



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

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Aaron Diamond AIDS Research Center for the
City of New York, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of The Aaron Diamond AIDS Research Center for the City of New York, Inc. (the "Center"), which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Center's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the organization's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Aaron Diamond AIDS Research Center for the City of New York, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York
October 19, 2017

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

Statements of Financial Position

	June 30,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 4,122,093	\$ 7,630,085
Investments	61,215,405	57,598,939
Grant and contract revenues receivable	1,359,738	1,671,760
Prepaid expenses and other assets	601,528	383,699
Property and equipment, net	<u>318,557</u>	<u>521,624</u>
	<u>\$ 67,617,321</u>	<u>\$ 67,806,107</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,482,593	\$ 2,323,158
Grant and contract income received in advance	<u>2,675,376</u>	<u>4,936,819</u>
Total liabilities	<u>4,157,969</u>	<u>7,259,977</u>
Commitments and contingency (See Note I)		
Net assets:		
Unrestricted:		
Available for operations	37,775,003	36,320,205
Board-designated	<u>14,471,713</u>	<u>13,709,163</u>
Total unrestricted	52,246,716	50,029,368
Temporarily restricted	6,212,636	5,516,762
Permanently restricted	<u>5,000,000</u>	<u>5,000,000</u>
Total net assets	<u>63,459,352</u>	<u>60,546,130</u>
	<u>\$ 67,617,321</u>	<u>\$ 67,806,107</u>

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

Statements of Activities

	Year Ended June 30,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Revenue from scientific activities:								
Restricted scientific grants and contracts	\$ 10,055,100	\$ 75,000		\$ 10,130,100	\$ 11,705,096	\$ 50,000		\$ 11,755,096
Revenue from clinical trials	<u>204,271</u>			<u>204,271</u>	<u>191,591</u>			<u>191,591</u>
	<u>10,259,371</u>	<u>75,000</u>		<u>10,334,371</u>	<u>11,896,687</u>	<u>50,000</u>		<u>11,946,687</u>
Contributions and other revenue:								
Contributions	314,829	17,500		332,329	142,432	64,500		206,932
Investment income (loss)	6,032,117	923,653		6,955,770	(2,146,935)	(254,779)		(2,401,714)
Loss on disposal	<u>(34,581)</u>			<u>(34,581)</u>				
	<u>6,312,365</u>	<u>941,153</u>		<u>7,253,518</u>	<u>(2,004,503)</u>	<u>(190,279)</u>		<u>(2,194,782)</u>
Total support and revenue before net assets released from restrictions	16,571,736	1,016,153		17,587,889	9,892,184	(140,279)		9,751,905
Net assets released from restrictions	<u>320,279</u>	<u>(320,279)</u>		<u>0</u>	<u>568,493</u>	<u>(568,493)</u>		<u>0</u>
Total support and revenue	<u>16,892,015</u>	<u>695,874</u>		<u>17,587,889</u>	<u>10,460,677</u>	<u>(708,772)</u>		<u>9,751,905</u>
Expenses:								
Program:								
Scientific research funded by grants	7,406,824			7,406,824	8,448,147			8,448,147
Research support	2,333,370			2,333,370	2,345,385			2,345,385
Research administration	299,418			299,418	330,702			330,702
Facilities - scientific	<u>1,804,016</u>			<u>1,804,016</u>	<u>1,973,855</u>			<u>1,973,855</u>
Total program expense	<u>11,843,628</u>			<u>11,843,628</u>	<u>13,098,089</u>			<u>13,098,089</u>
Management and general:								
General administration	2,419,460			2,419,460	2,492,432			2,492,432
Facilities - management and general	<u>243,093</u>			<u>243,093</u>	<u>248,758</u>			<u>248,758</u>
Total management and general	<u>2,662,553</u>			<u>2,662,553</u>	<u>2,741,190</u>			<u>2,741,190</u>
Depreciation and amortization	<u>168,486</u>			<u>168,486</u>	<u>433,158</u>			<u>433,158</u>
Total expenses	<u>14,674,667</u>			<u>14,674,667</u>	<u>16,272,437</u>			<u>16,272,437</u>
Change in net assets	2,217,348	695,874		2,913,222	(5,811,760)	(708,772)		(6,520,532)
Net assets, beginning of year	<u>50,029,368</u>	<u>5,516,762</u>	<u>\$ 5,000,000</u>	<u>60,546,130</u>	<u>55,841,128</u>	<u>6,225,534</u>	<u>\$ 5,000,000</u>	<u>67,066,662</u>
Net assets, end of year	<u>\$ 52,246,716</u>	<u>\$ 6,212,636</u>	<u>\$ 5,000,000</u>	<u>\$ 63,459,352</u>	<u>\$ 50,029,368</u>	<u>\$ 5,516,762</u>	<u>\$ 5,000,000</u>	<u>\$ 60,546,130</u>

See notes to financial statements.

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

Statements of Functional Expenses

	Year Ended June 30,					
	2017			2016		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	\$ 4,160,178	\$ 1,338,945	\$ 5,499,123	\$ 4,832,456	\$ 1,291,825	\$ 6,124,281
Employee benefits and payroll taxes	1,673,562	549,203	2,222,765	1,997,297	593,855	2,591,152
Laboratory supplies	1,152,395		1,152,395	1,493,899		1,493,899
Core facilities expense	198,150		198,150	126,853		126,853
Animal services	200,222		200,222	184,588		184,588
Professional fees	481,039	531,096	1,012,135	478,747	565,297	1,044,044
Office expense	64,792	23,275	88,067	46,750	44,287	91,037
Occupancy expense	830,157	134,591	964,748	858,134	139,020	997,154
Insurance expense	271,681	43,009	314,690	274,403	43,440	317,843
Telecommunications	39,931	12,743	52,674	12,809	34,508	47,317
Travel and meetings	157,536	23,961	181,497	275,150	22,116	297,266
Books and subscriptions	18,990	3,441	22,431	20,185	4,130	24,315
Maintenance expenses	315,088	2,289	317,377	452,381	2,712	455,093
Radiation safety and disposal	10,761		10,761	27,993		27,993
Sub-contracts	<u>2,269,146</u>		<u>2,269,146</u>	<u>2,016,444</u>		<u>2,016,444</u>
	11,843,628	2,662,553	14,506,181	13,098,089	2,741,190	15,839,279
Depreciation and amortization	<u>133,105</u>	<u>35,381</u>	<u>168,486</u>	<u>340,462</u>	<u>92,696</u>	<u>433,158</u>
	<u>\$ 11,976,733</u>	<u>\$ 2,697,934</u>	<u>\$ 14,674,667</u>	<u>\$ 13,438,551</u>	<u>\$ 2,833,886</u>	<u>\$ 16,272,437</u>

See notes to financial statements.

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

Statements of Cash Flows

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,913,222	\$ (6,520,532)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	168,486	433,158
Loss on disposal of property and equipment	34,581	
Net realized and unrealized (gains) losses on investments	(5,519,500)	4,043,120
Changes in:		
Grant and contract revenues receivable	312,022	901,518
Prepaid expenses and other assets	(217,829)	(473)
Accounts payable and accrued expenses	(840,565)	103,497
Grant and contract income received in advance	<u>(2,261,443)</u>	<u>(992,567)</u>
Net cash used in operating activities	<u>(5,411,026)</u>	<u>(2,032,279)</u>
Cash flows from investing activities:		
Purchases of investments	(3,054,091)	(2,891,559)
Proceeds from sales and maturities of investments	4,957,125	2,813,814
Purchases of property and equipment	<u> </u>	<u>(66,263)</u>
Net cash provided by (used in) investing activities	<u>1,903,034</u>	<u>(144,008)</u>
Decrease in cash and cash equivalents	(3,507,992)	(2,176,287)
Cash and cash equivalents, beginning of year	<u>7,630,085</u>	<u>9,806,372</u>
Cash and cash equivalents, end of year	<u>\$ 4,122,093</u>	<u>\$ 7,630,085</u>

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

Notes to Financial Statements June 30, 2017 and 2016

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Aaron Diamond AIDS Research Center for the City of New York, Inc. (the "Center"), incorporated in New York in 1988, is a research institute which houses a specialized viral containment laboratory where the HIV virus can be grown and biomedical research is undertaken.

The Center is exempt from federal income tax pursuant to Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and from state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying financial statements of the Center have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Cash and cash equivalents:

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

[5] Investments:

Investments in debt securities with readily determinable fair values are reported at their fair values in the accompanying statements of financial position, with realized and unrealized gains and losses included in the accompanying statements of activities. The Center's mutual funds are also reported at their fair values, as determined by management, with the assistance of the related investment manager or advisor.

The Center has investments in certain not-readily-marketable securities which are ownership interests in certain limited liability partnerships and limited liability companies (equity security fund of funds and hedge funds of funds) for which market values are not readily obtainable. The fair value of the limited liability company investments has been estimated based on the respective Net Asset Value ("NAV") per share (or its equivalent unit), as a practical expedient of each investment as reported by the investment company fund manager. The Center's investments in limited partnerships are valued based on the valuation policies and procedures of the general partner. The general partner performs oversight of the underlying positions both on an investment level and from a risk perspective. The general partner is responsible for ensuring the investments are valued according to the policies and procedures adopted by the partnership. The Center places reliance upon those procedures and records those investments at fair value as determined by the general partner. Because of the complex management structure and nature of the underlying investments inherent uncertainty of the valuation of the limited liability investments, the Center and its various investment managers monitor their positions to reduce the risk of potential losses due to changes in fair values or the failure of counterparties to perform. Management believes the carrying amount of the investments in non-publicly traded securities is a reasonable estimate of fair value. The estimated values provided by these managers may differ from actual values had a ready market for these investments existed.

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

Notes to Financial Statements June 30, 2017 and 2016

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

[5] Investments: (continued)

Investment transactions are recorded on a trade-date basis. Realized gains or losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. The earnings from dividends and interest are recognized when earned.

Donated securities are recorded at their fair values, as determined by the proceeds received on the date of sale or by the NAV as determined by the fund manager. The Center's policy is to sell donated securities immediately, and, accordingly, for purposes of the cash flow statement, donated securities and the proceeds generated from their sale are included as operating activities. With respect to donors' contributions of equity securities, which for example, are (i) not readily marketable, (ii) the securities of private companies, or (iii) the securities of companies in liquidation, the Center's policy is to record such items at appraised value at time of donation in the absence of readily determinable fair values, although such assets may have significant value.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note B are those specific fees charged by the Center's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

The Center participates in a securities lending program sponsored by the Northern Trust Corporation ("Northern Trust"). Under this program, Northern Trust lends securities, including those of the Center, to qualified institutional borrowers. In addition to the program fees that they pay, the borrowers place assets with a value greater than the market value of the securities borrowed into a collateral pool. The investment of the assets in the collateral pool provides an additional return to lending-program participants such as the Center.

[6] Property and equipment:

Property and equipment are stated at their original cost at the dates of acquisition, or, if contributed, at their fair values at the dates of donation. The Center capitalizes items of property and equipment that have a cost of \$5,000 or more and useful lives greater than one year, whereas the costs for minor repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over seven years, the estimated useful lives of the related assets. Leasehold improvements are amortized over the remaining lease term, or the useful lives of the improvements, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015, respectively, and, in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[7] Accrued vacation:

Accrued vacation is included as a liability in the accompanying financial statements and represents the Center's obligation for the cost of unused employee vacation time payable in the event of employee departures; the obligation is recalculated every year. At June 30, 2017 and 2016, the accrued vacation obligation was approximately \$477,000 and \$515,000, respectively, and was reported as part of accounts payable and accrued expenses in the accompanying statements of financial position.

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

Notes to Financial Statements June 30, 2017 and 2016

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

[8] Net assets:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations. A portion of the Center's resources devoted to scientific activities, as well as its property and equipment and its quasi-endowment fund, are presented as unrestricted as there are no donor or grantor restrictions on the use of these assets.

The quasi-endowment (board-designated) fund was formed in 1999 through the segregation by the Board of Directors of \$6,500,000 of unrestricted funds (derived from the sale of an investment). The Board's resolution establishing this fund provides that the principal and earnings are to be invested and that, after the second year of the fund's existence, an amount equal to 5% of its average net-asset value (for the three preceding years) may be utilized for Center operations.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") and the use of which has been restricted by donors or state law to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished or funds are appropriated through an action of the Board of Directors, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as "net assets released from restrictions."

(iii) *Permanently restricted:*

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

[9] Revenue recognition:

(i) *Scientific grants and contracts:*

Revenue from scientific grants and contracts is recognized as earned through the performance of research services. The asset "grant and contract revenues receivable" is derived from revenues earned and is either billed or unbilled pursuant to the terms of the specific grants or contracts. The liability "grant and contract income received in advance" is derived from amounts collected prior to the performance of research services and which is subsequently recorded as revenue when such services are performed.

(ii) *Contributions and pledges:*

Contributions to the Center are recognized as revenue upon the receipt of cash or other assets or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met, and, if received in advance, are recognized in the statements of financial position as funds received in advance. The Center records bequest income at the time it has an established right to a bequest and the proceeds are measureable. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

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

Notes to Financial Statements June 30, 2017 and 2016

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

[10] Functional allocation of expenses:

The cost of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated by management among the program, management and general, and fund-raising categories, using appropriate measurement methodologies.

[11] Income taxes:

The Center is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, "Income Taxes," relating to accounting and reporting for uncertainty in income taxes. Because of the Center's general tax-exempt status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Center's financial statements.

[12] New accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classes, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) presentation of operating cash flows. The new reporting standard is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the effect that this new guidance will have on the Center's financial statement and related disclosures.

[13] Subsequent events:

The Center considers the potential accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after June 30, 2017 through October 19, 2017, the date on which the financial statements were available to be issued.

NOTE B - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	June 30,			
	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Multi-asset mutual fund	\$ 34,034,003	\$ 31,809,643	\$ 30,379,539	\$ 30,286,131
U.S. government bonds	2,226,065	2,108,097	2,126,295	1,841,861
Limited partnerships	671,970	1,680,718	1,135,158	2,309,062
Equity security funds-of-funds	15,370,385	4,881,715	15,566,814	7,769,511
Other hedge funds-of-funds	8,912,982	5,434,150	8,391,133	5,183,777
	<u>\$ 61,215,405</u>	<u>\$ 45,914,323</u>	<u>\$ 57,598,939</u>	<u>\$ 47,390,342</u>

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

Notes to Financial Statements June 30, 2017 and 2016

NOTE B - INVESTMENTS (CONTINUED)

As disclosed above, concentration of the Center's investments in excess of 10% of the fair value of its portfolio included approximately (i) 56% invested in multi-asset mutual fund, (ii) 25% invested in equity security funds-of-funds, and (iii) 15% invested in other hedge funds-of-funds.

During each fiscal year, investment income (loss) consisted of the following:

	Year Ended June 30,	
	2017	2016
Interest and dividends	\$ 1,436,270	\$ 1,641,406
Net realized gains	427,015	279,269
Net unrealized (gains) losses	<u>5,092,485</u>	<u>(4,322,389)</u>
	6,955,770	(2,401,714)
Less: investment management fees	<u>(125,554)</u>	<u>(119,312)</u>
Net investment income	<u>\$ 6,830,216</u>	<u>\$ (2,521,026)</u>

Investment management fees were included in professional fees in the accompanying statements of functional expenses for both fiscal-years 2017 and 2016.

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments at the reporting date.
- Level 2: Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

Certain of the Center's investments are valued using NAV (or its equivalent) as a practical expedient of fair value. This applies to investments which (i) do not have a readily determinable fair value and (ii) the financial statements of which were prepared by the respective investment managers, in a manner consistent with the measurement principles of either an investment company or an entity which has the attributes of an investment company. Investments that are valued using NAV are not required to be categorized within the fair value hierarchy. Accordingly, these investments and certain related tables have been properly excluded from the accompanying financial statements.

The Center's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE B - INVESTMENTS (CONTINUED)

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2017 and 2016, there were no transfers among the fair-value-hierarchy levels.

The following table summarizes the fair values of the Center's assets at each fiscal year-end, in accordance with the ASC Topic 820 valuation levels:

	June 30, 2017				
	Fair-value Hierarchy			Measured at NAV	Total Investments
	Level 2	Level 3	Total		
Multi-asset mutual fund	\$ 34,034,003		\$ 34,034,003		\$ 34,034,003
U.S. government bonds	2,226,065		2,226,065		2,226,065
Limited partnerships		\$ 671,970	671,970		671,970
Equity security funds-of-funds				\$ 15,370,385	15,370,385
Other hedge funds-of-funds				8,912,982	8,912,982
	<u>\$ 36,260,068</u>	<u>\$ 671,970</u>	<u>\$ 36,932,038</u>	<u>\$ 24,283,367</u>	<u>\$ 61,215,405</u>

	June 30, 2016				
	Fair-value Hierarchy			Measured at NAV	Total Investments
	Level 2	Level 3	Total		
Multi-asset mutual fund	\$ 30,379,539		\$ 30,379,539		\$ 30,379,539
U.S. government bonds	2,126,295		2,126,295		2,126,295
Limited partnerships		\$ 1,135,158	1,135,158		1,135,158
Equity security funds-of-funds				\$ 15,566,814	15,566,814
Other hedge funds-of-funds				8,391,133	8,391,133
	<u>\$ 32,505,834</u>	<u>\$ 1,135,158</u>	<u>\$ 33,640,992</u>	<u>\$ 23,957,947</u>	<u>\$ 57,598,939</u>

The following summarizes the changes in fair-values of the Center's Level 3 investments for each fiscal-year:

	June 30,	
	2017	2016
Beginning balance	\$ 1,135,158	\$ 2,565,098
Redemptions	(639,396)	(968,126)
Realized gains	11,052	416,017
Unrealized gains (losses)	<u>165,156</u>	<u>(877,831)</u>
Ending balance	<u>\$ 671,970</u>	<u>\$ 1,135,158</u>

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

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE B - INVESTMENTS (CONTINUED)

The following table describes the funding commitment and redemption information for the Center's limited liability partnerships and limited liability companies:

	June 30, 2017			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited liability partnerships	\$ 671,970	\$ 0	None - in Liquidation	N/A
Limited liability companies	<u>24,283,367</u>	<u> </u>	Quarterly	90 days
	<u>\$ 24,955,337</u>	<u>\$ 0</u>		

NOTE C - RECEIVABLES

Grant and contract revenues receivable were \$1,359,738 and \$1,671,760 for fiscal-years 2017 and 2016, respectively. Based on its prior experience with grantors, management expects all receivables to be fully collectible. Accordingly, no provision for doubtful accounts has been recorded.

NOTE D - PROPERTY AND EQUIPMENT

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

	June 30,	
	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 19,087,169	\$ 19,087,169
Equipment and laboratory accessories	5,722,432	5,766,646
Office furniture and equipment	<u>3,554,304</u>	<u>3,614,882</u>
	28,363,905	28,468,697
Less accumulated depreciation and amortization	<u>(28,045,348)</u>	<u>(27,947,073)</u>
	<u>\$ 318,557</u>	<u>\$ 521,624</u>

During fiscal-year 2017, the Center wrote-off equipment and laboratory accessories and office furniture and equipment of \$104,792 and recognized a loss on disposal of \$34,581.

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

Notes to Financial Statements June 30, 2017 and 2016

NOTE E - REVENUE FROM SCIENTIFIC ACTIVITIES

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

	Year Ended June 30,	
	2017	2016
National Institutes of Health:		
Direct programs	\$ 4,719,261	\$ 7,148,131
Grants passed through various universities	1,986,498	1,752,715
Non-governmental grants	2,979,953	2,711,391
Chinese AIDS Initiative and other	444,388	142,859
Revenue from clinical trials	204,271	191,591
	<u>\$ 10,334,371</u>	<u>\$ 11,946,687</u>

The Center's management and general expenses and its depreciation expense form the basis for its overhead calculation. The cost of such overhead is recovered from grantors at rates authorized by them and is included in the Center's grant and contract revenue. For each fiscal year, the following revenue was recognized with respect to overhead:

	Year Ended June 30,	
	2017	2016
National Institutes of Health:		
Direct programs	\$ 1,710,989	\$ 2,621,981
Grants passed through various universities	925,360	633,927
Non-governmental grants	332,388	545,409
Chinese AIDS Initiative and other	201,584	149,855
	<u>\$ 3,170,321</u>	<u>\$ 3,951,172</u>

NOTE F - EMPLOYEE-BENEFIT PLANS

[1] Defined-contribution 403(b) retirement plan:

The Center maintains a defined-contribution retirement plan, established under Section 403(b) of the Code. The plan requires the Center to contribute an amount equal to 15% of the compensation of all eligible employees. In addition, employees may make voluntary contributions to the plan. Total plan expense for fiscal-years 2017 and 2016 was approximately \$645,000 and \$784,000, respectively.

[2] Deferred-compensation 457(b) retirement plan:

The Center established a deferred-compensation plan under Section 457(b) of the Code for certain eligible employees, defined by the Center as its executive team. Under the terms of the plan, eligible employees may contribute amounts through a salary-reduction agreement. Total plan expense for fiscal-years 2017 and 2016 was approximately \$36,000 and \$37,000, respectively.

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

Notes to Financial Statements June 30, 2017 and 2016

NOTE F - EMPLOYEE-BENEFIT PLANS (CONTINUED)

[3] Health insurance:

The Center provides health insurance benefits to all of its employees through a partially self-funded plan. The plan is administered by a third party. The Center self-funds the cost of the program up to specified stop-loss insurance limits. Coverage during the policy period limits the maximum individual and aggregate losses. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The reserve was approximately \$130,000 and \$175,000 at June 30, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets (including allocation of investment gains and losses) were categorized as follows:

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
AIDS vaccine research	\$ 3,437,941	\$ 3,316,536
Accumulated endowment income reserved for appropriation	<u>2,774,695</u>	<u>2,200,226</u>
	<u>\$ 6,212,636</u>	<u>\$ 5,516,762</u>

Net assets of \$320,279 and \$568,493 were released from restrictions for AIDS vaccine research during each fiscal-year ended June 30, 2017 and 2016, respectively.

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS

[1] The endowments:

The Center's endowment consists of both a donor-restricted endowment fund and a fund designated by the Board of Directors to function as endowment.

[2] Interpretation of relevant law:

NYPMIFA is applicable to the Center's institutional funds, including its donor-restricted and board-designated endowment funds. The Board of Directors adheres to NYPMIFA's requirements.

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

**Notes to Financial Statements
June 30, 2017 and 2016**

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

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

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund		\$ 2,774,695	\$ 5,000,000	\$ 7,774,695
Board-designated endowment fund	<u>\$ 14,471,713</u>			<u>14,471,713</u>
Total funds	<u>\$ 14,471,713</u>	<u>\$ 2,774,695</u>	<u>\$ 5,000,000</u>	<u>\$ 22,246,408</u>

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund		\$ 2,200,226	\$ 5,000,000	\$ 7,200,226
Board-designated endowment fund	<u>\$ 13,709,163</u>			<u>13,709,163</u>
Total funds	<u>\$ 13,709,163</u>	<u>\$ 2,200,226</u>	<u>\$ 5,000,000</u>	<u>\$ 20,909,389</u>

Temporarily restricted endowment represents that portion of allocated investment income derived from permanently restricted endowment assets that has not been appropriated by the Board of Directors for expenditure.

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

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 13,709,163	\$ 2,200,226	\$ 5,000,000	\$ 20,909,389
Investment gain	1,499,821	574,469		2,074,290
Appropriation of endowment assets for expenditure	<u>(737,271)</u>			<u>(737,271)</u>
Endowment net assets, end of year	<u>\$ 14,471,713</u>	<u>\$ 2,774,695</u>	<u>\$ 5,000,000</u>	<u>\$ 22,246,408</u>

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 15,006,429	\$ 2,332,720	\$ 5,000,000	\$ 22,339,149
Investment loss	(549,113)	(132,494)		(681,607)
Appropriation of endowment assets for expenditure	<u>(748,153)</u>			<u>(748,153)</u>
Endowment net assets, end of year	<u>\$ 13,709,163</u>	<u>\$ 2,200,226</u>	<u>\$ 5,000,000</u>	<u>\$ 20,909,389</u>

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

Notes to Financial Statements June 30, 2017 and 2016

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[5] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Center has no responsibility to restore such decrease in value. There were no such deficiencies in fiscal years 2017 and 2016.

[6] Return objectives and risk parameters:

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

[7] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

[8] Spending policy and how the investment objectives relate to the spending policy:

The permanently restricted endowment is expected to remain whole with all gains and losses reserved in temporarily restricted net assets until appropriated. The objective of the quasi-endowment fund is to utilize 5% of the unrestricted fund balance for operating purposes, with the anticipation that the quasi-endowment fund will grow over time.

NOTE I - COMMITMENTS AND CONTINGENCY

[1] Lease of premises:

The Center's lease of two floors of a building located in New York City ended on September 30, 2015. The Center has been in ongoing negotiations with the City of New York regarding the execution of a new lease; however, no agreement has been reached. As a result, the Center has remained on a month-to-month lease renewal program.

Rent expense for fiscal-years 2017 and 2016 was approximately \$685,000 and \$567,000, respectively.

[2] Facility contract:

During fiscal-year 2015, the Center entered into a two-year facility-management contract ending October 2017.

[3] Employment agreement:

In October 2012, the Center entered into an employment agreement with its executive director which expires in October 2017.

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

Notes to Financial Statements June 30, 2017 and 2016

NOTE I - COMMITMENTS AND CONTINGENCY (CONTINUED)

[4] Other contracts:

In the normal course of business, the Center enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

[5] Government-funded activities:

Government-funded activities are subject to audit by the applicable granting agencies. At June 30, 2017, there were no material obligations outstanding as a result of such audits, and management believes that unaudited projects would not result in any material obligations.

NOTE J - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes that the Center does not face a significant risk of loss on these accounts due to failures of those institutions.