

CONSOLIDATED FINANCIAL STATEMENTS

Elizabeth Glaser Pediatric AIDS Foundation
Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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Report of Independent Auditors

The 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, 2009 and 2008, and the related 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 audit.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2009 and 2008, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2010 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 audit.

Ernst & Young LLP

June 10, 2010

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Financial Position

	December 31	
	2009	2008
Assets		
Cash and cash equivalents	\$ 1,234,917	\$ 8,059,635
Restricted cash at field offices	3,309,570	1,325,520
Investments	2,031,146	18,525
Due from government agencies	15,754,428	10,980,410
Contributions receivable	484,832	483,213
Other receivables	2,062,653	1,571,301
Charitable remainder trust contributions receivable	2,360,106	2,633,380
Prepaid expenses and other assets	4,514,417	4,505,421
Prepaid pharmaceuticals	—	5,316
Property and equipment, less accumulated depreciation of \$1,591,982 and \$1,442,883 at December 31, 2009 and 2008, respectively	233,709	474,596
Total assets	<u>\$ 31,985,778</u>	<u>\$ 30,057,317</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,317,586	\$ 5,279,411
Grants payable – private	4,934,054	5,060,370
Grants payable – federal	10,100,356	5,989,467
Deferred revenue – pharmaceuticals	—	5,316
Deferred revenue – private grants	3,354,271	2,339,302
Deferred rent	271,954	276,994
Total liabilities	<u>23,978,221</u>	<u>18,950,860</u>
Net assets:		
Unrestricted	6,044,485	5,379,583
Temporarily restricted	1,870,847	5,635,120
Permanently restricted	92,225	91,754
Total net assets	<u>8,007,557</u>	<u>11,106,457</u>
Total liabilities and net assets	<u>\$ 31,985,778</u>	<u>\$ 30,057,317</u>

See accompanying notes.

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Activities

Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Contributions	\$ 5,942,174	\$ 666,985	\$ 471	\$ 6,609,630
Private grant revenue	7,001,797	—	—	7,001,797
Government grants	113,964,669	—	—	113,964,669
Investment income	(6,253)	—	—	(6,253)
Other income	20,878	—	—	20,878
Contributed services	131,287	—	—	131,287
Net assets released from restrictions	4,431,258	(4,431,258)	—	—
Total public support and revenue	131,485,810	(3,764,273)	471	127,722,008
Expenses:				
Program services:				
Program implementation	109,263,332	—	—	109,263,332
Research	3,212,225	—	—	3,212,225
Communications	1,478,398	—	—	1,478,398
Public policy	538,837	—	—	538,837
Total program services	114,492,792	—	—	114,492,792
Supporting services:				
Management, general and administrative	13,848,297	—	—	13,848,297
Fund-raising	2,479,819	—	—	2,479,819
Total supporting services	16,328,116	—	—	16,328,116
Total expenses	130,820,908	—	—	130,820,908
Changes in net assets	664,902	(3,764,273)	471	(3,098,900)
Net assets at beginning of year	5,379,583	5,635,120	91,754	11,106,457
Net assets at end of year	\$ 6,044,485	\$ 1,870,847	\$ 92,225	\$ 8,007,557

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Activities (continued)

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:				
Program implementation	98,201,665	—	—	98,201,665
Research	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 Functional Expenses

Year Ended December 31, 2009

	International Family AIDS Initiative	Research Grants and Awards	Communications	Public Policy	Total Program Services	Management, General and Administrative	Fund-raising	Total
Salary	\$ 21,350,296	\$ 760,039	\$ 577,750	\$ 304,345	\$ 22,992,430	\$ 5,177,515	\$ 470,819	\$ 28,640,764
Employee benefits and payroll taxes	7,765,428	296,490	210,513	116,607	8,389,038	2,048,443	180,811	10,618,292
Depreciation	—	—	—	—	—	240,887	—	240,887
Insurance – business liability	211,971	460	—	—	212,431	219,203	—	431,634
Office expenses	5,585,707	8,251	70,997	25,844	5,690,799	1,040,479	56,797	6,788,075
Postage and shipping	120,633	2,414	27,814	125	150,986	86,494	25,060	262,540
Rent and utilities	1,043,513	5,683	—	—	1,049,196	1,198,139	—	2,247,335
Telephone	944,625	61,883	35,258	6,568	1,048,334	394,277	5,255	1,447,866
Advertising/promotion/press	28,542	—	25,049	—	53,591	1,769	5,750	61,110
Bank and merchant fees	105,564	638	—	—	106,202	162,500	76,320	345,022
Conference and training	6,768,883	78,585	8,484	2,655	6,858,607	302,632	3,694	7,164,933
Contract and professional services	4,125,188	491,637	368,330	25,051	5,010,206	1,857,010	710,770	7,577,986
Repairs and maintenance	809,003	3,458	—	—	812,461	313,456	20,527	1,146,444
State registration	—	—	—	—	—	4,829	1,300	6,129
Travel	5,458,317	197,185	141,723	57,642	5,854,867	761,208	42,495	6,658,570
Contributed services	3,240	—	4,223	—	7,463	30,732	56,563	94,758
Grant expenses	54,942,253	1,305,502	—	—	56,247,755	—	—	56,247,755
Event underwriting	169	—	8,257	—	8,426	8,724	823,658	840,808
Total expenses	<u>\$ 109,263,332</u>	<u>\$ 3,212,225</u>	<u>\$ 1,478,398</u>	<u>\$ 538,837</u>	<u>\$ 114,492,792</u>	<u>\$ 13,848,297</u>	<u>\$ 2,479,819</u>	<u>\$ 130,820,908</u>

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Functional Expenses (continued)

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 Cash Flows

	Year Ended December 31	
	2009	2008
Operating activities		
Changes in net assets	\$ (3,098,900)	\$ 1,425,173
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	240,887	271,029
Net realized and unrealized loss on investments	10,333	8,586
Donated stock	(51,130)	(52,867)
Changes in operating assets and liabilities:		
Restricted cash at field offices	(1,984,050)	1,202,838
Due from government agencies	(4,779,334)	(5,073,630)
Contributions receivable	(1,619)	1,568,117
Other receivables	(491,352)	(724,749)
Charitable remainder trust contributions receivable	273,274	(1,943,553)
Prepaid expenses and other assets	(8,996)	(1,132,119)
Prepaid pharmaceuticals	5,316	553,845
Accounts payable and accrued expenses	38,175	1,241,069
Grants payable – private	(126,316)	(530,413)
Grants payable – federal	4,110,889	(760,525)
Deferred private grant revenue	1,014,969	(2,060,668)
Deferred rent	(5,040)	(3,707)
Net cash used in operating activities	(4,852,894)	(6,011,574)
Investing activities		
Purchases of property and equipment	–	(46,294)
Purchases of investments	(2,038,730)	–
Proceeds from sale of investments	66,906	28,767
Net cash used in investing activities	(1,971,824)	(17,527)
Net change in cash and cash equivalents	(6,824,718)	(6,029,101)
Cash and cash equivalents at beginning of year	8,059,635	14,088,736
Cash and cash equivalents at end of year	\$ 1,234,917	\$ 8,059,635

See accompanying notes.

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements

December 31, 2009

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 2009 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. In March 2000, the Foundation established the Glaser Pediatric Research Network (the Network), a program for non-HIV research. The Network 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 the 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

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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, 2009 and 2008, approximated 4.6% and 3%, respectively, and the expected rate of return on trust assets ranged from approximately 2% to 8%. The change in the value of split-interest agreements recognized for charitable remainder trusts was \$(35,980) and \$(56,447) in 2009 and 2008, 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, 2009.

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

contributions are considered available for unrestricted use. Noncash gifts are recorded at their fair value. As of December 31, 2009, \$484,832 of the Foundation's total contributions receivable was due within one year.

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.

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.

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 (now ASC 820-10), *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. ASC 820-10 does not require any new fair value measurements under GAAP and is effective for fiscal years beginning after November 15, 2007.

ASC 820-10 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

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of General Accepted Accounting Principles – a replacement of FASB SFAS No. 162*, which was primarily codified into Topic 105, *Generally Accepted Accounting Principles*, in the ASC. ASC Topic 105 identified the sources of and framework for accounting principles used in preparation of financial statements in conformity with GAAP. The ASC is the single official source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. This Statement is to modify the GAAP hierarchy to include two levels of GAAP; authoritative and nonauthoritative. This statement is effective for financial statements issued, the Codification supersedes all the existing non-SEC accounting and reporting standards. Adoption of ASC 105 did not have an effect on the Foundation's financial position of operations. The Foundation has revised its disclosures to incorporate references to the ASC topics.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (Statement 161), a new guidance on disclosures about derivative instruments and hedging activities, included in ASC Topic 815, *Derivatives and Hedging*, which requires enhanced disclosures about objectives and strategies for using derivatives, fair value amounts of and gains and losses on derivative instruments, and credit-risk-related contingent features in derivative agreements.

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Disclosure is not required for earlier periods presented. As the pronouncement only pertains to additional disclosure, the adoption had no effect on the Foundation's results of operations or financial position.

In April 2009, the FASB issued FSP FAS 115-2 and 12402, *Recognition and Presentation of Other-Than-Temporary Impairments*, a new guidance on recognition and presentation of other-than-temporary impairments (OTTI), which is included in ASC Topic 320, *Investment – Debt and Equity Securities*, and requires noncredit losses of debt securities to be recognized in changes in net assets if management asserts that it does not have the intent to sell the security and that it is more likely than not that the entity will not have to sell the security before recovery of the amortized cost basis. It also requires total OTTI from net assets to changes in net assets. Finally, additional interim disclosures for debt and equity securities are required regarding types of securities held, unrealized losses, and OTTI. The Foundation performed an OTTI analysis for equity securities noting no impairments. Management believes no adjustments are required as ASC Topic 320 does not have a material impact on the Foundation's current OTTI recognition procedures.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events*, included in ASC Topic 855, *Subsequent Events*. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It alerts all users of financial statements being presented. This standard is effective for interim or annual periods ending after June 15, 2009. ASC 855 does not have an effect on the Foundation's operations or financial position. In preparing these financial statements, the Foundation's management has evaluated subsequent events through June 10, 2010, the date the financial statements were issued.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update provides amendments to Subtopic 820-10 that requires new disclosures regarding significant transfers in and out of Level 1 and 2 and describing the reasons for transfers, and presenting on a gross basis the rollforward information for Level 3 regarding purchases, sales, issuances, and settlements. The update also provides clarification on fair value measurement disclosures for each class of assets and liabilities. The new standard is effective for fiscal years beginning after December 15, 2009, except disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements.

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management is currently evaluating the provisions of the update.

3. Property and Equipment

Property and equipment consisted of the following:

	December 31	
	2009	2008
Furniture and fixtures	\$ 555,562	\$ 596,327
Computers and equipment	849,839	900,863
Automobile	79,097	79,097
Leasehold and tenant improvements	341,193	341,192
	1,825,691	1,917,479
Less: accumulated depreciation	(1,591,982)	(1,442,883)
Property and equipment, net	\$ 233,709	\$ 474,596

Depreciation expense for the years ended December 31, 2009 and 2008, was \$240,887 and \$271,029, respectively.

4. Investments

Investments consisted of the following:

	December 31	
	2009	2008
Donated stocks	\$ —	\$ 18,525
Certificates of deposit	2,031,146	—
	\$ 2,031,146	\$ 18,525

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Investment income consisted of the following:

	December 31	
	2009	2008
Dividends and interest income, net of investment fees of \$0 in 2009 and 2008	\$ 4,080	\$ 98,682
Realized and unrealized losses	(10,333)	(8,586)
	<u>\$ (6,253)</u>	<u>\$ 90,096</u>

5. Temporarily Restricted Net Assets

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

	December 31	
	2009	2008
Purpose-restricted amounts:		
International Family AIDS Initiatives	\$ 1,384,633	\$ 4,611,544
Outside events	46,574	46,574
Other	29,859	9,859
Basic research	94,414	377,851
	<u>1,555,480</u>	<u>5,045,828</u>
Time-restricted amounts:		
Assets held in charitable remainder trusts	315,367	589,292
	<u>\$ 1,870,847</u>	<u>\$ 5,635,120</u>

6. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	December 31	
	2009	2008
Beneficial interest in perpetual trust	\$ 92,225	\$ 91,754
	<u>\$ 92,225</u>	<u>\$ 91,754</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	
	2009	2008
Private grants payable:		
Elizabeth Glaser Scientist Awards	\$ 514,800	\$ 1,024,186
International Family AIDS Initiative – private	3,735,609	3,451,333
International Leadership Award	683,645	584,851
Total grants payable – private	<u>\$ 4,934,054</u>	<u>\$ 5,060,370</u>
Federal grants payable:		
International Family AIDS Initiative	\$ 10,100,356	\$ 5,989,467
Total grants payable – federal	<u>\$ 10,100,356</u>	<u>\$ 5,989,467</u>

8. Fair Value Measurements

On January 1, 2008, the Foundation adopted ASC 820-10 as discussed in Note 2, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. As defined in ASC 820-10, 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). ASC 820-10 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** – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about what market participants would use in pricing the split interest agreements developed using the best information available.

The following tables set 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, 2009 and 2008. As required by ASC 820-10, 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 Measurements at Reporting Date Using			
	Fair Value at December 31 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	\$ 2,031,146	\$ 2,031,146	\$ –	\$ –
Split-interest agreements	2,360,106	–	–	2,360,106
Total assets	\$ 4,391,252	\$ 2,031,146	\$ –	\$ 2,360,106

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

8. Fair Value Measurements (continued)

	Fair Value Measurements at Reporting Date Using			
	Fair Value at December 31 2008	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.

Summary of Level 3 Investment Activity				
	Fair Value at December 31 2008	Unrealized Gains (Losses)	Transfers In (Out) of Level 3	Fair Value at December 31 2009
Split-interest agreements	<u>\$ 2,633,380</u>	<u>\$ 14,182</u>	<u>\$ (287,456)</u>	<u>\$ 2,360,106</u>

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

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Notes to Consolidated Financial Statements (continued)

9. Pension Benefits (continued)

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, 2009 and 2008, were \$559,745 and \$328,379, 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, 2009:

2010	\$ 1,181,983
2011	1,059,993
2012	921,060
2013	811,705
	<u>\$ 3,974,741</u>

Rent expense for the years ended December 31, 2009 and 2008, was \$1,313,117 and \$1,238,652, 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.