

CONSOLIDATED FINANCIAL STATEMENTS

Elizabeth Glaser Pediatric AIDS Foundation  
Years Ended December 31, 2008 and 2007  
With Report of Independent Auditors

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

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## Report of Independent Auditors

Board of Directors  
Elizabeth Glaser Pediatric AIDS Foundation

We have audited the accompanying consolidated statements of financial position of Elizabeth Glaser Pediatric AIDS Foundation (the Foundation) as of December 31, 2008 and 2007, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included 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 the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management 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 referred to above present fairly, in all material respects, the consolidated financial position of the Foundation at December 31, 2008 and 2007, and the consolidated 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Ernst & Young LLP*

June 22, 2009

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,059,635	\$ 14,088,736
Restricted cash at field offices	1,325,520	2,528,358
Investments	18,525	3,010
Due from government agencies	10,980,410	6,460,625
Contributions receivable	483,213	2,051,330
Other receivables	1,571,301	846,552
Charitable remainder trust contributions receivable	2,633,380	689,827
Prepaid expenses and other assets	4,505,421	3,373,302
Prepaid pharmaceuticals	5,316	559,161
Property and equipment, less accumulated depreciation of \$1,442,883 and \$1,171,854 at December 31, 2008 and 2007, respectively	474,596	699,332
Total assets	<u>\$ 30,057,317</u>	<u>\$ 31,300,233</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,279,411	\$ 4,038,342
Grants payable – private	5,060,370	5,590,783
Grants payable – federal	5,989,467	6,749,992
Deferred revenue – pharmaceuticals	5,316	559,161
Deferred private grant revenue	2,339,302	4,399,970
Deferred rent	276,994	280,701
Total liabilities	<u>18,950,860</u>	<u>21,618,949</u>
Net assets:		
Unrestricted	5,379,583	2,057,100
Temporarily restricted	5,635,120	7,533,006
Permanently restricted	91,754	91,178
Total net assets	<u>11,106,457</u>	<u>9,681,284</u>
Total liabilities and net assets	<u>\$ 30,057,317</u>	<u>\$ 31,300,233</u>

*See accompanying notes.*

# Elizabeth Glaser Pediatric AIDS Foundation

## Consolidated Statements of Activities

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Contributions	\$ 10,183,425	\$ 2,796,118	\$ 576	\$ 12,980,119
Private grant revenue	7,430,838	—	—	7,430,838
Government grants	99,381,486	—	—	99,381,486
Investment income	90,096	—	—	90,096
Other income	36	—	—	36
Contributed services	889,199	—	—	889,199
Net assets released from restrictions	4,694,004	(4,694,004)	—	—
Total public support and revenue	122,669,084	(1,897,886)	576	120,771,774
Expenses:				
Program services:				
International Family AIDS Initiative	98,201,665	—	—	98,201,665
HIV/AIDS research, grants and awards	2,911,892	—	—	2,911,892
Glaser Pediatric Research Network	721,424	—	—	721,424
Communications	1,203,429	—	—	1,203,429
Public policy	500,628	—	—	500,628
Total program services	103,539,038	—	—	103,539,038
Supporting services:				
Management, general and administrative	12,150,446	—	—	12,150,446
Fund-raising	3,657,117	—	—	3,657,117
Total supporting services	15,807,563	—	—	15,807,563
Total expenses	119,346,601	—	—	119,346,601
Changes in net assets	3,322,483	(1,897,886)	576	1,425,173
Net assets at beginning of year	2,057,100	7,533,006	91,178	9,681,284
Net assets at end of year	\$ 5,379,583	\$ 5,635,120	\$ 91,754	\$ 11,106,457

See accompanying notes.

# Elizabeth Glaser Pediatric AIDS Foundation

## Consolidated Statements of Activities

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Contributions	\$ 6,901,796	\$ 5,161,780	\$ 720	\$ 12,064,296
Private grant revenue	3,621,570			3,621,570
Government grants	84,069,510	—	—	84,069,510
Investment income	252,815	—	—	252,815
Other income	1,371	—	—	1,371
Contributed services	513,591	—	—	513,591
Net assets released from restrictions	5,995,208	(5,995,208)	—	—
Total public support and revenue	101,355,861	(833,428)	720	100,523,153
Expenses:				
Program services:				
International Family AIDS Initiative	81,690,445	—	—	81,690,445
HIV/AIDS research, grants and awards	2,958,543	—	—	2,958,543
Glaser Pediatric Research Network	1,418,387	—	—	1,418,387
Communications	1,170,348	—	—	1,170,348
Public policy	637,351	—	—	637,351
Total program services	87,875,074	—	—	87,875,074
Supporting services:				
Management, general and administrative	9,865,815	—	—	9,865,815
Fund-raising	3,463,031	—	—	3,463,031
Total supporting services	13,328,846	—	—	13,328,846
Total expenses	101,203,920	—	—	101,203,920
Changes in net assets	151,941	(833,428)	720	(680,767)
Net assets at beginning of year	1,905,159	8,366,434	90,458	10,362,051
Net assets at end of year	\$ 2,057,100	\$ 7,533,006	\$ 91,178	\$ 9,681,284

See accompanying notes.

# Elizabeth Glaser Pediatric AIDS Foundation

## Consolidated Statements of Functional Expenses

Year Ended December 31, 2008

	International Family AIDS Initiative	Research, Grants and Awards	Glaser Pediatric Research Network	Communications	Public Policy	Total Program Services	Management, General and Administrative	Fund-raising	Total
Salary	\$ 14,146,915	\$ 575,876	\$ 78,209	\$ 657,774	\$ 307,434	\$ 15,766,208	\$ 3,670,879	\$ 833,080	\$ 20,270,167
Employee benefits and payroll taxes	6,945,406	217,284	23,327	230,511	116,077	7,532,605	1,598,122	321,143	9,451,870
Depreciation	—	—	1,868	—	—	1,868	269,161	—	271,029
Insurance – business liability	257,870	71	10,717	—	—	268,658	184,810	—	453,468
Office expenses	4,539,607	40,924	5,339	55,568	33,199	4,674,637	1,331,726	100,569	6,106,932
Postage and shipping	108,285	3,392	2,203	9,925	197	124,002	63,397	30,617	218,016
Rent and utilities	801,683	4,997	—	—	—	806,680	1,168,360	—	1,975,040
Telephone	542,623	11,045	4,265	18,671	5,117	581,721	286,898	7,737	876,356
Advertising/promotion/press	5,631	—	—	5,767	—	11,398	—	8,107	19,505
Bank and merchant fees	25,171	125	6,001	—	—	31,297	157,709	98,048	287,054
Conference and training	5,023,904	15,529	(2,000)	7,179	8,857	5,053,469	156,770	10,655	5,220,894
Contract and professional services	3,663,124	110,715	37,500	155,785	383	3,967,507	2,150,019	719,552	6,837,078
Repairs and maintenance	582,303	1,058	—	—	—	583,361	438,324	—	1,021,685
State registration	—	—	(10)	—	—	(10)	(148)	2,147	1,989
Travel	3,838,496	74,062	—	57,439	29,364	3,999,361	493,360	110,588	4,603,309
Contributed services	32,900	—	—	4,810	—	37,710	181,059	607,995	826,764
Grant expenses	57,687,747	1,856,814	554,005	—	—	60,098,566	—	—	60,098,566
Event underwriting	—	—	—	—	—	—	—	806,879	806,879
Total expenses	\$ 98,201,665	\$ 2,911,892	\$ 721,424	\$ 1,203,429	\$ 500,628	\$ 103,539,038	\$ 12,150,446	\$ 3,657,117	\$ 119,346,601

See accompanying notes.

Elizabeth Glaser Pediatric AIDS Foundation  
Consolidated Statements of Functional Expenses

Year Ended December 31, 2007

	International Family AIDS Initiative	Research, Grants and Awards	Glaser Pediatric Research Network	Communications	Public Policy	Total Program Services	Management, General and Administrative	Fund-raising	Total
Salary	\$ 10,856,800	\$ 157,967	\$ 70,196	\$ 543,423	\$ 374,624	\$ 12,003,010	\$ 2,665,637	\$ 749,816	\$ 15,418,463
Employee benefits and payroll taxes	5,099,215	61,384	30,605	211,170	145,576	5,547,950	1,037,469	291,371	6,876,790
Depreciation	—	—	1,245	—	—	1,245	188,924	—	190,169
Insurance – business liability	147,242	—	56,424	—	—	203,666	98,861	4,000	306,527
Office expenses	3,700,090	5,504	3,152	152,883	26,601	3,888,230	1,001,431	141,551	5,031,212
Postage and shipping	139,873	792	4,181	8,795	148	153,789	51,434	26,259	231,482
Rent and utilities	628,875	—	15,210	—	—	644,085	1,026,949	552	1,671,586
Telephone	373,575	4,838	5,210	7,495	1,986	393,104	167,777	8,772	569,653
Advertising/promotion/press	11,050	—	—	59,820	180	71,050	—	7,382	78,432
Bank and merchant fees	25,495	—	5,890	—	—	31,385	119,791	65,731	216,907
Conference and training	3,030,924	9,605	—	4,586	5,377	3,050,492	84,735	7,102	3,142,329
Contract and professional services	2,863,261	—	324,630	121,097	69,614	3,378,602	2,759,941	958,148	7,096,691
Repairs and maintenance	187,012	—	—	—	—	187,012	379,121	—	566,133
State registration	—	—	254	—	—	254	5,079	28	5,361
Travel	2,941,067	19,605	1,183	42,932	13,245	3,018,032	211,532	118,960	3,348,524
Contributed services	5,479	—	—	18,147	—	23,626	67,134	379,203	469,963
Grant expenses	51,680,487	2,698,848	900,207	—	—	55,279,542	—	—	55,279,542
Event underwriting	—	—	—	—	—	—	—	704,156	704,156
Total expenses	\$ 81,690,445	\$ 2,958,543	\$ 1,418,387	\$ 1,170,348	\$ 637,351	\$ 87,875,074	\$ 9,865,815	\$ 3,463,031	\$ 101,203,920

See accompanying notes.



# Elizabeth Glaser Pediatric AIDS Foundation

## Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Changes in net assets	\$ 1,425,173	\$ (680,767)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	271,029	190,169
Net realized and unrealized loss on investments	8,586	13,631
Donated stock	(52,867)	(62,238)
Changes in operating assets and liabilities:		
Restricted cash at field offices	1,202,838	(384,940)
Contributions receivable	1,568,117	(924,896)
Other receivables	(724,749)	1,002,141
Charitable remainder trust contributions receivable	(1,943,553)	(41,336)
Due from government agencies	(5,073,630)	(721,459)
Prepaid expenses and other assets	(1,132,119)	(1,304,404)
Prepaid pharmaceuticals	553,845	828,106
Accounts payable and accrued expenses	1,241,069	1,589,410
Grants payable – private	(530,413)	1,566,494
Grants payable – federal	(760,525)	1,903,166
Deferred private grant revenue	(2,060,668)	965,960
Deferred rent	(3,707)	51,611
Net cash provided by (used in) operating activities	(6,011,574)	3,990,648
<b>Investing activities</b>		
Purchases of property and equipment	(46,294)	(63,707)
Proceeds from sale of investments	28,767	78,874
Net cash provided by (used in) investing activities	(17,527)	15,167
Net change in cash and cash equivalents	(6,029,101)	4,005,815
Cash and cash equivalents at beginning of year	14,088,736	10,082,921
Cash and cash equivalents at end of year	\$ 8,059,635	\$ 14,088,736

*See accompanying notes.*

# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements

December 31, 2008

### **1. Organization**

The Elizabeth Glaser Pediatric AIDS Foundation (the Foundation) is a nonprofit 501(c)(3) organization established in 1988 whose mission is to prevent pediatric HIV infection and to eradicate pediatric AIDS through research, advocacy and prevention and treatment programs. Its research programs, advocacy efforts and international programs are intended to bring dramatic changes to the lives of children worldwide.

The Foundation's financial support is derived through contributions from the United States government, other government and multilateral organizations, individuals, corporations, foundations and unions. In 2002, the Foundation entered into a cooperative agreement with the U.S. Agency for International Development (USAID) and in 2004, the Foundation entered into another cooperative agreement with the Centers for Disease Control and Prevention (CDC). The Foundation has also entered into four bilateral cooperative agreements funded by USAID. All of the Foundation's federal grants support the Foundation's International Family AIDS Initiative to expand its ability to prevent mother-to-child transmission of HIV through counseling, testing and preventive treatments in the developing world, and to expand the scope of the project to include care and treatment to mothers and families at many of its sites.

Other program activities during 2008 include the Foundation's HIV/AIDS research programs to identify, fund and conduct critical pediatric research leading to better treatments and prevention of HIV infection in infants and children; and the Glaser Pediatric Research Network (the Network), a program for non-HIV research. The Network was established in March 2000 and was sponsored by the Elizabeth Glaser Pediatric Research Foundation (EGPRF), a 501(c)(3) organization also incorporated in March 2000. The Network and EGPRF ceased ongoing operations on December 31, 2008.

### **2. Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its subsidiaries, EGPRF and the Network. All significant balances and transactions among the entities have been eliminated in the accompanying consolidated financial statements.

#### Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. Substantially all cash equivalents are held in a short-term money market account with a bank.

#### Restricted Cash at Field Offices

Restricted cash represents monies held in overseas field offices to be used for operating expenses. These accounts consist of petty cash accounts, U.S. dollar accounts, host country denomination accounts and travel advances to host country staff. Should an overseas field office shut down, these monies would be spent to cover the cost of closing the program in country.

#### Investments

Investments are recorded at fair value based upon quoted market price. Donated assets are recorded at fair value at the date of donation or, if sold immediately upon receipt, at the amount of the sales proceeds received (which are considered a fair measure of the value at the date of the donation).

#### Property and Equipment

Property and equipment are stated at cost or fair value at date of donation. Depreciation is computed on the straight-line basis over the following estimated useful lives of the related assets:

Furniture and fixtures	5 years
Computers and equipment	3 years
Automobile	5 years

#### Leasehold and Tenant Improvements

Tenant improvements are recorded at cost and are amortized over the lesser of the term of the related lease or the life of the asset using the straight-line method.

## Elizabeth Glaser Pediatric AIDS Foundation

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Split-Interest Agreements**

Split-interest agreements with donors consist solely of beneficial interests in irrevocable remainder trusts. The charitable remainder trusts are included in charitable remainder trust contributions receivable at the present value of the estimated future benefits to be received when the trust assets are distributed. Contribution revenue is recognized at the date the Foundation becomes aware that the trust has become irrevocable. The receivable is adjusted during the term of the trust for the accretion of discounts, revaluation of the present value of the estimated future payments to the current beneficiaries and changes in life expectancies. The change in split-interest is recorded as contribution revenue. The discount rates used to calculate the present value of the estimated future benefits at December 31, 2008 and 2007, approximated 3% and 4.5%, respectively, and the expected rate of return on trust assets ranged from approximately 3% to 8%. The change in the value of split-interest agreements recognized for charitable remainder trusts was \$(56,447) and \$41,336 in 2008 and 2007, respectively.

##### **Grants Payable**

“Grants payable – private” are grants made primarily to other research and partner organizations and are accrued when the Foundation makes a legally enforceable commitment to the organization. Grants are generally made for a term of one to three years.

For grants that are for a period of more than one year, the future years’ portions, if considered conditional, are recorded in a future year based on specific criteria such as management review and approval against certain reporting requirements and the receipt of future funding to the Foundation.

“Grants payable – federal” are payments due to sub-recipients for expenses incurred through December 31, 2008.

##### **Prepaid Pharmaceuticals**

Under the Foundation’s government grants, payments are made in advance of receipt of the medications and other supplies. The Foundation records these payments as prepaid pharmaceuticals. When the Foundation receives or takes on the risk of ownership of the medications or supplies, the expenditure is recognized.

# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Net Asset Classification

The Foundation's net assets are classified as follows:

- Unrestricted net assets – Unrestricted net assets result from revenues derived from unrestricted contributions, investment income and other inflows of assets for which the use is not restricted by donors.
- Temporarily restricted net assets – Temporarily restricted net assets result from contributions and other inflows of assets for which the use is limited by donor-imposed restrictions that require the Foundation to use or expend the assets as specified by the donor. The restrictions are satisfied either by the passage of time or fulfillment of a specific programmatic purpose. When a donor restriction expires, that is when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statements of activities as net assets released from restrictions.
- Permanently restricted net assets – Permanently restricted net assets result from contributions and other inflows of assets for which the use is permanently restricted by donor-imposed restrictions. Income from permanently restricted net assets is classified as either temporarily restricted revenue or unrestricted revenue in accordance with donor stipulations.

#### Revenue Recognition

**Contributions** – The Foundation records contribution revenue at fair value on the earlier of the receipt of cash or an unconditional promise to give. Contributions are recognized as public support pursuant to the terms of the gifts. Unless specifically restricted by the donor, all contributions are considered available for unrestricted use. Noncash gifts are recorded at their fair value. As of December 31, 2008, \$433,213 of the Foundation's total contributions receivable was due within one year, with the remaining \$50,000 due in 2010. The Foundation recorded a discount on the amount due in 2010 equal to \$2,038 using a discount rate of 4.25%

**Exchange Transactions** – Federal grant and private grant awards are recognized as revenue earned to the extent that qualifying expenses have been incurred. Expenses incurred before government funding is received are recognized as due from government agencies.

## Elizabeth Glaser Pediatric AIDS Foundation

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Revenue Recognition (continued)

**Contributed Services** – Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair market value of the services provided. Contributed services primarily consist of donated airline mileage, legal services and printing. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenue and are not reported in the accompanying consolidated financial statements.

**Deferred Revenue – Pharmaceuticals** – Deferred revenue – pharmaceuticals consists of the placement of advance orders for medication and other medical supplies under a government grant. When the supplies are delivered to the program site or the foundation takes on the risk of ownership, the revenue is recognized. The deferred revenue and related due from government agencies are noncash operating activities in the consolidated statements of cash flows.

**Deferred Revenue – Private Grants** – Deferred revenue – private grants consist of grants from private donors. Once all time or program restrictions have been fulfilled, the revenue is recognized.

##### Income Taxes

The Foundation is exempt from federal income and state franchise taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and corresponding state revenue and taxation statutes, except for any federal income that may be a result of unrelated business transactions. Accordingly, no provision for income taxes is required.

##### Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements under GAAP and is effective for fiscal years beginning after November 15, 2007.

## Elizabeth Glaser Pediatric AIDS Foundation

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Fair Value Measurements (continued)

SFAS 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model.

##### Recent Pronouncements

The Foundation adopted SFAS 157 effective January 1, 2008. There was no transition adjustment to beginning net assets.

In February 2007, the FASB issued FASB Statement No. 159, *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value. Statement 159 is effective for fiscal years beginning on or after December 31, 2007. Management has elected not to adopt the provisions of Statement 159.

In August 2008, the FASB issued FASB Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. The provisions of this FSP are effective for fiscal years ending after December 15, 2008. The Foundation adopted FSP 117-1 in the year beginning January 1, 2008. Adoption of FAS 117-1 had no material impact in 2008.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48 *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Additionally, the tax benefit from an uncertain tax position must be recognized only if it is more-likely-than-not that the tax position will be sustained upon examination by the tax authorities. There has been no impact on the Foundation because of implementation.

# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements (continued)

### 3. Property and Equipment

Property and equipment consisted of the following:

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
Furniture and fixtures	\$ 596,327	\$ 596,327
Computers and equipment	900,863	876,470
Automobile	79,097	57,197
Leasehold and tenant improvements	341,192	341,192
	<b>1,917,479</b>	<b>1,871,186</b>
Less: accumulated depreciation	<b>(1,442,883)</b>	<b>(1,171,854)</b>
Property and equipment, net	<b>\$ 474,596</b>	<b>\$ 699,332</b>

Depreciation expense for the years ended December 31, 2008 and 2007, was \$271,029 and \$190,169, respectively.

### 4. Investments

Investments consisted of the following:

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
Donated stocks	\$18,525	\$ 3,010
	<b>\$18,525</b>	<b>\$ 3,010</b>

Investment income consisted of the following:

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
Dividends and interest income, net of investment fees of \$0 and \$820 in 2008 and 2007, respectively	\$ 98,682	\$ 266,446
Realized and unrealized (losses) gains	<b>(8,586)</b>	<b>(13,631)</b>
Total	<b>\$ 90,096</b>	<b>\$ 252,815</b>



# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements (continued)

### 5. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following purpose-restricted and time-restricted amounts:

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
Purpose-restricted amounts:		
International Family AIDS Initiatives	\$ 4,611,544	\$ 6,361,980
Outside events	46,574	47,610
Other	9,859	328,189
Basic research	377,851	37,851
	<u>5,045,828</u>	<u>6,775,630</u>
Time-restricted amounts:		
Assets held in charitable remainder trusts	589,292	757,376
	<u>\$ 5,635,120</u>	<u>\$ 7,533,006</u>

### 6. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
Beneficial interest in perpetual trust	\$ 91,754	\$ 91,178
	<u>\$ 91,754</u>	<u>\$ 91,178</u>

# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements (continued)

### 7. Private and Federal Grants Payable

The multiyear grants payable consisted of the following:

	December 31	
	2008	2007
Private grants payable:		
Elizabeth Glaser Scientist Awards	\$ 1,024,186	\$ 2,002,209
International Family AIDS Initiative – private	3,451,333	2,658,229
International Leadership Award	584,851	919,120
Scholar awards	–	11,225
Total grants payable – private	<u>\$ 5,060,370</u>	<u>\$ 5,590,783</u>
Federal grants payable:		
International Family AIDS Initiative	\$ 5,989,467	\$ 6,749,992
Total grants payable – federal	<u>\$ 5,989,467</u>	<u>\$ 6,749,992</u>

### 8. Fair Value Measurements

On January 1, 2008, the Foundation adopted SFAS 157 as discussed in Note 2, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Foundation primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Foundation is able to classify fair value balances based on the observability of those inputs.

The fair value levels are as follows:

- **Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

# Elizabeth Glaser Pediatric AIDS Foundation

## Notes to Consolidated Financial Statements (continued)

### 8. Fair Value Measurements (continued)

- **Level 2** – Pricing inputs are other-than-quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies.
- **Level 3** – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The following table sets forth by level within the fair value hierarchy the Foundation's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value at December 31 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	\$ 18,525	\$ 18,525	\$ –	\$ –
Contributions receivable	483,213	–	–	483,213
Split-interest agreements	2,633,380	–	–	2,633,380
Total assets	<u>\$ 3,135,118</u>	<u>\$ 18,525</u>	<u>\$ –</u>	<u>\$ 3,116,593</u>

The fair value of investments is determined by third-party service providers utilizing various methods dependent upon the specific type of investment. When quoted prices are available in the active market, securities are classified within Level 1 of the valuation hierarchy.

## Elizabeth Glaser Pediatric AIDS Foundation

### Notes to Consolidated Financial Statements (continued)

#### 9. Pension Benefits

The Foundation has a defined contribution retirement plan (the Plan) under Section (403)(b) of the IRC. The effective date of the Plan is January 1, 2006. Employees, as defined, are eligible to participate in the Plan after they have completed 90 days of service and attainment of age 21. Benefits are not subject to, nor covered by, federal plan termination insurance. The Foundation will match the employee's contribution dollar for dollar up to a maximum 5% of eligible compensation per pay period. Employees are immediately vested 100% in their own contributions and become vested over a three-year period in the Foundation's matching contributions. Total employer contributions to the Plan for the year ended December 31, 2008 and 2007, were \$328,379 and \$304,693, respectively.

#### 10. Commitments and Contingencies

##### Leases

The Foundation leases office facilities and copiers under operating leases that expire on various dates through September 2013. Future minimum lease payments by year and in the aggregate, under noncancelable operating leases, consisted of the following at December 31, 2008:

2009	\$ 1,149,852
2010	1,181,983
2011	1,059,993
2012	921,060
Thereafter	811,705
	<u>\$ 5,124,593</u>

Rent expense for the years ended December 31, 2008 and 2007, was \$1,238,652 and \$1,006,469, respectively.

##### Federal Programs

Amounts received and expended by the Foundation under various federal programs are subject to audit by government agencies. Management believes that adjustments, if any, that might result from such audits would not have a material impact on the consolidated financial position of the Foundation.