

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

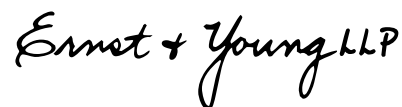
The Board of Directors  
Elizabeth Glaser Pediatric AIDS Foundation

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.



June 10, 2010

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Financial Position

|                                                                                                                                        | <b>December 31</b>   |                      |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                                        | <b>2009</b>          | <b>2008</b>          |
| <b>Assets</b>                                                                                                                          |                      |                      |
| 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<br>\$1,591,982 and \$1,442,883 at December 31, 2009 and 2008,<br>respectively | 233,709              | 474,596              |
| Total assets                                                                                                                           | <b>\$ 31,985,778</b> | <b>\$ 30,057,317</b> |
| <b>Liabilities and net assets</b>                                                                                                      |                      |                      |
| <b>Liabilities:</b>                                                                                                                    |                      |                      |
| 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                                                                                                                      | <b>23,978,221</b>    | <b>18,950,860</b>    |
| <b>Net assets:</b>                                                                                                                     |                      |                      |
| Unrestricted                                                                                                                           | 6,044,485            | 5,379,583            |
| Temporarily restricted                                                                                                                 | 1,870,847            | 5,635,120            |
| Permanently restricted                                                                                                                 | 92,225               | 91,754               |
| Total net assets                                                                                                                       | <b>8,007,557</b>     | <b>11,106,457</b>    |
| Total liabilities and net assets                                                                                                       | <b>\$ 31,985,778</b> | <b>\$ 30,057,317</b> |

*See accompanying notes.*

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Activities

Year Ended December 31, 2009

|                                        | Unrestricted        | Temporarily<br>Restricted | Permanently<br>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       | <u>131,485,810</u>  | <u>(3,764,273)</u>        | <u>471</u>                | <u>127,722,008</u>  |
| 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                 | <u>114,492,792</u>  | <u>-</u>                  | <u>-</u>                  | <u>114,492,792</u>  |
| Supporting services:                   |                     |                           |                           |                     |
| Management, general and administrative | 13,848,297          | -                         | -                         | 13,848,297          |
| Fund-raising                           | 2,479,819           | -                         | -                         | 2,479,819           |
| Total supporting services              | <u>16,328,116</u>   | <u>-</u>                  | <u>-</u>                  | <u>16,328,116</u>   |
| Total expenses                         | <u>130,820,908</u>  | <u>-</u>                  | <u>-</u>                  | <u>130,820,908</u>  |
| 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              | <u>\$ 6,044,485</u> | <u>\$ 1,870,847</u>       | <u>\$ 92,225</u>          | <u>\$ 8,007,557</u> |

Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Activities (continued)

Year Ended December 31, 2008

|                                        | Unrestricted        | Temporarily<br>Restricted | Permanently<br>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       | <u>122,669,084</u>  | <u>(1,897,886)</u>        | <u>576</u>                | <u>120,771,774</u>   |
| 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                 | <u>103,539,038</u>  | <u>-</u>                  | <u>-</u>                  | <u>103,539,038</u>   |
| Supporting services:                   |                     |                           |                           |                      |
| Management, general and administrative | 12,150,446          | -                         | -                         | 12,150,446           |
| Fund-raising                           | 3,657,117           | -                         | -                         | 3,657,117            |
| Total supporting services              | <u>15,807,563</u>   | <u>-</u>                  | <u>-</u>                  | <u>15,807,563</u>    |
| Total expenses                         | <u>119,346,601</u>  | <u>-</u>                  | <u>-</u>                  | <u>119,346,601</u>   |
| 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              | <u>\$ 5,379,583</u> | <u>\$ 5,635,120</u>       | <u>\$ 91,754</u>          | <u>\$ 11,106,457</u> |

See accompanying notes.

## Elizabeth Glaser Pediatric AIDS Foundation

### Consolidated Statements of Functional Expenses

Year Ended December 31, 2009

|                                     | International<br>Family AIDS<br>Initiative | Research<br>Grants and<br>Awards | Communications      | Public<br>Policy  | Total<br>Program<br>Services | Management,<br>General and<br>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               |
| <b>Total expenses</b>               | <b>\$ 109,263,332</b>                      | <b>\$ 3,212,225</b>              | <b>\$ 1,478,398</b> | <b>\$ 538,837</b> | <b>\$ 114,492,792</b>        | <b>\$ 13,848,297</b>                         | <b>\$ 2,479,819</b> | <b>\$ 130,820,908</b> |

## Elizabeth Glaser Pediatric AIDS Foundation

### Consolidated Statements of Functional Expenses (continued)

Year Ended December 31, 2008

|                                     | <b>International<br/>Family AIDS<br/>Initiative</b> | <b>Research<br/>Grants and<br/>Awards</b> | <b>Glaser<br/>Pediatric<br/>Research<br/>Network</b> | <b>Communications</b> | <b>Public<br/>Policy</b> | <b>Total<br/>Program<br/>Services</b> | <b>Management,<br/>General and<br/>Administrative</b> | <b>Fund-raising</b> | <b>Total</b>          |
|-------------------------------------|-----------------------------------------------------|-------------------------------------------|------------------------------------------------------|-----------------------|--------------------------|---------------------------------------|-------------------------------------------------------|---------------------|-----------------------|
| 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               |
| <b>Total expenses</b>               | <b>\$ 98,201,665</b>                                | <b>\$ 2,911,892</b>                       | <b>\$ 721,424</b>                                    | <b>\$ 1,203,429</b>   | <b>\$ 500,628</b>        | <b>\$ 103,539,038</b>                 | <b>\$ 12,150,446</b>                                  | <b>\$ 3,657,117</b> | <b>\$ 119,346,601</b> |

See accompanying notes.



Elizabeth Glaser Pediatric AIDS Foundation

Consolidated Statements of Cash Flows

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

*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:

|                                   | <b>December 31</b> |                   |
|-----------------------------------|--------------------|-------------------|
|                                   | <b>2009</b>        | <b>2008</b>       |
| 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           |
|                                   | <u>1,825,691</u>   | <u>1,917,479</u>  |
| Less: accumulated depreciation    | (1,591,982)        | (1,442,883)       |
| Property and equipment, net       | <u>\$ 233,709</u>  | <u>\$ 474,596</u> |

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:

|                         | <b>December 31</b>  |                  |
|-------------------------|---------------------|------------------|
|                         | <b>2009</b>         | <b>2008</b>      |
| Donated stocks          | \$ —                | \$ 18,525        |
| Certificates of deposit | 2,031,146           | —                |
|                         | <u>\$ 2,031,146</u> | <u>\$ 18,525</u> |

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

**4. Investments (continued)**

Investment income consisted of the following:

|                                                                               | <b>December 31</b> |                  |
|-------------------------------------------------------------------------------|--------------------|------------------|
|                                                                               | <b>2009</b>        | <b>2008</b>      |
| 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:

|                                            | <b>December 31</b>  |                     |
|--------------------------------------------|---------------------|---------------------|
|                                            | <b>2009</b>         | <b>2008</b>         |
| 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:

|                                        | <b>December 31</b> |                  |
|----------------------------------------|--------------------|------------------|
|                                        | <b>2009</b>        | <b>2008</b>      |
| 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:

|                                                | <b>December 31</b> |              |
|------------------------------------------------|--------------------|--------------|
|                                                | <b>2009</b>        | <b>2008</b>  |
| 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                 | \$ 4,934,054       | \$ 5,060,370 |
| Federal grants payable:                        |                    |              |
| International Family AIDS Initiative           | \$ 10,100,356      | \$ 5,989,467 |
| Total grants payable – federal                 | \$ 10,100,356      | \$ 5,989,467 |

#### 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.

|                           | <b>Fair Value Measurements at Reporting Date Using</b> |                                                                       |                                                      |                                                  |
|---------------------------|--------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------|
|                           | <b>Fair Value at December 31 2009</b>                  | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Significant Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> |
| Assets:                   |                                                        |                                                                       |                                                      |                                                  |
| Investments               | \$ 2,031,146                                           | \$ 2,031,146                                                          | \$ –                                                 | \$ –                                             |
| Split-interest agreements | 2,360,106                                              | –                                                                     | –                                                    | 2,360,106                                        |
| Total assets              | <u>\$ 4,391,252</u>                                    | <u>\$ 2,031,146</u>                                                   | <u>\$ –</u>                                          | <u>\$ 2,360,106</u>                              |

Elizabeth Glaser Pediatric AIDS Foundation

Notes to Consolidated Financial Statements (continued)

**8. Fair Value Measurements (continued)**

|                           | <b>Fair Value Measurements at Reporting Date Using</b> |                                                                       |                                                      |                                                  |
|---------------------------|--------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------|
|                           | <b>Fair Value at December 31 2008</b>                  | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Significant Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> |
| 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.

| <b>Summary of Level 3 Investment Activity</b> |                                       |                                  |                                      |                                       |
|-----------------------------------------------|---------------------------------------|----------------------------------|--------------------------------------|---------------------------------------|
|                                               | <b>Fair Value at December 31 2008</b> | <b>Unrealized Gains (Losses)</b> | <b>Transfers In (Out) of Level 3</b> | <b>Fair Value at December 31 2009</b> |
| 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

Elizabeth Glaser Pediatric AIDS Foundation

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.