,409)	557,396
Grant and contract income received in advance	4,079,103	(1,991,261)
Deferred rent	<u>(5,590)</u>	<u>(5,590)</u>
Net cash provided by operating activities	<u>9,035,430</u>	<u>4,158,878</u>
Cash flows from investing activities:		
Purchases of investments	(14,743,522)	(9,025,698)
Proceeds from sales and maturities of investments	3,549,456	10,199,295
Purchases of property and equipment	<u>(268,997)</u>	<u>(165,553)</u>
Net cash (used in) provided by investing activities	<u>(11,463,063)</u>	<u>1,008,044</u>
Net change in cash and cash equivalents	(2,427,633)	5,166,922
Cash and cash equivalents - July 1	<u>16,178,333</u>	<u>11,011,411</u>
Cash and cash equivalents - June 30	<u>\$ 13,750,700</u>	<u>\$ 16,178,333</u>

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Aaron Diamond AIDS Research Center for the City of New York, Inc. (the "Center"), incorporated in New York in 1988, is a research institute which houses a specialized viral containment laboratory where the HIV virus can be grown and biomedical research is undertaken.

The Center is exempt from federal income tax pursuant to Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying financial statements of the Center have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Net assets:

The Center's net assets and its revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are reported as follows:

(a) Unrestricted:

Unrestricted net assets represent those resources available for current operations. A portion of the Center's resources devoted to scientific activities, as well as its property and equipment and its quasi-endowment fund, are presented as unrestricted as there are no donor or grantor restrictions on the use of these assets.

The quasi-endowment (board-designated) fund was formed in 1999 through the segregation by the Board of Directors of \$6,500,000 of unrestricted funds (derived from the sale of an investment). The Board's resolution establishing this fund provides that its principal and earnings are to be invested and that, after the second year of the fund's existence, an amount equal to 5% of its average net-asset value (for the three preceding years) may be utilized for Center operations.

(b) Temporarily restricted:

Temporarily restricted net assets represent those resources the use of which has been restricted by donors or grantors to specific purposes or for specific periods of time. Temporarily restricted scientific grants, the requirements of which are met in the year of recognition as revenue, are reported as unrestricted. Net assets released from restrictions represent the satisfaction of the restricted purposes specified by the donor or grantor.

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Net assets: (continued)

(c) Permanently restricted:

Permanently restricted net assets represent those resources the use of which was permanently restricted to investment as endowment by its donor, the Irene Diamond Fund.

[5] Property and equipment:

Property and equipment are recorded at their historic costs or at their fair values at the dates of donation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Furniture and equipment - 7 years

Leasehold improvements - Extended term of modified lease (through 2015)

[6] Cash and cash equivalents:

For financial reporting purposes, the Center considers its money-market accounts to be cash equivalents.

[7] Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the accompanying statements of financial position, with realized and unrealized gains and losses included in the accompanying statements of activities. The Center's mutual funds are also reported at their fair values, as determined by the related investment manager or advisor. Donated securities are recorded at their fair values at the dates of donation.

The Center has investments in certain not-readily-marketable securities which are ownership interests in certain limited partnerships for which market values are not readily obtainable. Because of the inherent uncertainty of the valuation of these investments, the Center and its various investment managers monitor their positions to reduce the risk of potential losses due to changes in fair values or the failure of counterparties to perform. The estimated values provided by these managers may differ from actual values had a ready market for these investments existed.

The Center participates in a securities lending program sponsored by the Northern Trust Corporation ("Northern Trust"). Under this program, Northern Trust lends securities, including those of the Center, to qualified institutional borrowers. In addition to the program fees that they pay, the borrowers place assets with a value greater than the market value of the securities borrowed into a collateral pool. The investment of the assets in the collateral pool provides an additional return to lending-program participants such as the Center.

Investment transactions are recorded on a trade-date basis. Realized gains or losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. The earnings from dividends and interest are recognized when earned.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note B are those specific fees charged by the Center's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Revenue recognition:

Revenue from scientific grants and contracts is recognized as earned through the performance of research services. The asset "grant and contract revenues receivable" is derived from revenues earned and is either billed or unbilled pursuant to the terms of the specific grants or contracts. The liability "grant and contract income received in advance" is derived from amounts collected prior to the performance of research services and which is subsequently recorded as revenue when such services are performed.

[9] Contributions and pledges:

Contributions to support the Center's operations are reported as unrestricted, while contributions that support future operations, or are donor-restricted to specific purposes, are reported as temporarily restricted or permanently restricted. All non-cash contributions are recognized at their fair values at the dates of pledge or donation.

[10] Accrued vacation:

Based on their tenure, the Center's employees are entitled to be paid for unused vacation time if they leave the Center. Accordingly, at each fiscal year-end, the Center must report a liability for the amount that would be incurred if employees with such unused vacation were to leave. At June 30, 2010 and 2009, this accrued vacation obligation was approximately \$465,000 and \$431,000, respectively, and was reported as part of accounts payable and accrued expenses in the accompanying statements of financial position.

[11] Functional allocation of expenses:

The cost of providing the Center's various programs and supporting services has been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated by management among the program, management and general, and fund-raising categories, using appropriate measurement methodologies.

[12] Endowment funds:

The Center reports all applicable disclosures to its funds treated as endowment, both donor-restricted and board-designated.

[13] Income tax uncertainties:

In 2009, the Center adopted the provisions of Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of the Center's general tax-exempt status, ASC 740-10-05 has not had, and is not anticipated to have, a material impact on the Center's financial statements.

[14] Fair-value measurement:

As further described in Note B, the Center reports a fair-value measurement of all applicable financial assets and liabilities, including investments, grants and contracts receivable, and short-term payables.

[15] Subsequent events:

The Center considers all of the accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after fiscal year-end through the date of the independent auditors' report.

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE B - INVESTMENTS

At each fiscal year-end, the cost and fair value of investments were as follows:

	June 30,			
	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	\$ 18,095,002	\$ 17,463,306	\$ 6,101,414	\$ 6,035,240
U.S. government bonds	773,418	717,229		
Equity security funds-of-funds	11,773,546	12,681,851	9,160,298	10,841,639
Other hedge funds-of-funds	<u>5,040,703</u>	<u>3,697,314</u>	<u>6,819,716</u>	<u>7,758,905</u>
	<u>\$ 35,682,669</u>	<u>\$ 34,559,700</u>	<u>\$ 22,081,428</u>	<u>\$ 24,635,784</u>

For each fiscal year, investment income consisted of the following:

	Year Ended June 30,	
	2010	2009
Interest and dividends	\$ 749,799	\$ 328,104
Net realized losses	(1,322,042)	(624,341)
Net unrealized gains (losses)	<u>3,677,325</u>	<u>(4,810,355)</u>
Total investment income	<u>\$ 3,105,082</u>	<u>\$ (5,106,592)</u>

Investment management fees, included in professional fees in the accompanying statements of functional expenses, were \$166,850 and \$108,864 at June 30, 2010 and 2009, respectively.

ASC 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets and liabilities at the reporting date. The types of investments and other assets included in Level 1 are exchange-traded equity and debt securities, short-term money-market funds, and actively traded obligations issued by the U.S. government and government agencies.
- Level 2: Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for identical or similar assets or liabilities in markets that are not active or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include other U.S. government and agency securities and corporate equity and debt securities that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- Level 3: Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. Level 3 assets include securities in privately held companies, secured notes, private corporate bonds, and limited partnerships, the underlying investments of which cannot be independently valued, or cannot be immediately redeemed at or near the fiscal year-end.

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

**Notes to Financial Statements
June 30, 2010 and 2009**

NOTE B - INVESTMENTS (CONTINUED)

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Center's interest therein, its classification in Level 2 or 3 is based on the Center's ability to redeem its interest at or near June 30, 2010. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table summarizes the fair values of the Center's assets at each fiscal year-end:

	June 30,					
	2010			2009		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Mutual funds	\$ 18,095,002		\$ 18,095,002	\$ 6,101,414		\$ 6,101,414
U.S. government bonds	773,418		773,418			
Equity security funds-of-funds		\$ 11,773,546	11,773,546		\$ 9,160,298	9,160,298
Other hedge funds-of-funds		5,040,703	5,040,703		6,819,716	6,819,716
Total funds	<u>\$ 18,868,420</u>	<u>\$ 16,814,249</u>	<u>\$ 35,682,669</u>	<u>\$ 6,101,414</u>	<u>\$ 15,980,014</u>	<u>\$ 22,081,428</u>

The following table presents the Center's reconciliation of Level 3 investments at each fiscal year-end:

	June 30,					
	2010			2009		
	Equity Security Funds-of-funds	Other Hedge Funds-of-funds	Total	Equity Security Funds-of-funds	Other Hedge Funds-of-funds	Total
Beginning balance - July 1	\$ 9,160,298	\$ 6,819,716	\$ 15,980,014	\$ 18,277,293	\$ 9,466,718	\$ 27,744,011
Purchases	2,090,640	175,000	2,265,640	2,441,726	673,669	3,115,395
Sales	(250,392)	(2,908,146)	(3,158,538)	(7,691,377)	(1,687,102)	(9,378,479)
Realized (losses)	(81)	(1,328,444)	(1,328,525)	(673,010)	48,669	(624,341)
Unrealized gains (losses)	773,081	2,282,577	3,055,658	(3,194,334)	(1,682,238)	(4,876,572)
Ending balance - June 30	<u>\$ 11,773,546</u>	<u>\$ 5,040,703</u>	<u>\$ 16,814,249</u>	<u>\$ 9,160,298</u>	<u>\$ 6,819,716</u>	<u>\$ 15,980,014</u>

The following table lists investments in other investment companies by major category:

	June 30, 2010			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity security funds-of-funds	\$ 11,773,546	\$ 0	Quarterly	90 days
Other hedge funds-of-funds	5,040,703	0	Quarterly	90 days
	<u>\$ 16,814,249</u>	<u>\$ 0</u>		

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

**Notes to Financial Statements
June 30, 2010 and 2009**

NOTE C - PROPERTY AND EQUIPMENT

At each fiscal year-end, property and equipment consisted of the following:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 18,838,143	\$ 18,747,343
Equipment and laboratory accessories	5,498,499	5,444,642
Office furniture and equipment	<u>2,743,112</u>	<u>2,618,772</u>
	27,079,754	26,810,757
Less accumulated depreciation and amortization	<u>(21,630,588)</u>	<u>(20,472,287)</u>
	<u>\$ 5,449,166</u>	<u>\$ 6,338,470</u>

Depreciation expense was \$1,158,301 and \$1,169,650 for fiscal-years 2010 and 2009, respectively.

NOTE D - GRANT AND CONTRACT REVENUES RECEIVABLE

Unbilled grant and contract revenues receivable was \$1,558,271 and \$2,683,817 for fiscal-years 2010 and 2009, respectively. Based on its prior experience with grantors, management expects all receivables to be fully collectible. Accordingly, no allowance for doubtful amounts has been provided.

NOTE E - BEQUEST RECEIVABLE

At each fiscal year-end, the bequest receivable consisted of the following:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Gross amount due in:		
One year	\$ 1,193,110	\$ 2,415,740
One to five years	<u>2,386,219</u>	<u>7,247,220</u>
	3,579,329	9,662,960
Less discount to present value at a rate of 6.5%	<u>(214,013)</u>	<u>(1,239,682)</u>
	<u>\$ 3,365,316</u>	<u>\$ 8,423,278</u>

Management expects the amount of the bequest receivable to be fully collectible. Accordingly, no allowance for doubtful collections has been provided.

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

**Notes to Financial Statements
June 30, 2010 and 2009**

NOTE F - REVENUE FROM SCIENTIFIC ACTIVITIES

During each fiscal-year, revenue from scientific activities consisted of the following:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
National Institutes of Health:		
Direct programs	\$ 6,645,246	\$ 5,769,631
Grants passed through various universities	1,037,391	1,655,766
Nongovernmental grants	4,536,426	5,329,001
Chinese AIDS Initiative and other	1,137,725	1,731,841
Revenue from clinical trials	<u>142,579</u>	<u>485,998</u>
	<u>\$ 13,499,367</u>	<u>\$ 14,972,237</u>

The Center's management and general expenses and its depreciation expense form the basis for its overhead calculation. The cost of such overhead is recovered from grantors at rates authorized by them and is included in the Center's grant and contract revenue. For each fiscal year, the following revenue was recognized with respect to overhead:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
National Institutes of Health:		
Direct programs	\$ 2,397,243	\$ 2,096,982
Grants passed through various universities	316,247	402,635
Nongovernmental grants	500,020	452,886
Chinese AIDS Initiative and other	<u>204,309</u>	<u>372,772</u>
	<u>\$ 3,417,819</u>	<u>\$ 3,325,275</u>

NOTE G - PENSION PLANS

[1] Defined-contribution 403(b) retirement plan:

The Center maintains a defined-contribution retirement plan, established under Section 403(b) of the Internal Revenue Code. The Center's 403(b) plan requires the Center to contribute an amount equal to 15% of the compensation of all eligible employees. In addition, employees may make voluntary contributions to the plan. Total plan expense for fiscal-years 2010 and 2009 was approximately \$713,000 and \$665,500, respectively.

[2] Deferred-compensation 457(b) retirement plan:

The Center established a deferred-compensation plan under Section 457(b) of the Internal Revenue Code for certain eligible employees, defined by the Center as its executive team. Under the terms of the plan, eligible employees may contribute amounts through a salary-reduction agreement. Total plan expense for fiscal-years 2010 and 2009 was \$15,500 for each year.

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**Notes to Financial Statements
June 30, 2010 and 2009**

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets (including allocation of investment gains and losses) were categorized as follows:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
AIDS vaccine research	\$ 5,259,329	\$ 4,992,705
Time-restricted, unrestricted support	<u>3,365,316</u>	<u>8,793,528</u>
	<u>\$ 8,624,645</u>	<u>\$ 13,786,233</u>

During each fiscal year, net assets released from restrictions were for the following:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
AIDS vaccine research	\$ 1,091,930	\$ 1,357,501
Time-restricted, unrestricted support	<u>6,453,881</u>	<u>7,720,366</u>
	<u>\$ 7,545,811</u>	<u>\$ 9,077,867</u>

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS

[1] The endowments:

The Center's endowment consists of both a donor-restricted endowment fund and a fund designated by the Board of Trustees to function as endowment.

[2] Interpretation of relevant law:

The Board has interpreted the New York State Uniform Management of Institutional Funds Act ("UMIFA") as requiring the preservation of the historic dollar value of an original, permanently restricted gift as of the gift date, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies the following amounts as permanently restricted net assets in the accompanying financial statements:

- the original value of gifts donated to the permanent endowment;
- the original value of subsequent gifts to the permanent endowment; and
- accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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**Notes to Financial Statements
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NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[3] Endowment net-asset composition:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Donor-restricted funds	\$ 5,000,000	\$ 5,000,000
Board-designated funds	<u>12,044,392</u>	<u>10,977,042</u>
Total funds	<u>\$ 17,044,392</u>	<u>\$ 15,977,042</u>

[4] Changes in endowment net assets:

	<u>Year Ended June 30, 2010</u>			
	<u>Donor- Restricted</u>	<u>Board- Restricted</u>	<u>Unrestricted Losses</u>	<u>Total</u>
Net assets, beginning of the year	\$ 5,000,000	\$ 11,440,691	\$ (463,649)	\$ 15,977,042
Investment gains	990,567	1,309,025		2,299,592
Appropriation of endowment assets for expenditure	(526,918)	(705,324)		(1,232,242)
Absorption of losses	<u>(463,649)</u>		<u>463,649</u>	<u>0</u>
Net assets, end of the year	<u>\$ 5,000,000</u>	<u>\$ 12,044,392</u>	<u>\$ 0</u>	<u>\$ 17,044,392</u>
	<u>Year Ended June 30, 2009</u>			
	<u>Donor- Restricted</u>	<u>Board- Restricted</u>	<u>Unrestricted Losses</u>	<u>Total</u>
Net assets, beginning of the year	\$ 5,000,000	\$ 14,829,305	\$ (224,274)	\$ 19,605,031
Investment losses	(239,375)	(2,756,114)		(2,995,489)
Appropriation of endowment assets for expenditure		(632,500)		(632,500)
Absorption of losses	<u>239,375</u>		<u>(239,375)</u>	<u>0</u>
Net assets, end of the year	<u>\$ 5,000,000</u>	<u>\$ 11,440,691</u>	<u>\$ (463,649)</u>	<u>\$ 15,977,042</u>

[5] Return objectives and risk parameters:

The overall financial objective of the endowment assets is to provide the operations of the Center with a relatively stable stream of spendable revenue that increases over time. If this is to be achieved over the long term, the value of the endowment assets must be preserved, net of annual distributions to programs. The detailed guidelines monitored closely by the Center's Investment Committee include:

- asset diversification to provide reasonable assurance that no single security or class of security will have disproportionate impact on the total endowment assets; and
- specific minimum ratings, US Treasury and agency allowances, classes of investments not permitted (options, derivatives and financial futures), holding limits and liquidity of investments

THE AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

Notes to Financial Statements June 30, 2010 and 2009

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[5] Return objectives and risk parameters: (continued)

The long-term investment objective for the endowment assets is to attain a reasonable rate of total return (net of investment management fees), on an ongoing basis, while assuming a moderate level of investment risk.

[6] Strategies employed for achieving objectives:

The Center relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on cash-based investments, within prudent risk constraints.

Historically, in order to achieve this investment objective, funds have had to exceed the objective substantially during some periods in order to compensate for short-falls during other periods. It is recognized that this objective for the total endowment assets implies a relatively high average investment in equity securities (stock, equity real estate, venture capital, etc.) and consequent market-price volatility.

[7] Spending policy and how the investment objectives relate to the spending policy:

The permanently restricted endowment is expected to remain whole with all gains and losses absorbed by unrestricted funds. The objective of the quasi-endowment fund is to utilize 5% of the unrestricted fund balance for operating purposes, with the anticipation that the quasi-endowment fund will grow over time.

NOTE J - COMMITMENTS AND CONTINGENCY

[1] Lease of premises:

The Center's lease with the City of New York for the sixth and seventh floors of the building located at 455 First Avenue in New York City is effective through September 30, 2015. The lease calls for a base sixth-floor rent of \$172,500, plus certain increases based on increases in the cost of living and in real estate taxes. The lease further provides for a nominal rental for the seventh floor through February 2011, at which time the rental amount increases to the same as that being paid by the Center for the sixth floor. In addition, the lease required the Center to construct facilities on the sixth and seventh floors and, during the term of the lease, requires the Center to be responsible for the payment of utilities, insurance, repairs and maintenance.

For financial-reporting purposes, expense related to the lease is being recognized on a straight-line basis over the lease term. The difference between rent expense incurred and the lesser amount of rent paid is being reported as a deferred rent liability and is being amortized over the lease term. Rent expense for fiscal-years 2010 and 2009 was \$232,780 and \$245,728, respectively.

[2] Facility contract:

In October 2007, the Center entered into a three-year facility-management contract ending October 2010. The remaining payments under the contract through October 2010 amounted to \$68,681 as of June 30, 2010.

[3] Employment agreement:

In October 2008, the Center entered into an employment agreement with its executive director which expires in October 2012.

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**Notes to Financial Statements
June 30, 2010 and 2009**

NOTE J - COMMITMENTS AND CONTINGENCY (CONTINUED)

[4] Government-funded activities:

Government-funded activities are subject to audit by the applicable granting agencies. At June 30, 2010, there were no material obligations outstanding as a result of such audits, and management believes that unaudited projects would not result in any material obligations.

NOTE K - CONCENTRATION OF CREDIT RISK

The Center places its cash investments with high-credit-quality financial institutions. At times, the balances in such accounts may exceed federally insured limits. The Center's management believes there is no substantial risk of loss associated with the failure of these financial institutions.

NOTE L - SUBSEQUENT EVENT

Subsequent to June 30, 2010, the Center began to self-insure its health insurance benefit program.