



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

FINANCIAL STATEMENTS

JUNE 30, 2011 and 2010

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, 2011 and 2010, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
October 18, 2011

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

Statements of Financial Position

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 16,766,071	\$ 13,750,700
Grant and contract revenues receivable	1,125,068	1,558,271
Bequest receivable, net		3,365,316
Investments	45,900,663	35,682,669
Property and equipment	4,842,900	5,449,166
Prepaid expenses and other assets	<u>301,152</u>	<u>280,260</u>
	<u>\$ 68,935,854</u>	<u>\$ 60,086,382</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,179,707	\$ 1,963,883
Grant and contract income received in advance	8,786,958	6,164,477
Deferred rent	<u>24,610</u>	<u>30,200</u>
	<u>10,991,275</u>	<u>8,158,560</u>
Commitments and contingency (Note J)		
Net assets:		
Unrestricted:		
Available for operations	32,488,866	26,258,785
Board-designated	<u>13,848,758</u>	<u>12,044,392</u>
Total unrestricted	46,337,624	38,303,177
Temporarily restricted	6,606,955	8,624,645
Permanently restricted	<u>5,000,000</u>	<u>5,000,000</u>
Total net assets	<u>57,944,579</u>	<u>51,927,822</u>
	<u>\$ 68,935,854</u>	<u>\$ 60,086,382</u>

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

Statements of Activities

	Year Ended June 30,							
	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Revenue from scientific activities:								
Restricted scientific grants and contracts	\$ 11,317,830	\$ 663,700		\$ 11,981,530	\$ 12,423,288	\$ 933,500		\$ 13,356,788
Revenue from clinical trials	<u>99,632</u>			<u>99,632</u>	<u>142,579</u>			<u>142,579</u>
	<u>11,417,462</u>	<u>663,700</u>		<u>12,081,162</u>	<u>12,565,867</u>	<u>933,500</u>		<u>13,499,367</u>
Contributions and other revenue:								
Grants from the Irene Diamond Fund		214,013		214,013		1,025,669		1,025,669
Contributions	3,842,649	39,541		3,882,190	75,408	31,010		106,418
Special event (net of direct benefit to donors of \$117,060 for 2010)					939,790			939,790
Loss on asset disposal	(12,744)			(12,744)				
Investment income	<u>5,743,648</u>	<u>1,488,250</u>		<u>7,231,898</u>	<u>2,711,038</u>	<u>394,044</u>		<u>3,105,082</u>
	<u>9,573,553</u>	<u>1,741,804</u>		<u>11,315,357</u>	<u>3,726,236</u>	<u>1,450,723</u>		<u>5,176,959</u>
Total support and revenue before net assets released from restrictions	<u>20,991,015</u>	<u>2,405,504</u>		<u>23,396,519</u>	<u>16,292,103</u>	<u>2,384,223</u>		<u>18,676,326</u>
Net assets released from restrictions through:								
Satisfaction of time restrictions	3,579,329	(3,579,329)		0	6,453,881	(6,453,881)		0
Satisfaction of program restrictions	<u>1,006,333</u>	<u>(1,006,333)</u>		<u>0</u>	<u>1,091,930</u>	<u>(1,091,930)</u>		<u>0</u>
Total support and revenue	<u>25,576,677</u>	<u>(2,180,158)</u>		<u>23,396,519</u>	<u>23,837,914</u>	<u>(5,161,588)</u>		<u>18,676,326</u>
Expenses:								
Program:								
Scientific research funded by grants	9,449,416			9,449,416	10,116,083			10,116,083
Research support	2,028,162			2,028,162	1,511,460			1,511,460
Research administration	331,421			331,421	332,434			332,434
Facilities - scientific	<u>1,633,267</u>			<u>1,633,267</u>	<u>1,578,055</u>			<u>1,578,055</u>
Total program expense	<u>13,442,266</u>			<u>13,442,266</u>	<u>13,538,032</u>			<u>13,538,032</u>
Management and general:								
General administration	2,384,096			2,384,096	2,446,115			2,446,115
Facilities - management and general	<u>205,200</u>			<u>205,200</u>	<u>195,775</u>			<u>195,775</u>
Total management and general	<u>2,589,296</u>			<u>2,589,296</u>	<u>2,641,890</u>			<u>2,641,890</u>
Depreciation	<u>1,170,923</u>			<u>1,170,923</u>	<u>1,158,301</u>			<u>1,158,301</u>
Fund-raising	<u>177,277</u>			<u>177,277</u>	<u>569,737</u>			<u>569,737</u>
Total expenses	<u>17,379,762</u>			<u>17,379,762</u>	<u>17,907,960</u>			<u>17,907,960</u>
Change in net assets	8,196,915	(2,180,158)		6,016,757	5,929,954	(5,161,588)		768,366
Net assets - July 1	38,303,177	8,624,645	\$ 5,000,000	51,927,822	32,373,223	13,786,233	\$ 5,000,000	51,159,456
Transfer of net assets due to change in law (Note A[14])	<u>(162,468)</u>	<u>162,468</u>		<u>0</u>				
Net assets - June 30	\$ 46,337,624	\$ 6,606,955	\$ 5,000,000	\$ 57,944,579	\$ 38,303,177	\$ 8,624,645	\$ 5,000,000	\$ 51,927,822

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,							
	2011				2010			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 4,917,709	\$ 1,256,726	\$ 114,527	\$ 6,288,962	\$ 4,886,299	\$ 1,234,780	\$ 141,547	\$ 6,262,626
Employee benefits and payroll taxes	1,934,603	533,336	48,559	2,516,498	1,903,668	573,095	67,943	2,544,706
Laboratory supplies	1,423,786			1,423,786	1,624,544			1,624,544
Core facilities expense	286,160			286,160	301,172			301,172
Animal services	229,202			229,202	343,481			343,481
Professional fees	333,823	525,587		859,410	744,475	544,760	216,000	1,505,235
Office expense	46,354	64,184	5,790	116,328	88,684	69,978	20,506	179,168
Occupancy expense	650,733	106,187		756,920	587,906	96,241		684,147
Insurance expense	241,695	38,262		279,957	233,125	36,905		270,030
Telecommunications	11,365	44,827		56,192	18,291	44,072		62,363
Travel and meetings	267,872	14,243	634	282,749	292,595	34,338	113,846	440,779
Books and subscriptions	34,811	1,374	7,767	43,952	26,086	1,222	9,895	37,203
Maintenance expenses	382,790	4,570		387,360	418,040	6,499		424,539
Radiation safety and disposal	20,304			20,304	19,060			19,060
Sub-contracts	<u>2,661,059</u>			<u>2,661,059</u>	<u>2,050,606</u>			<u>2,050,606</u>
	<u>13,442,266</u>	<u>2,589,296</u>	<u>177,277</u>	<u>16,208,839</u>	<u>13,538,032</u>	<u>2,641,890</u>	<u>569,737</u>	<u>16,749,659</u>
Depreciation	<u>995,285</u>	<u>175,638</u>		<u>1,170,923</u>	<u>984,556</u>	<u>173,745</u>		<u>1,158,301</u>
	<u>\$ 14,437,551</u>	<u>\$ 2,764,934</u>	<u>\$ 177,277</u>	<u>\$ 17,379,762</u>	<u>\$ 14,522,588</u>	<u>\$ 2,815,635</u>	<u>\$ 569,737</u>	<u>\$ 17,907,960</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>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,016,757	\$ 768,366
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,170,923	1,158,301
Net realized and unrealized gains on investments	(6,822,013)	(2,355,283)
Loss on disposal of equipment	12,744	
Donated securities		(51,892)
Changes in:		
Grant and contract revenues receivable	433,203	1,125,546
Bequest receivable	3,365,316	5,057,962
Prepaid expenses and other assets	(20,892)	109,326
Accounts payable and accrued expenses	215,824	(850,409)
Grant and contract income received in advance	2,622,481	4,079,103
Deferred rent	<u>(5,590)</u>	<u>(5,590)</u>
Net cash provided by operating activities	<u>6,988,753</u>	<u>9,035,430</u>
Cash flows from investing activities:		
Purchases of investments	(6,159,107)	(14,743,522)
Proceeds from sales and maturities of investments	2,763,126	3,549,456
Purchases of property and equipment	<u>(577,401)</u>	<u>(268,997)</u>
Net cash used in investing activities	<u>(3,973,382)</u>	<u>(11,463,063)</u>
Net change in cash and cash equivalents	3,015,371	(2,427,633)
Cash and cash equivalents - July 1	<u>13,750,700</u>	<u>16,178,333</u>
Cash and cash equivalents - June 30	<u>\$ 16,766,071</u>	<u>\$ 13,750,700</u>

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

Notes to Financial Statements June 30, 2011 and 2010

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] Applicability of NYPMIFA:

In September 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the terms of which are applicable to the Center. NYPMIFA principally addresses (i) the management and investment of all of a not-for-profit entity's "institutional funds" (which are mainly the financial assets of the entity and which exclude programmatic assets such as buildings or operating facilities), and (ii) the appropriations by the governing board of earnings derived from both donor-restricted and board-designated endowment funds. In essence, NYPMIFA requires all of the financial resources of the entity to be used in a "prudent" fashion, with the express approval and action of the governing board.

[4] 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.

[5] 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.

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

Notes to Financial Statements June 30, 2011 and 2010

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

[5] Net assets (continued):

(b) Temporarily restricted:

Temporarily restricted net assets represent those resources that are subject to the requirements of NYPMIFA and the use of which has been restricted by donors or state law to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished, or assets are appropriated, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

(c) Permanently restricted:

Permanently restricted net assets represent those resources the principal of which is originally restricted into perpetuity by its donor, the Irene Diamond Fund. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of that donor. Under the terms of NYPMIFA, those earnings are classified as temporarily restricted in the accompanying statements of activities, pending appropriation by the Board of Directors.

[6] 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)

[7] Cash and cash equivalents:

For financial reporting purposes, the Center considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

[8] 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 as determined on 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.

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.

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

Notes to Financial Statements June 30, 2011 and 2010

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

[8] Investments (continued):

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 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.

[9] 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.

[10] Contributions and pledges:

Contributions are recorded as revenue upon the receipt of cash or unconditional pledges. Contributions are considered available for unrestricted use, unless specifically restricted by the donor. Conditional contributions are recorded when the specified conditions have been met.

The Center reports contributions in the temporarily or permanently restricted net-asset category if they are received with donor stipulations or time considerations as to their use. When a donor's restriction is met, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

The Center records bequest income at the time it has an established right to such resources and can estimate the eventual proceeds.

[11] 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, 2011 and 2010, this accrued vacation obligation was approximately \$484,000 and \$465,000, respectively, and was reported as part of accounts payable and accrued expenses in the accompanying statements of financial position.

[12] 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.

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

**Notes to Financial Statements
June 30, 2011 and 2010**

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

[13] Endowment funds:

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

[14] Transfer of net assets due to change in law:

In initially applying the guidance to its donor-restricted endowment fund in existence upon enactment of NYPMIFA, the Center determined that accumulated amounts earned on its donor-restricted endowment fund in excess of appropriation were previously reflected within unrestricted net assets. As a result, a reclassification to temporarily restricted net assets of \$162,468 was reflected within the accompanying statements of activities until such time as they are appropriated for expenditure.

[15] Income tax uncertainties:

The Center is subject to the provisions of the Financial Accounting Standards Board's 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.

[16] 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.

[17] 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.

NOTE B - INVESTMENTS

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

	June 30,			
	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Mutual funds	\$ 24,586,254	\$ 21,455,727	\$ 18,095,002	\$ 17,463,306
U.S. government bonds	1,126,558	1,124,479	773,418	717,229
Equity security funds-of-funds	14,580,171	11,757,316	11,773,546	12,681,851
Other hedge funds-of-funds	<u>5,607,680</u>	<u>3,633,878</u>	<u>5,040,703</u>	<u>3,697,314</u>
	<u>\$ 45,900,663</u>	<u>\$ 37,971,400</u>	<u>\$ 35,682,669</u>	<u>\$ 34,559,700</u>

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

Notes to Financial Statements June 30, 2011 and 2010

NOTE B - INVESTMENTS (CONTINUED)

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

	Year Ended June 30,	
	2011	2010
Interest and dividends	\$ 409,885	\$ 749,799
Net realized gains (losses)	15,719	(1,322,042)
Net unrealized gains	<u>6,806,294</u>	<u>3,677,325</u>
Total investment income	<u>\$ 7,231,898</u>	<u>\$ 3,105,082</u>

Investment management fees, included in professional fees in the accompanying statements of functional expenses, were \$120,925 and \$166,850 at June 30, 2011 and 2010, 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, (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.

Investments classified in Level 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 3 is based on the Center's ability to redeem its interest at or near June 30, 2011. 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 AARON DIAMOND AIDS RESEARCH CENTER FOR THE CITY OF NEW YORK, INC.

**Notes to Financial Statements
June 30, 2011 and 2010**

NOTE B - INVESTMENTS (CONTINUED)

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

	June 30,					
	2011			2010		
	Level 1	Level 3	Total	Level 1	Level 3	Total
Mutual funds	\$ 24,586,254		\$ 24,586,254	\$ 18,095,002		\$ 18,095,002
U.S. government bonds	1,126,558		1,126,558	773,418		773,418
Equity security funds-of-funds		\$ 14,580,171	14,580,171		\$ 11,773,546	11,773,546
Other hedge funds-of-funds		5,607,680	5,607,680		5,040,703	5,040,703
Total funds	<u>\$ 25,712,812</u>	<u>\$ 20,187,851</u>	<u>\$ 45,900,663</u>	<u>\$ 18,868,420</u>	<u>\$ 16,814,249</u>	<u>\$ 35,682,669</u>

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

	June 30,					
	2011			2010		
	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	\$ 11,773,546	\$ 5,040,703	\$ 16,814,249	\$ 9,160,298	\$ 6,819,716	\$ 15,980,014
Purchases	1,298,304	200,000	1,498,304	2,090,640	175,000	2,265,640
Sales	(2,413,725)	(82,794)	(2,496,519)	(250,392)	(2,908,146)	(3,158,538)
Realized gains (losses)	190,886	(180,642)	10,244	(81)	(1,328,444)	(1,328,525)
Unrealized gains	<u>3,731,160</u>	<u>630,413</u>	<u>4,361,573</u>	<u>773,081</u>	<u>2,282,577</u>	<u>3,055,658</u>
Ending balance - June 30	<u>\$ 14,580,171</u>	<u>\$ 5,607,680</u>	<u>\$ 20,187,851</u>	<u>\$ 11,773,546</u>	<u>\$ 5,040,703</u>	<u>\$ 16,814,249</u>

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

	June 30, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity security funds-of-funds	\$ 14,580,171	\$ 0	Quarterly	90 days
Other hedge funds-of-funds	<u>5,607,680</u>	<u>0</u>	Quarterly	90 days
	<u>\$ 20,187,851</u>	<u>\$ 0</u>		

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

Notes to Financial Statements June 30, 2011 and 2010

NOTE C - PROPERTY AND EQUIPMENT

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

	June 30,	
	2011	2010
Leasehold improvements	\$ 18,928,390	\$ 18,838,143
Equipment and laboratory accessories	5,498,440	5,498,499
Office furniture and equipment	<u>3,214,106</u>	<u>2,743,112</u>
	27,640,936	27,079,754
Less accumulated depreciation and amortization	<u>(22,798,036)</u>	<u>(21,630,588)</u>
	<u>\$ 4,842,900</u>	<u>\$ 5,449,166</u>

Depreciation expense was \$1,170,923 and \$1,158,301 for fiscal-years 2011 and 2010, respectively. During fiscal-year 2011, the Center disposed of equipment with a cost basis of \$16,219, resulting in a loss of \$12,744.

NOTE D - GRANT AND CONTRACT REVENUES RECEIVABLE

Grant and contract revenues receivable were \$1,125,068 and \$1,558,271 for fiscal-years 2011 and 2010, 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 June 30, 2010, the bequest receivable was estimated to be due as follows:

Gross amount due in:	
One year	\$ 1,193,110
One to five years	<u>2,386,219</u>
	3,579,329
Less discount to present value at a rate of 6.5%	<u>(214,013)</u>
	<u>\$ 3,365,316</u>

During fiscal-year 2011, the receipt of payments was accelerated and the bequest was received in full.

NOTE F - REVENUE FROM SCIENTIFIC ACTIVITIES

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

	Year Ended June 30,	
	2011	2010
National Institutes of Health:		
Direct programs	\$ 5,319,271	\$ 6,645,246
Grants passed through various universities	744,513	1,037,391
Nongovernmental grants	4,964,856	4,536,426
Chinese AIDS Initiative and other	952,890	1,137,725
Revenue from clinical trials	<u>99,632</u>	<u>142,579</u>
	<u>\$ 12,081,162</u>	<u>\$ 13,499,367</u>

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

Notes to Financial Statements June 30, 2011 and 2010

NOTE F - REVENUE FROM SCIENTIFIC ACTIVITIES (CONTINUED)

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:

	Year Ended June 30,	
	2011	2010
National Institutes of Health:		
Direct programs	\$ 1,918,499	\$ 2,397,243
Grants passed through various universities	306,104	316,247
Nongovernmental grants	503,685	500,020
Chinese AIDS Initiative and other	<u>229,928</u>	<u>204,309</u>
	<u>\$ 2,958,216</u>	<u>\$ 3,417,819</u>

NOTE G - EMPLOYEE-BENEFIT 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 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 2011 and 2010 was approximately \$752,000 and \$713,000, 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 2011 and 2010 was \$15,500 for each fiscal year.

[3] Health insurance:

The Center provides health insurance benefits to all of its employees through a partially self-funded plan. The plan is administered by a third party. The Center self-funds the cost of the program up to specified stop-loss insurance limits. Coverage during the policy period limits the maximum individual and aggregate losses. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The reserve at June 30, 2011 is approximately \$60,000 and is included in accounts payable and accrued expenses.

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

**Notes to Financial Statements
June 30, 2011 and 2010**

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>2011</u>	<u>2010</u>
AIDS vaccine research	\$ 5,539,319	\$ 5,259,329
Accumulated endowment income reserved for appropriation	1,067,636	
Time-restricted, unrestricted support	<u> </u>	<u>3,365,316</u>
	<u>\$ 6,606,955</u>	<u>\$ 8,624,645</u>

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

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
AIDS vaccine research	\$ 1,006,333	\$ 1,091,930
Time-restricted, unrestricted support	<u>3,579,329</u>	<u>6,453,881</u>
	<u>\$ 4,585,662</u>	<u>\$ 7,545,811</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 Directors to function as endowment.

[2] Interpretation of relevant law:

As discussed in Note A[3], NYPMIFA is applicable to all of the Center's institutional funds, including its donor-restricted and board-designated endowment funds. The Board of Directors will continue to adhere to NYPMIFA's requirements.

[3] Endowment net-asset composition by type of fund for each year was as follows:

	<u>June 30, 2011 (NYPMIFA)</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund		\$ 1,067,636	\$ 5,000,000	\$ 6,067,636
Board-designated endowment fund	<u>\$ 13,848,758</u>	<u> </u>	<u> </u>	<u>13,848,758</u>
Total funds	<u>\$ 13,848,758</u>	<u>\$ 1,067,636</u>	<u>\$ 5,000,000</u>	<u>\$ 19,916,394</u>

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

**Notes to Financial Statements
June 30, 2011 and 2010**

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[3] Endowment net-asset composition by type of fund for each year was as follows (continued):

	<u>June 30, 2010 (UMIFA)</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund		\$ 5,000,000	\$ 5,000,000
Board-designated endowment fund	\$ 12,044,392		12,044,392
Total funds	<u>\$ 12,044,392</u>	<u>\$ 5,000,000</u>	<u>\$ 17,044,392</u>

[4] Changes in endowment net assets for each year were as follows:

	<u>June 30, 2011 (NYPMIFA)</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 12,044,392		\$ 5,000,000	\$ 17,044,392
Investment income	2,442,939		905,168	3,348,107
Other transfers		\$ 905,168	(905,168)	0
Appropriation of endowment assets for expenditure	(638,573)			(638,573)
Transfers of net asset due to change in law (See Note A[14])		<u>162,468</u>		<u>162,468</u>
Endowment net assets, end of year	<u>\$ 13,848,758</u>	<u>\$ 1,067,636</u>	<u>\$ 5,000,000</u>	<u>\$ 19,916,394</u>

	<u>June 30, 2010 (UMIFA)</u>			<u>Total</u>
	<u>Unrestricted Losses</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ (463,649)	\$ 11,440,691	\$ 5,000,000	\$ 15,977,042
Investment income		1,309,025	990,567	2,299,592
Appropriation of endowment assets for expenditure		(705,324)	(526,918)	(1,232,242)
Absorption of losses	<u>463,649</u>		<u>(463,649)</u>	<u>0</u>
Endowment net assets, end of year	<u>\$ 0</u>	<u>\$ 12,044,392</u>	<u>\$ 5,000,000</u>	<u>\$ 17,044,392</u>

[5] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Center has no responsibility to restore such decrease in value.

[6] Return objectives and risk parameters:

The Center's endowment assets are invested in a manner intended to produce a positive return on invested assets, while assuming a moderate level of investment risk. Actual returns in any given year may vary, depending on investment strategies and economic conditions.

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

Notes to Financial Statements June 30, 2011 and 2010

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[7] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return 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 equity-based investments to achieve its long-term return objectives within prudent risk constraints.

[8] 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 reserved in temporarily restricted net assets until appropriated. 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 increased 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 2011 and 2010 was \$376,956 and \$232,780, respectively.

[2] Facility contract:

In October 2007, the Center entered into a three-year facility-management contract ending October 2011. The remaining payments under the contract through October 2013 amounted to \$645,904 as of June 30, 2011.

[3] Employment agreement:

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

[4] Government-funded activities:

Government-funded activities are subject to audit by the applicable granting agencies. At June 30, 2011, 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.

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

**Notes to Financial Statements
June 30, 2011 and 2010**

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.