

The Foundation for AIDS Research

(formerly known as The American Foundation for AIDS Research)
d.b.a. "amfAR" and "AIDS Research Foundation"
(A New York Not-for-Profit Corporation)

**Report on Audited Financial Statements
For the Year Ended September 30, 2006 (With
Summarized Financial Information for the Year
Ended September 30, 2005)**

Report of Independent Auditors

To the Board of Trustees of
The Foundation for AIDS Research

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets, cash flows, and expenses by function present fairly, in all material respects, the financial position of The Foundation for AIDS Research (a New York not-for-profit corporation, d.b.a. "amfAR" and "AIDS Research Foundation") at September 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of amfAR's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from amfAR's September 30, 2005 financial statements, and in our report dated December 7, 2005, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

December 8, 2006

The Foundation for AIDS Research
(formerly known as The American Foundation for AIDS Research)
(A New York Not-for-Profit Corporation)
d.b.a. "amfAR" and "AIDS Research Foundation"
Statement of Financial Position
September 30, 2006
(With Summarized Financial Information at September 30, 2005)

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,990,867	\$ 6,800,967
Short-term investments (Note 3)	9,125,691	8,451,443
Short-term pledges receivable, net (Note 4)	250,218	571,290
Accounts receivable, net	817,303	249,993
Prepaid expenses and other current assets	275,203	402,422
Merchandise inventory and donated assets (Note 5)	107,900	111,353
Total current assets	17,567,182	16,587,468
Long-term pledges receivable, net (Note 4)	-	349,510
Long-term accounts receivable, net	31,432	-
Furniture, equipment and leasehold improvements, net (Note 6)	954,088	636,827
Other assets	141,939	126,021
Total assets	\$ 18,694,641	\$ 17,699,826
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 922,602	\$ 746,136
Short-term grants and fellowships payable, net (Note 7)	922,607	1,277,903
Deferred support and refundable advances	998,173	934,905
Total current liabilities	2,843,382	2,958,944
Long-term grants and fellowships payable, net (Note 7)	111,980	208,388
Other long-term liabilities	571,258	576,773
Total liabilities	3,526,620	3,744,105
Net assets (Note 12)		
Unrestricted	11,961,590	11,308,936
Temporarily restricted	2,912,261	2,362,009
Permanently restricted	294,170	284,776
Total net assets	15,168,021	13,955,721
Total liabilities and net assets	\$ 18,694,641	\$ 17,699,826

The accompanying notes are an integral part of these financial statements.

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Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2006
(With Summarized Financial Information for the Year Ended September 30, 2005)

	Year Ended September 30, 2006			Total 2006	Total 2005
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public support and revenue					
Contributions					
Public support (Note 9)	\$ 5,601,054	\$ 871,037	\$ 9,394	\$ 6,481,485	\$ 7,222,671
Special events, net of direct donor benefit expense of \$2,180,587	6,647,369	-	-	6,647,369	6,034,118
Planned giving	1,870,336	-	-	1,870,336	2,307,724
Total Contributions	<u>14,118,759</u>	<u>871,037</u>	<u>9,394</u>	<u>14,999,190</u>	<u>15,564,513</u>
Other support					
Conference revenue	-	-	-	-	356,559
Government funding	2,084,215	660,069	-	2,744,284	2,064,520
Total other support	<u>2,084,215</u>	<u>660,069</u>	<u>-</u>	<u>2,744,284</u>	<u>2,421,079</u>
Investment income and other revenue (Note 3)	<u>539,735</u>	<u>-</u>	<u>-</u>	<u>539,735</u>	<u>312,089</u>
Net assets released from restrictions for satisfaction of					
Time restrictions	564,299	(564,299)	-	-	-
Purpose restrictions	416,554	(416,554)	-	-	-
Total net assets released from restrictions	<u>980,853</u>	<u>(980,853)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>17,723,562</u>	<u>550,253</u>	<u>9,394</u>	<u>18,283,209</u>	<u>18,297,681</u>
Program services					
Research	6,172,240	-	-	6,172,240	6,593,418
Global initiatives	2,027,859	-	-	2,027,859	1,433,769
Public policy	1,253,817	-	-	1,253,817	1,332,839
Education and Information	3,636,827	-	-	3,636,827	3,809,359
Total program services	<u>13,090,743</u>	<u>-</u>	<u>-</u>	<u>13,090,743</u>	<u>13,169,385</u>
Supporting services					
Fundraising	2,597,071	-	-	2,597,071	2,478,043
Management and general	1,383,095	-	-	1,383,095	1,275,716
Total supporting services	<u>3,980,166</u>	<u>-</u>	<u>-</u>	<u>3,980,166</u>	<u>3,753,759</u>
Total expenses	<u>17,070,909</u>	<u>-</u>	<u>-</u>	<u>17,070,909</u>	<u>16,923,144</u>
Change in net assets	652,653	550,253	9,394	1,212,300	1,374,537
Net assets					
Beginning of year	<u>11,308,936</u>	<u>2,362,009</u>	<u>284,776</u>	<u>13,955,721</u>	<u>12,581,184</u>
End of year	<u>\$ 11,961,589</u>	<u>\$ 2,912,262</u>	<u>\$ 294,170</u>	<u>\$ 15,168,021</u>	<u>\$ 13,955,721</u>

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The Foundation for AIDS Research
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Statement of Cash Flows

For the Year Ended September 30, 2006 and 2005

(With Summarized Financial Information for the Year Ended September 30, 2005)

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 1,212,300	\$ 1,374,537
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized depreciation on investments	14,820	112,643
Depreciation and amortization	256,777	262,851
Loss on disposal of fixed assets	20,272	116,552
Adjustments for permanently restricted contributions	(9,394)	(11,427)
(Decrease)/increase in inventory reserve	(485)	14,857
Increase in pledges and accounts receivable reserve	365,154	18,067
Increase in reserve for unexpended grants and awards	-	75,000
Changes in operating assets and liabilities		
Short-term and long-term pledges receivable	334,953	285,292
Short-term and long term accounts receivable	(628,267)	278,088
Prepaid expenses and other current assets	111,301	(59,999)
Merchandise inventory and donated assets	3,938	18,730
Accounts payable and accrued expenses	176,466	(96,575)
Short-term and long-term grants and fellowships payable	(451,704)	225,591
Deferred support and refundable advances	63,268	77,192
Other long-term liabilities	(5,515)	(4,427)
Net cash provided by operating activities	<u>1,463,884</u>	<u>2,686,972</u>
Cash flows from investing activities		
Purchases of investments	(7,600,441)	(6,663,571)
Sale of investments	6,911,373	6,792,926
Purchase of furniture, equipment and leasehold improvements	(582,340)	(141,151)
(Proceeds)/loss from sale of furniture, equipment and leasehold improvements	<u>(11,970)</u>	<u>100</u>
Net cash used in investing activities	<u>(1,283,378)</u>	<u>(11,696)</u>
Cash flows from financing activities		
Payments on capital lease obligation	-	(60,413)
Adjustments for permanently restricted contributions	<u>9,394</u>	<u>11,427</u>
Net cash used in financing activities	<u>9,394</u>	<u>(48,986)</u>
Net increase in cash and cash equivalents	<u>189,900</u>	<u>2,626,290</u>
Cash and cash equivalents		
Beginning of year	<u>6,800,967</u>	<u>4,174,677</u>
End of year	<u>\$ 6,990,867</u>	<u>\$ 6,800,967</u>

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Statement of Functional Expenses

For the Year Ended September 30, 2006

(With Summarized Financial Information for the Year Ended September 30, 2005)

	Program Services					Supporting Services			2006 Total Expenses	2005 Total Expenses
	Research	Global Initiatives	Public Policy	Education & Information	Total Program Services	Fundraising	Management and General	Total Supporting Services		
Grants and awards	\$ 2,361,279	\$ -	\$ -	\$ -	\$ 2,361,279	\$ -	\$ -	-	\$ 2,361,279	\$ 2,869,535
Salaries and benefits	1,228,963	720,613	607,820	1,829,204	4,386,600	764,366	652,584	1,416,950	5,803,550	5,684,484
Program technical support	170,303	11,783	187,462	21,611	391,159	-	-	-	391,159	491,239
Professional fees	260,878	223,018	128,613	472,012	1,084,521	601,085	179,695	780,780	1,865,301	1,840,980
Supplies, printing, postage and shipping	1,406,214	96,794	47,041	598,020	2,148,069	626,601	17,468	644,069	2,792,138	2,675,914
Occupancy and telecommunications	354,372	116,804	89,838	217,718	778,732	235,137	196,520	431,657	1,210,389	1,088,622
Travel, conferences and meetings	82,469	751,151	108,193	165,460	1,107,273	102,051	34,193	136,244	1,243,517	1,025,579
Depreciation and amortization	77,849	22,968	19,153	46,245	166,215	47,662	43,358	91,020	257,235	262,851
Other	229,913	84,728	65,697	286,557	666,895	220,169	259,277	479,446	1,146,341	983,940
2006 total expenses	<u>\$ 6,172,240</u>	<u>\$ 2,027,859</u>	<u>\$ 1,253,817</u>	<u>\$ 3,636,827</u>	<u>\$ 13,090,743</u>	<u>\$ 2,597,071</u>	<u>\$ 1,383,095</u>	<u>\$ 3,980,166</u>	<u>\$ 17,070,909</u>	
2005 total expenses	<u>\$ 6,593,418</u>	<u>\$ 1,433,769</u>	<u>\$ 1,332,839</u>	<u>\$ 3,809,359</u>	<u>\$ 13,169,385</u>	<u>\$ 2,478,043</u>	<u>\$ 1,275,716</u>	<u>\$ 3,753,759</u>		<u>\$ 16,923,144</u>

The accompanying notes are an integral part of these financial statements.

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Notes to Financial Statement
September 30, 2006

1. Organization and Current Programs:

The Foundation for AIDS Research is a national not-for-profit organization incorporated in New York in 1989. amfAR was formed through the unification in 1985 of two not-for-profit organizations, the AIDS Medical Foundation ("AMF"), incorporated in New York in April 1983, and the National AIDS Research Foundation, incorporated in California in August 1985. First based in California, amfAR transferred its legal domicile to New York in 1989, using the initial incorporation documents of AMF, making it AMF's legal successor. amfAR has offices in New York, N.Y., Washington, D.C., and Bangkok, Thailand. On March 7, 2005, the Board of Trustees of the American Foundation for AIDS Research approved a change in legal name to "The Foundation for AIDS Research." On October 18, 2005, the New York State Department of State approved this change. In addition, the Foundation has secured approval for Doing Business As (DBA) the following:

- American Foundation for AIDS Research
- amfAR
- AIDS Research Foundation

The mission of The Foundation for AIDS Research (amfAR) is to prevent HIV infection and the disease and death associated with it and to protect the human rights of all people threatened by the epidemic of HIV/AIDS. The Foundation pursues this mission through:

- research to explore scientific approaches for preventing and treating HIV infection and enhancing the health and survival of people with HIV/AIDS;
- global initiatives to facilitate the development and implementation of effective research, treatment, prevention, and education strategies in developing countries;
- public policy analysis and the advocacy of rational and compassionate policies that promote public health and protect the rights of people threatened by HIV/AIDS;
- education and information programs to build awareness of the continued threat HIV/AIDS poses and to provide up-to-date medical, scientific, and prevention information to people with HIV/AIDS, health-care professionals, and the public.

Research

amfAR supports research projects that explore novel approaches to scientifically sound but untested hypotheses in all areas of research on HIV/AIDS, funding goal-oriented grants and fellowships that often lack the preliminary data required for support from traditional grant-makers. The Foundation plays a vital role in HIV/AIDS research, identifying critical gaps in knowledge and providing essential "seed" money that enables grantees and fellows to test the merits of new concepts or technologies that subsequently can be validated through large-scale studies, such as those funded by the National Institutes of Health (NIH). amfAR fellowships allow talented young investigators to conduct original investigations under the guidance of experienced scientists, helping to ensure the long-term vitality of AIDS research.

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Both grants and fellowships are selected through a rigorous process of peer review by a team of independent HIV/AIDS experts drawn largely from the volunteer scientists on amfAR's Scientific Advisory Committee (SAC). Guided by its scientific advisors and with the approval of its Board of Trustees, amfAR pursues a strategic research plan that focuses on the treatment, prevention, and cure of HIV/AIDS.

Research studies make an initial impact on the AIDS field and the broader scientific community when published in scientific journals. Over the past year, approximately 40 scientific publications resulted from amfAR-funded research. These covered current and past targeted areas of research interest such as cellular restriction factors, AIDS vaccine development, novel viral and cellular targets, viral reservoirs and latency, and microbicide research and development.

In October 2005, amfAR issued a request for proposals (RFP) for new research on HIV prevention. Recent research suggests that there are several time points at which interventions could help prevent or modify HIV infection: (1) before transmission takes place; (2) after transmission, but before viral integration; and (3) after integration, but before the generalized spread of infection. amfAR's aim is to promote the development of practical strategies that could be used to inhibit infection at any of these time points. In March 2006, the Foundation announced six one-year research grants and four two-year fellowships totaling nearly \$1 million for new prevention research.

In December 2005, amfAR convened a think tank in which leading scientists discussed the feasibility of eradicating HIV from the body and the obstacles that stand in the way of achieving that goal. As a result, a second request for proposals was released to the scientific community in January 2006 soliciting proposals exploring the potential for HIV eradication. This RFP also offered to support professional development activities to enhance the careers of young fellows and improve their chances of garnering subsequent funding from the NIH. In June 2006, amfAR announced eight one-year research grants and four two-year fellowships for research on HIV eradication, totaling nearly \$1.5 million.

An additional request for proposals, issued in June 2006, solicited behavioral and biomedical research proposals aimed at preventing rectal transmission of HIV. These awards will be announced in December 2006.

amfAR's clinical research efforts seek to improve the clinical management of HIV/AIDS and raise standards of care for people with HIV disease. In September 2006, amfAR organized a think tank to address two major problems facing HIV-infected liver transplant recipients: organ rejection and hepatitis C (HCV) infection. The full-day meeting of HIV and transplant immunologists explored the immunologic aspects of organ rejection, and HIV/HCV experts discussed post-transplant HCV treatment strategies and outcomes.

Global Initiatives

amfAR's Global Initiatives program utilizes the Foundation's scientific, social science, public policy, and education and information expertise to help health-care workers and AIDS organizations in resource-poor countries develop and implement effective research, treatment, prevention, and education programs.

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amfAR's TREAT Asia initiative is a network of hospitals, clinics, and research institutions working with civil society to ensure the safe and effective delivery of HIV/AIDS treatments across Asia and the Pacific. The sixth annual TREAT Asia Network Meeting took place in Siem Reap, Cambodia, in July 2006.

The spread of drug-resistant HIV represents a growing threat that could undermine the effectiveness of treatment programs across Asia. Most research to date has been confined to the HIV subtypes that are common in the West, rather than those that predominate in Asia. In October 2005, TREAT Asia, along with the PharmAccess Foundation, was awarded 10.2 million Euros (approximately US \$12.5 million) from the Stichting AIDS Fonds to help build capacity for HIV drug resistance surveillance and monitoring in developing countries in Asia and Africa.

In December 2005, TREAT Asia launched a 12-week pilot program with HIVeDucation in Pune, India. The program, designed for health-care providers, combines e-learning over the Internet with two live interactive programs as a means of increasing knowledge and skills around HIV/AIDS treatment and care. This pilot project enrolled 25 doctors from across India.

TREAT Asia pioneered the region's first observational database for HIV/AIDS, which now includes anonymous data collected from more than 3,000 patients. The information gathered and analyzed through the database informs the development of more effective research and treatment programs and helps define treatment standards specific to HIV/AIDS in Asia. In February 2006, amfAR was awarded a grant of \$3.2 million over five years from the U.S. National Institutes of Health in support of the TREAT Asia observational database.

In 2006 TREAT Asia signed a contract with Family Health International's Asia Regional Program to serve as the Regional Coordination Secretariat for a new network of HIV programs for men who have sex with men (MSM) in the Greater Mekong Subregion. The Secretariat will initially be funded by the United States Agency for International Development's Regional Development Mission/Asia and the U.S. Centers for Disease Control and Prevention/Global AIDS Program. The network consists of more than 80 governmental and nongovernmental organizations working to prevent and treat HIV among MSM in six countries: Cambodia, China (Yunnan and Guangxi provinces), Lao People's Democratic Republic, Myanmar, Thailand, and Vietnam.

At the XVI International AIDS Conference in Toronto, Canada, in August 2006, amfAR and TREAT Asia introduced a special report titled *MSM and HIV/AIDS Risk in Asia: What Is Fueling the Epidemic Among MSM and How Can It Be Stopped?* Distributed in CD-ROM format to the more than 25,000 conference participants, the report was covered widely in the media.

With support from GlaxoSmithKline's Positive Action, TREAT Asia launched a series of projects aimed at strengthening the community response to HIV/AIDS across the region. These include:(1) community education and treatment literacy programs that are a key component of a pilot treatment and care project among four counties in China; (2) a collaborative effort with the Asia Pacific Network of People Living with AIDS (APN+) to increase community awareness and build capacity on treatment issues in Cambodia and Vietnam; (3) providing HIV/AIDS treatment outreach to the injection-drug-using community in Thailand; and (4) establishing an Asian Community for AIDS Treatment and Advocacy (ACATA) comprised of representatives from TREAT Asia sites/countries with an established need for increased community treatment education.

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Public Policy

Informed by thorough research and analysis, amfAR is a highly respected advocate of rational and compassionate AIDS-related public policy. The Foundation's Public Policy program is engaged in efforts to secure necessary increases in funding for HIV/AIDS research, including vaccine and microbicide research; implement an evidence-based, national HIV prevention strategy, including repeal of the current ban on federal funding for syringe exchange programs; expand access to care and treatment; and protect the civil rights of all people affected by HIV/AIDS.

Recognizing the increasingly disproportionate impact of HIV/AIDS on women and girls around the world, amfAR developed a Women's Initiative on Sexual Health and HIV. Key components of the initiative include advancing research on sex and gender and HIV/AIDS, organizing educational symposia and policy briefings to disseminate research findings, and facilitating the formation of a Women and HIV/AIDS Coalition to advocate an evidence-based approach to education for and policies related to women and HIV/AIDS.

As part of the women's initiative, in January 2006, amfAR, the Society for Women's Health Research, and Women's Policy, Inc., held a Congressional briefing to address the underlying factors that make minority women especially vulnerable to HIV and to educate legislators about HIV's devastating impact on women of color. The briefing was attended by over 200 Congressional staff, members of the press, researchers, and community advocates.

In June 2006 amfAR co-sponsored a Congressional briefing on HIV among drug-using populations, hosted by Representative Raul Grijalva (D-AZ). The briefing brought together a panel of harm reduction advocates and public health experts to send a clear message to members of Congress and their staffs: Lifesaving public health measures, such as syringe exchange programs, must be made available for individuals who are unable to stop using drugs.

At the XVI International AIDS Conference in Toronto in August 2006, amfAR partnered with the Sexuality Information and Education Council of the United States (SIECUS) and Population Action International (PAI) to form the Caucus for Evidence-Based Prevention, which served as a coordinating and convening body for U.S.-based NGOs to promote evidence-based approaches to HIV prevention. The Caucus was formed as a partial response to the influence of ideological agendas on science. With support from the U.S. Office of AIDS Research, amfAR also sponsored two satellite symposia at the conference; the first addressed drug use, harm reduction, and HIV among women, and the second addressed HIV prevention among men who have sex with men.

As part of its advocacy of harm reduction programs to prevent the spread of HIV infection, amfAR funds the only annual national survey of U.S. syringe exchange programs, which is traditionally published in the Centers for Disease Control and Prevention's *Morbidity and Mortality Weekly Report* (MMWR). The Foundation also provided \$50,000 to PreventionWorks! to help fund key syringe exchange and harm reduction programs in Washington, DC. Under contract with the New York State Department of Health's AIDS Institute, amfAR continued to administer the distribution of harm reduction supplies to the 15 authorized syringe exchange programs statewide, which currently serve over 116,000 registered participants.

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In June 2006, amfAR's public policy office released an issue brief entitled *HIV Prevention for Men Who Have Sex with Men* (MSM). This important paper examines trends in HIV/AIDS among MSM, evaluates risk factors for MSM, highlights effective HIV prevention programs, and identifies barriers to prevention among MSM populations.

Education and Information

amfAR seeks to translate and disseminate information on important AIDS-related research, treatment, prevention, and policy issues to diverse audiences and to stimulate broad awareness of the need for better treatment and prevention methods. amfAR also organizes and hosts community forums for people infected with or affected by HIV/AIDS, publishes a wide range of educational materials, maintains an informative website, and engages respected public figures, HIV/AIDS scientists, and policy makers in communicating the need for continued research to develop new methods of prevention and treatment and, ultimately, a cure for AIDS.

Accredited by the Accreditation Council for Continuing Medical Education, the Foundation develops and organizes continuing medical education (CME) courses for physicians and other health-care professionals. A series of live CME programs on Optimizing Antiretroviral Therapy in the Treatment-Experienced Patient was held in Philadelphia, Detroit, Kansas City, Miami, Phoenix, and Seattle during June-July 2006, attracting nearly 300 physicians and HIV healthcare professionals. The series was supported by an educational grant from Tibotec Therapeutics. Topics addressed included: etiology of HIV drug resistance; identifying and assessing drug resistance; adding/switching antiretroviral (ARV) drugs; new ARV agents; ARV toxicities and side effects; and inclusion of the patient in treatment decisions and discussion of treatment goals. A companion DVD was developed and distributed to physicians and health-care professionals unable to attend the live events.

amfAR was a key partner in the creation and launch of the public service campaign *We All Have AIDS* on December 1, 2005, World AIDS Day. The campaign was spearheaded by amfAR Chairman Kenneth Cole and was produced in strategic partnership with KNOW HIV/AIDS, a joint public education initiative of Viacom, Inc., and the Kaiser Family Foundation. Featuring HIV/AIDS activists, people with HIV/AIDS, researchers, and celebrities representing various HIV/AIDS organizations around the world, and the bold statement *We All Have AIDS...If One of Us Does*, the multimedia campaign was a powerful display of unity and solidarity with all people living with HIV/AIDS worldwide. It gained extensive national and international exposure.

amfAR produces a range of periodicals in both print and electronic formats, including: *amfAR News*, published twice a year and distributed to 70,000; the *TREAT Asia Report*, published and distributed quarterly to an international audience; and a monthly email newsletter distributed to more than 20,000. The Foundation also creates and distributes program reports, press releases, and updates on major HIV/AIDS issues, and conducts additional public service advertising campaigns that have been instrumental in educating policy makers, health-care professionals, people with HIV/AIDS, and the general public. Educational materials were distributed widely via amfAR and TREAT Asia booths at the International AIDS Conference. A survey of Conference participants was also undertaken to assess needs and inform the development and delivery of innovative new educational programs.

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In 2006, amfAR continued to work closely with the media to raise the profile of HIV/AIDS, both domestically and internationally, and to help ensure the accuracy of AIDS press coverage. amfAR staff and board members were quoted widely in the media on the 25th anniversary of the first reported cases of HIV/AIDS in June 2006. And through its Speakers' Bureau, the Foundation was able to arrange speaking engagements that helped educate a wide range of audiences about HIV/AIDS research, treatment, prevention, and policy.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

amfAR's financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America and with the AICPA's Audit and Accounting Guide "Not-For-Profit Organizations." The significant policies followed are described below.

The financial statements include certain prior-year summarized financial information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the amfAR's financial statements for the year ended September 30, 2006, from which the summarized information was derived.

Net Assets

"Unrestricted Net Assets" - the portion of amfAR's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

"Temporarily Restricted Net Assets" - the portion of amfAR's net assets resulting from (a) contributions and other inflows of assets whose use by amfAR is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of amfAR pursuant to those stipulations, and (b) reclassifications to (from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment.

"Permanently Restricted Net Assets" - the portion of amfAR's net assets resulting from (a) contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of amfAR, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from (to) other classes of net assets as a consequence of donor-imposed stipulations.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

Financial instruments which potentially subject amfAR to concentrations of credit risk, as defined by SFAS No. 105, consist primarily of cash. amfAR maintains its cash in various bank deposit accounts, which, at times, may exceed federally insured limits. amfAR has not experienced any losses in such accounts.

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Short-term Investments

Investments in debt and equity securities and mutual funds are carried at market value based upon published market prices at the end of the fiscal year or management's estimate of amounts to be realized on settlement. Unrealized gains and losses are determined by comparing cost to fair value at the beginning and end of the period. Gains and losses on the sale of investments are calculated by the specific identification method. Investment income and net gains and losses on the sale of investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by the donor.

Merchandise Inventory and Donated Assets

Merchandise inventory and donated assets consist of artwork, merchandise, photographs and other assets donated by the artist to be sold. Such items are valued at market value on the date of the donation.

Fixed Assets

Fixed assets, which include furniture, fixtures, equipment, computer hardware and software, and leasehold improvements, are recorded at cost or fair value at date of donation. Leased fixed assets under capitalized leases are amortized over the lives of the respective leases or over the service lives of the assets for those leases which substantially transfer ownership, whichever is shorter. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from three to seven years. Amortization of leasehold improvements is provided on a straight-line basis over the remaining life of the lease.

Grants and Awards

amfAR grants and awards are generally awarded for a period of one to three years. Conditional multi-year grants are not reflected in the grants payable balance until the conditions are satisfied. Grants and awards are expensed over their periods of performance.

Planned Giving

amfAR records planned giving income (e.g. bequests) at the time it has an established right to such income and the proceeds are measurable.

Donated Services

Various services are performed for amfAR by volunteers. Certain donated professional services for technical advisory support have been reflected in the accompanying financial statements as public support and expenses based on the estimated fair value for such services. The value of donated services reflected in the accompanying financial statements for the year ended September 30, 2006 and 2005 is \$130,400 and \$114,000, respectively. Though a substantial number of additional volunteers donated significant amounts of time to amfAR's programs and fund-raising activities, no amounts have been reflected for these services in the accompanying financial statements, as no objective basis is available to measure the value of such services.

Tax-Exempt Status

amfAR is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code (the "Code") and corresponding New York Revenue and Taxation Code sections, and contributions to it are deductible in accordance with the Code.

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Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocated Expenses

amfAR's expenses have been summarized on a functional basis in accordance with generally accepted accounting standards for voluntary health and welfare organizations. Most expenses may be directly identified to their related program or supporting service function, and are recorded accordingly. Indirect expenses have been allocated based on a percentage of each program's direct expenses over total program costs, or other bases considered appropriate given the nature of the expense.

Concentration of Credit Risk

Credit risk is the failure of another party to perform in accordance with the contract terms. The Foundation is periodically exposed to credit risk for the amount of the cash and cash equivalents in financial institutions that exceeds the FDIC insurance limit. The Foundation has never sustained a loss of its cash and cash equivalents due to nonperformance and does not anticipate any nonperformance of the financial institutions.

3. Short-Term Investments

Short-term investments consisted of the following at September 30, 2006:

	<u>2006</u>		<u>2005</u>	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 5,118,520	\$ 5,086,231	\$ 6,097,979	\$ 6,040,202
US Treasury Bills	3,060,005	3,077,048	1,632,459	1,628,802
Certificate of Deposit	902,000	899,615	712,000	709,831
Equities	67,130	62,797	58,291	72,608
	<u>\$ 9,147,655</u>	<u>\$ 9,125,691</u>	<u>\$ 8,500,729</u>	<u>\$ 8,451,443</u>

Cost basis for contributed investments represents the fair value on the date of the donation.

Investment return for the year ended September 30, 2006 and 2005 is as follows:

	2006	2005
Interest and dividends	\$ 533,546	\$ 396,885
Realized losses	(4,009)	(40,255)
Unrealized losses	(10,811)	(72,388)
	<u>\$ 518,726</u>	<u>\$ 284,242</u>

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4. Pledges Receivable

Pledges receivable at September 30, 2006 and 2005, time discounted in 2006 at 5% and in 2005 at 2.5% and 5%, are as follows:

	2006	2005
Gross pledges receivable	\$ 709,293	\$ 1,044,246
Less - Discount	(69,305)	(86,446)
Less - Allowance for uncollectible	<u>(389,770)</u>	<u>(37,000)</u>
Net pledges receivable	250,218	920,800
Less - Current portion, net of allowance of \$109,075 and \$22,956 in 2006 and 2005 respectively	<u>(250,218)</u>	<u>(571,290)</u>
	<u>\$ -</u>	<u>\$ 349,510</u>
Due		
Within one year	\$ 250,218	\$ 571,290
One to five years	-	249,417
Over five years	<u>-</u>	<u>100,093</u>
	<u>\$ 250,218</u>	<u>\$ 920,800</u>

5. Merchandise Inventory and Donated Assets

Merchandise inventory and donated assets consist of the following:

	2006	2005
Artwork inventory	\$ 109,440	\$ 111,878
Merchandise	1,147	1,248
Photograph inventory	<u>10,450</u>	<u>11,850</u>
Total	121,037	124,976
Less - Valuation allowance	<u>(13,137)</u>	<u>(13,623)</u>
Net merchandise inventory and donated assets	<u>\$ 107,900</u>	<u>\$ 111,353</u>

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6. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements at September 30, 2006 and 2005 comprise:

	2006	2005
Computer hardware	\$ 999,545	\$ 885,982
Computer software	454,609	354,584
Office equipment	293,882	277,006
Furniture and fixtures	513,389	386,183
Leasehold improvements	<u>723,798</u>	<u>545,532</u>
Total	2,985,223	2,449,287
Less - Accumulated depreciation and amortization	<u>(2,031,135)</u>	<u>(1,812,460)</u>
Net furniture, equipment and leasehold improvements	<u>\$ 954,088</u>	<u>\$ 636,827</u>

7. Grants and Awards Payable

As discussed in Note 1, amfAR provides grants and awards to independent not-for-profit organizations through a peer-review process. Grant applications are first reviewed by the Foundation's volunteer Scientific Advisory Committee, which is composed of recognized experts in the medical, scientific, and social sciences disciplines relevant to HIV and AIDS. The Scientific Advisory Committee then sends its evaluations to one of the three committees (Research, Global Initiatives, and Public Policy) of the Foundation's Program Board, which serves in an advisory capacity to the Board of Trustees. After a program committee has completed its review of the applications, it presents its funding recommendations to amfAR's Executive Committee and/or the full Board of Trustees for final approval and funding authorization.

Grants and awards are payable over a one- to three-year period, and are revocable at amfAR's option if the recipient's performance or use of funds is not consistent with the terms of the grant or award. In certain cases, the actual amounts paid under grants and awards may be less than the original awards if the recipient does not use the full amount awarded. Therefore, an allowance for unexpended grants and awards has been recorded.

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Grants and awards payable at September 30, 2006 and 2005 are as follows:

	2006	2005
	Short-Term	Short-Term
Basic science	\$ 924,030	\$ 795,511
Global initiatives	103,577	283,982
Public policy	70,000	137,500
Education and information	-	235,910
	<u>1,097,607</u>	<u>1,452,903</u>
Less: Reserve for estimated unexpended grants and awards	<u>(175,000)</u>	<u>(175,000)</u>
Grants and awards payable, net	<u>\$ 922,607</u>	<u>\$ 1,277,903</u>
	Long-term	Long-term
Basic science (due 2007 and 2008)	<u>\$ 111,980</u>	<u>\$ 208,388</u>

8. Commitments

Grants

During fiscal 2006, amfAR's Board approved certain grants with a period of performance in fiscal years 2007 and 2008. Those grants were awarded subject to amfAR's availability of funds and the grantee's encumbrance of expenditures. Remaining commitments at September 30, 2006 under these grants totaled \$2,170,471.

Lines of Credit

amfAR has a line of credit agreement with Bank of America, available through March 31, 2007, upon which amfAR may borrow up to \$3,000,000 provided that a minimum of \$5,000,000 of unrestricted liquid assets is maintained at all times. amfAR has the option of borrowing at either a floating rate equal to the bank's Prime Rate or fixed rate equal to a reserve adjusted LIBOR plus 200 basic points.

amfAR has a second line of credit agreement with Merrill Lynch Business Financial Services which has been renewed through May 31, 2007. Under this agreement, amfAR may borrow up to \$500,000 for working capital requirements in the ordinary course of business. The interest rate on the line of credit is the Prime Rate plus 0.25% per year.

At September 30, 2006, no amounts were outstanding under either agreement.

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Operating Leases

The approximate future minimum rental commitments required under long-term lease commitments for office space in New York, Washington, D.C. and Bangkok, Thailand are as follows:

Year ending September 30,

2007	\$ 775,995
2008	813,774
2009	836,985
2010	766,159
2011	711,919
2012 and subsequent years	<u>1,008,732</u>
	<u>\$ 4,913,564</u>

Office rent expense for the fiscal year ended September 30, 2006 and 2005 was \$825,479 and \$761,671, respectively.

9. Public Support

Public support (excluding special events and planned giving) for the year ended September 30, 2006 and 2005 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
Corporate contributions	\$ 580,218	\$ 130,403	\$ 350	\$ 710,971	\$ 488,582
Individual contributions	976,022	68,906	6,544	1,051,472	1,328,964
Foundation contributions	725,065	671,728	2,500	1,399,293	1,605,786
Direct response	2,731,311			2,731,311	3,154,725
Workplace campaigns	580,747			580,747	632,202
Other contributions	7,691			7,691	12,412
2006 total	<u>\$ 5,601,054</u>	<u>\$ 871,037</u>	<u>\$ 9,394</u>	<u>\$ 6,481,485</u>	
2005 total	<u>\$ 6,919,533</u>	<u>\$ 291,711</u>	<u>\$ 11,427</u>		<u>\$ 7,222,671</u>

10. Joint Costs

Direct response program joint program costs incurred in connection with the mailing of informational materials that included fund raising appeals have been allocated as follows:

Fund raising	\$ 366,432
Public policy	188,636
Education information	<u>463,500</u>
	<u>\$ 1,018,568</u>

The allocation of costs is based upon the content of the materials, their intended purpose and the audience to whom they are distributed.

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11. Pension Plan

amfAR sponsors a defined contribution plan for employees who elect to participate and have completed two years of service. Under the plan, amfAR contributed \$250,272 and \$234,323 for the years ended September 30, 2006 and 2005, respectively, calculated using a two-to-one match of employee contributions.

12. Restrictions on Net Assets

Permanently restricted net assets are endowed funds, with income on such assets generally allocated to program activities. Temporarily restricted net assets at September 30, 2006 and 2005 are for the following:

	2006	2005
Time Restrictions	\$ 127,000	\$ 466,555
Purpose Restrictions		
Research	386,877	450,776
Global	1,094,165	398,678
Public Policy	1,165,910	1,030,000
Education & Information	138,309	16,000
	<u>\$ 2,912,261</u>	<u>\$ 2,362,009</u>