



SEATTLE BIOMEDICAL RESEARCH INSTITUTE
dba SEATTLE BIOMED

Financial Statements
For the Year Ended June 30, 2011

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Independent Auditors' Report***The Board of Trustees
Seattle Biomedical Research Institute dba Seattle BioMed
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of Seattle Biomedical Research Institute dba Seattle BioMed (the Institute) (a nonprofit organization) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Institute'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 the Institute's 2010 financial statements, and in our report dated October 28, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of June 30, 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CLARK NUBER

In accordance with *Government Auditing Standards*, we have issued a report dated November 16, 2011, on our consideration of the Institute'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 our testing, and not to provide an opinion on 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.

Certified Public
Accountants
and Consultants



Certified Public Accountants
November 16, 2011

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

Statement of Financial Position - Assets

June 30, 2011

(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 21,203,047	\$ 19,037,896
Grants and accounts receivable	6,515,285	5,898,463
Pledges receivable, net - current (Note 3)	3,314,059	221,600
Prepaid expenses and other assets	369,027	427,879
	<u>31,401,418</u>	<u>25,585,838</u>
Total Current Assets	31,401,418	25,585,838
Property and Equipment:		
Leasehold improvements	11,261,461	11,143,105
Furniture and fixtures	834,164	834,164
Equipment	11,599,601	10,814,154
Construction in progress		33,147
	<u>23,695,226</u>	<u>22,824,570</u>
Less accumulated depreciation and amortization	<u>(13,524,443)</u>	<u>(11,889,674)</u>
Total Property and Equipment, Net	10,170,783	10,934,896
Pledges receivable, net - noncurrent (Note 3)	169,995	210,849
Related party notes receivable - noncurrent (Note 13)	288,832	273,109
Investment in affiliate (Note 4)	335,712	405,825
Other long-term assets	174,757	296,311
	<u>174,757</u>	<u>296,311</u>
Total Assets	<u>\$ 42,541,497</u>	<u>\$ 37,706,828</u>

See accompanying notes.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

Statement of Financial Position - Liabilities and Net Assets

June 30, 2011

(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Current Liabilities:		
Accounts payable	\$ 2,991,769	\$ 3,135,275
Accrued expenses	1,712,765	1,458,267
Current portion of long-term debt (Note 6)	1,548,419	1,723,033
Restricted advances on grant awards (Note 5)	<u>9,137,254</u>	<u>8,375,988</u>
Total Current Liabilities	15,390,207	14,692,563
Deferred rent liability (Note 8)	1,102,833	1,119,425
Fair value of interest rate swap (Note 6)	95,564	190,692
Long-term debt net of current portion (Note 6)	<u>1,059,932</u>	<u>1,758,351</u>
Total Liabilities	17,648,536	17,761,031
Net Assets:		
Unrestricted-		
Undesignated	12,450,716	12,047,727
Board designated	<u>1,916,291</u>	<u>1,247,465</u>
Total unrestricted	14,367,007	13,295,192
Temporarily restricted (Note 11)	10,525,954	6,600,605
Permanently restricted (Note 11)	<u>50,000</u>	<u>50,000</u>
Total Net Assets	<u>24,892,961</u>	<u>19,945,797</u>
Total Liabilities and Net Assets	<u>\$ 42,541,497</u>	<u>\$ 37,706,828</u>

See accompanying notes.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

Statement of Activities

For the Year Ended June 30, 2011

(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Support and Revenue:					
Grants and contracts - federal	\$ 27,858,893	\$ -	\$ -	\$ 27,858,893	\$ 23,723,086
Grants and contracts - nonfederal	12,599,217			12,599,217	21,915,452
Contributions	225,204	7,165,998		7,391,202	181,924
Special events, net of direct expenses of \$115,604 (2010 - \$102,957)	230,366			230,366	210,022
Income from investment in affiliate	853,094			853,094	937,903
Education program		99,442		99,442	112,918
Rental, investment and other income	1,795,839	7,187		1,803,026	1,690,718
Service fees	643,758			643,758	547,578
Change in fair value of interest rate swap agreement	95,128			95,128	52,652
Net assets released from restriction	3,397,278	(3,347,278)	(50,000)		
Total Support and Revenue	47,698,777	3,925,349	(50,000)	51,574,126	49,372,253
Expenses:					
Research program	38,945,680			38,945,680	43,820,173
Education program	871,011			871,011	933,110
Management and administrative	6,080,604			6,080,604	5,153,655
Fundraising	729,667			729,667	708,079
Total Expenses	46,626,962			46,626,962	50,615,017
Change in Net Assets	1,071,815	3,925,349	(50,000)	4,947,164	(1,242,764)
Net assets, beginning of year	13,295,192	6,600,605	50,000	19,945,797	21,188,561
Net Assets, End of Year	\$ 14,367,007	\$ 10,525,954	\$ -	\$ 24,892,961	\$ 19,945,797

See accompanying notes.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

Statement of Cash Flows
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,947,164	\$ (1,242,764)
Adjustments to reconcile change in net assets to cash flows from operating activities-		
Depreciation and amortization	1,780,244	1,916,725
Gain on interest rate swap agreement	(95,128)	(52,652)
Loss (gain) on sale of equipment	19,513	(10,000)
Investment in affiliate earnings	(853,094)	(937,902)
Donated equipment	(80,000)	
(Increase) decrease in assets:		
Grants and accounts receivable	(616,822)	(1,564,492)
Prepaid expenses and other assets	180,406	137,370
Related party notes receivable	(15,723)	(14,782)
Pledges receivable	(3,051,605)	1,442,057
Increase (decrease) in liabilities:		
Accounts payable	10,232	(1,193,537)
Accrued expenses	254,498	709,400
Restricted advances on grant awards	761,266	(437,772)
Deferred rent liability	(16,592)	140,441
Total Adjustments	<u>(1,722,805)</u>	<u>134,856</u>
Net Cash Provided by (Used in) Operating Activities	3,224,359	(1,107,908)
Cash Flows from Investing Activities:		
Proceeds from sale of investments		11,600,000
Proceeds from sales of property and equipment	8,500	
Purchase of property and equipment	(1,117,882)	(2,921,333)
Distributions from affiliate	923,207	796,040
Net Cash (Used in) Provided by Investing Activities	(186,175)	9,474,707
Cash Flows from Financing Activities:		
Repayment on long-term borrowings	(873,033)	(923,608)
Net Cash Used in Financing Activities	(873,033)	(923,608)
Net Change in Cash and Cash Equivalents	2,165,151	7,443,191
Cash and cash equivalents, beginning of year	<u>19,037,896</u>	<u>11,594,705</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,203,047</u>	<u>\$ 19,037,896</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	\$ 41,867	\$ 72,840
Cash paid for interest	\$ 192,505	\$ 254,750
Purchases of property and equipment included in accounts payable at year end or acquired by long-term debt	\$ 38,534	\$ 192,272

See accompanying notes.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

***Notes to Financial Statements
For the Year Ended June 30, 2011***

Note 1 - General Information and Summary of Significant Accounting Policies

General - Seattle Biomedical Research Institute dba Seattle BioMed (the Institute), is a private not-for-profit organization incorporated in 1976, whose humanitarian mission is to eliminate the world's most devastating diseases through leadership in scientific discovery. The Institute's scientists conduct targeted scientific research leading to the prevention, detection, and treatment of global infectious disease, including malaria, HIV/AIDS, parasite-caused afflictions, tuberculosis and others.

Basis of Presentation - The Institute follows the provisions of generally accepted accounting principles (GAAP) for not-for-profit organizations regarding the classification of net assets. Under these provisions, net asset and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. The Institute has board designated net assets of \$1,916,291 and \$1,247,465 at June 30, 2011 and 2010, respectively, for specific research labs.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time (Note 11).

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the Institute maintains them permanently. The Institute had \$0 and \$50,000 permanently restricted net assets whose income is available for operations as of June 30, 2011 and 2010, respectively.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their uses are restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions - Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. Contributions to be received over more than one year are stated at their present value using a discounted cash flow model. Amortization of the discount is reported as contribution revenue.

Federal Tax Status - The Internal Revenue Service has determined the Institute to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Institute pays unrelated business income tax on the net income on its investment in 307 Westlake LLC (Note 4). Income tax expense was \$41,687 and \$72,840 for the years ended June 30, 2011 and 2010, respectively. The Institute files income tax returns with the U.S. government. The Institute is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

Use of Estimates - The preparation of financial statements in conformity with GAAP 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 1 - Continued

Accounting for Grant Revenue - A substantial portion of the Institute's revenue is derived from governmental and private grant awards that are restricted to specific program or project support. Current grant revenue is recognized as expenditures are made or liabilities are incurred in connection with fulfilling the specific restricted purposes of the award. Cash received in excess of grant expenditures is accounted for as restricted advances. Expenses incurred, which are not yet reimbursed, are accounted for as grants receivable.

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. At June 30, 2011 and 2010, there was no valuation allowance applied against grants and accounts receivable. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants, contracts, or accounts receivable.

Property and Equipment - Property, equipment and leasehold improvements are recorded at cost if property is purchased by the Institute directly, and fair value if received through donation. The Institute's capitalization threshold is \$5,000. The Institute charges ordinary maintenance to operations as incurred. Property and equipment transferred as a result of program relocation to another institution is expensed. Depreciation and amortization are computed using the straight-line method over the shorter of the estimated useful lives or lease term, if applicable, of assets ranging from 3 to 10 years.

The Institute's construction in progress balance relates primarily to equipment purchases that had not yet been placed in service.

The Institute's property and equipment includes equipment under capital leases with a cost basis of \$377,831 and accumulated depreciation of \$283,373 and \$207,807 for the years ended June 30, 2011 and 2010, respectively.

A portion of the Institute's equipment is subject to U.S. government grant administration policy, under which the federal government has retained the right to request a transfer of title to another grantee; however, this right is rarely exercised.

Donated Assets and Services - Donated assets are recorded at estimated fair values. Donated supplies and services are not significant, and have not been reflected in the accompanying financial statements.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Institute considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Functional Expenses - The costs of conducting research programs and other activities have been summarized on a functional basis based on the benefits derived in the statement of functional expenses, which is included as supplementary information within this report.

Allocation of Expenses - Certain direct costs, which benefit multiple grants, have been allocated among the grants receiving the benefits.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 1 - Continued

Indirect costs are allocated to Federal research grants through the application of indirect cost rates applied to total direct costs, excluding costs for equipment, fellowship, and subcontracts. Under agreements between the Institute and the Department of Health and Human Services (the Department), indirect costs are applied at a provisional rate. The Institute has a provisional indirect cost rate for 2011 of 91%. The final rate for 2011 will be negotiated with the Department within the near future. As a result of the indirect cost rate being negotiated as a final rate, it is subject to change from its provisional rate of 91%. Direct and indirect costs allocated to grants are subject to audit by granting agencies.

Summarized Information for 2010 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Reclassifications - Certain amounts on the 2010 financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications had no effect on the change in net assets or net asset balances as previously reported.

Subsequent Events - The Institute has evaluated subsequent events through November 16, 2011, the date which the financial statements were available to be issued.

Note 2 - Investment Earnings

Interest on certain grants, including the Bill & Melinda Gates Foundation and Foundation for NIH, is restricted to the respective awarded grant and is recorded as restricted advances until earned. Investment income for the year ended June 30, 2011 and 2010, consists of interest of \$212 and \$28,554, respectively. Investment income is included in interest, investment and other income on the statement of activities.

Note 3 - Pledges Receivable

Unconditional promises to give (pledges receivable) at June 30 are due as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 3,314,059	\$ 221,600
Receivable in one to five years	<u>219,097</u>	<u>265,000</u>
Total pledges receivable	3,533,156	486,600
Less allowance for doubtful accounts	(25,000)	(25,000)
Less discount to net present value (6%)	<u>(24,102)</u>	<u>(29,151)</u>
Pledges Receivable, Net	<u>\$ 3,484,054</u>	<u>\$ 432,449</u>

At June 30, 2011 and 2010, the Institute had pledges receivable from trustees of \$209,425 and \$404,000, respectively.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 4 - Investment in Affiliate

The Institute invested in a limited partnership, 307 Westlake LLC (the LLC), with City Investors, Inc. and Harbor Properties, Inc. in order to develop, construct and lease a biomedical research facility in Seattle, Washington. Construction was completed and the building occupied in March 2004. Effective July 30, 2004 Harbor Properties, Inc. sold its member interest in the LLC to the remaining partners. The Institute purchased an additional 14% member interest in 307 Westlake LLC, resulting in a total member interest of 49%.

The Institute uses the equity method of accounting for its investment and recognized income of \$853,094 and \$937,903 for the years ended June 30, 2011 and 2010, respectively. For the year ended June 30, 2011 and 2010, the Institute's 49% share of LLC distributions was \$923,207 and \$796,040, respectively.

Summarized condensed financial information (unaudited) of the LLC is as follows for the years ending June 30:

	<u>2011</u>	<u>2010</u>
Balance Sheet-		
Property at cost, net of depreciation and amortization	\$ 24,380,180	\$ 24,993,601
Other assets	1,798,259	1,781,609
Notes payable	27,377,042	28,018,037
Other liabilities	381,668	194,356
Members equity	(1,580,271)	(1,437,183)
Statement of Operations-		
Revenues	\$ 5,712,649	\$ 5,637,776
Net income	1,741,009	1,914,086

Note 5 - Restricted Advances on Grant Awards

Restricted advances on grants consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
The Bill & Melinda Gates Foundation	\$ 7,878,342	\$ 5,730,564
Foundation for NIH	1,185,603	2,061,362
PATH	19,880	327,699
Department of Defense	8,787	208,123
Burroughs Welcome Fund and Other	44,642	48,240
Total Restricted Advances on Grant Awards	<u>\$ 9,137,254</u>	<u>\$ 8,375,988</u>

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 6 - Long-Term Debt

Long-term debt consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Tenant improvement loan with Key Bank	\$ 1,653,333	\$ 2,273,333
Furniture, fixtures and equipment leases with Key Bank		176,637
Equipment lease with Key Bank	105,018	181,414
Note payable, secured, with Key Bank	<u>850,000</u>	<u>850,000</u>
	2,608,351	3,481,384
Less current portion	<u>(1,548,419)</u>	<u>(1,723,033)</u>
Total Long-Term Debt	<u>\$ 1,059,932</u>	<u>\$ 1,758,351</u>

The Institute entered into a Credit Agreement with Key Bank in December 2002 for a \$6.2 million ten year term loan to construct tenant improvements at 307 Westlake and a \$1.5 million seven year financing lease to fund the purchase of fixtures, furnishings and equipment. All draws were made during the year ending June 30, 2004, with both the loan and the lease terms beginning March 1, 2004. The interest rate is based on the LIBOR rate plus 2% with interest and principal payable monthly. The loan and the lease are secured by an assignment of the Institute's 49% member interest in the LLC, an assignment of the leasehold interest, cash collateral of 25% of the facilities at the beginning of the term or \$1,925,000, equipment and other assets. The credit agreement requires the Institute to maintain an asset to liabilities ratio of 2:1. The Institute was in compliance with all of the long-term debt obligation covenants, as amended, at June 30, 2011 and 2010. Costs of \$179,207 incurred by the Institute to obtain this financing, together with capitalized interest of \$121,834, are included with the cost of the leasehold improvements and amortized over the ten-year term of the related obligation, which also matches the first term of the lease, using the straight-line method beginning in April 2004. The tenant improvement loan requires monthly payments of \$51,667 through February 2014. The financing lease required monthly payments of \$19,833 through March 2011.

During 2007, the Institute purchased equipment under a capital lease. The equipment and capital lease obligations have been recorded at the present value of the lease payments. The Institute is required to make a monthly payment of \$6,675 through October 2012.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 6 - Continued

The Institute signed a promissory note dated June 23, 2008, in the amount of \$850,000 the proceeds of which were used to repay a note to City Investors VI LLC, originally used to finance the purchase of an additional 14% member interest in 307 Westlake LLC. The principal on the note was due June 30, 2011 and paid on July 1, 2011.

Principal maturities on these notes are as follows:

For the Year Ending June 30,

2012	\$ 1,548,419
2013	646,599
2014	413,333
	<hr/>
	<u>\$ 2,608,351</u>

The Institute entered into three interest rate swap transactions with Key Bank. Two of the swaps fix the interest rate on the term loan at 6.74% for ten years and on the financing lease at 6.47% for seven years, both beginning at the start of the term, which was March 1, 2004. The third swap fixes the interest rate on the secured note payable at 5.8% for three years beginning June 30, 2008. For the years ended June 30, 2011 and 2010, the Institute recognized an unrealized gain on the values of the swap agreements in the statement of activities of \$95,128 and \$56,652, respectively. The accumulated unrealized loss related to these interest rate swap agreements of \$95,564 and \$190,692 is shown on the statement of financial position as a liability titled fair value of interest rate swap as of June 30, 2011 and 2010, respectively. The valuations of the swap agreements are affected by fluctuations in the floating interest rates and the passage of time.

Note 7 - Fair Value Measurements

GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 7 - Continued

Following is a description of the valuation methodology used for liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Interest Rate Swap Agreement - The interest rate swap agreement is derived from proprietary or other pricing models based on assumptions regarding past, present and future market conditions.

Fair Values Measured on a Recurring Basis - The fair value of the interest rate swap agreements are measured using Level 3 inputs.

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows:

Beginning balance at July 1, 2010	\$ (190,692)
Total unrealized gains	<u>95,128</u>
Ending Balance at June 30, 2011	<u>\$ (95,564)</u>

Note 8 - Lease Obligations

The Institute entered into a long-term operating lease agreement in connection with the investment in and relocation to the new laboratory facility at 307 Westlake. The lease has a ten-year term commencing March 2004, and has options to extend for four periods of five years each. As of June 30, 2011, the lease requires monthly lease payments of \$167,971. Monthly lease payments increase by 2.5% annually over the term of the lease. Rent expense is recorded on a straight line basis over the life of the lease. Accordingly, for a portion of the lease the actual payments under the agreements are less than the expense recognized.

The lease has been secured with a standby letter of credit from Key Bank with an initial amount of \$1,640,611 which is the equivalent of the twelve months of the first year rent under the lease. The lease provides for a reduction in the security requirement to half of the initial amount to occur ratably over the first five years of the lease. As of June 30, 2011, the letter of credit amount was \$820,306.

In August 2007, the Institute entered into an agreement to assume the lease of the second and third floor of 307 Westlake through June 30, 2017. As of June 30, 2011, the lease requires monthly lease payments of \$168,896. Monthly lease payments increase annually over the term of the lease. Rent expense is recorded on a straight line basis over the life of the lease. Accordingly, for a portion of the lease the actual payments under the agreements are less than the expense recognized.

The resulting accumulated difference between the rent payments and the expense recognized is reported on the statement of financial position as deferred rent liability, which totaled \$1,102,833 and \$1,119,425 at June 30, 2011 and 2010, respectively.

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 8 - Continued

In May, 2007, the Institute entered into a sublease agreement with a tenant for the third floor at 307 Westlake. The lease became effective October 1, 2007, and terminates on January 31, 2012. The sublease is secured by a standby letter of credit from Comerica Bank in the amount of \$200,000. In accordance with GAAP, the Institute recognizes rental revenue on a straight-line basis resulting in a cumulative deferred rent asset of \$58,117 and \$128,012 at June 30, 2011 and 2010, respectively, which is included in other long-term assets. The Institute accepted a lease assignment from Seattle Children's on March 1, 2007, subleasing the space to VLST Corp. for the duration of the assignment.

Lease expense net of rental income for the years ended June 30, 2011 and 2010, was \$2,830,896 and \$2,723,893, respectively. Future rental commitments are as follows as of June 30, 2011:

<i>For the Year Ending June 30,</i>	<u><i>Lease Payments</i></u>	<u><i>Sublease Receipts</i></u>
2012	\$ 4,212,127	\$ 1,243,752
2013	4,264,061	743,375
2014	3,698,831	
2015	2,204,631	
2016	2,257,489	
Thereafter	<u>2,396,948</u>	
	<u>\$ 19,034,087</u>	<u>\$ 1,987,127</u>

Note 9 - Commitments and Contingencies

Restricted grants and contributions require the fulfillment of certain conditions as set forth in the funding agreement. Failure to fulfill the conditions could result in the return of the funds to grantors and contributors. Although this is a possibility, the Institute's management considers the contingency remote.

The Institute has qualified for deferred sales and use taxes on specific assets used for research and development purposes. The sales and use tax liability is forgiven over an eight year period as long as the assets are continued to be used for research and development purposes.

The Institute receives a substantial amount of its support from federal governmental agencies. Amounts received are subject to audit and adjustments by the grantor agencies. Any disallowed cost, including amounts already collected, may constitute a liability for the Institute. The amounts, if any, of expenditures that may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification by the governmental agency. During the year ended June 30, 2011, the Institute has determined the final indirect cost rate for 2010 to be 87.1% which changed from its prior year's provisional rate of 91%, 92.8%, and 96.5%. The Institute estimates this liability to be approximately \$334,000. This cost has been accrued and is reflected under accounts payable in the statement of financial position

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Notes to Financial Statements
For the Year Ended June 30, 2011**

Note 10 - Concentrations

Cash - The Institute frequently maintains significant cash and cash equivalent balances with financial institutions that are in excess of Federal Deposit Insurance Corporation (FDIC) limits.

Revenues and Related Receivables - The Institute received federal grants from the Department of Health and Human Services of \$27,687,529 which represents 98% of the total federal grant revenues for the year ended June 30, 2011. The Institute had related grants receivable of \$5,686,742 which represents 87% of total grants and accounts receivable at June 30, 2011.

The Institute received non-federal grants from one organization of \$8,672,830 which represents 69% of total non-federal grant revenues for the year ended June 30, 2011.

The Institute received contributions from one donor of approximately \$7,059,859 which represents 96% of total contribution revenue for the year ended June 30, 2011. The Institute had related pledges receivable of \$3,125,355 which represents 96% of total pledges receivable at June 30, 2011.

Note 11 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	<u>2011</u>	<u>2010</u>
Science expansion	\$ 1,653,087	\$ 2,824,967
Malaria vaccine	65,169	173,562
TB drug development	1,661,808	3,080,842
Infrastructure - operating	6,672,130	
BioQuest educational program	371,120	376,234
Time restrictions and other	<u>102,640</u>	<u>145,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 10,525,954</u>	<u>\$ 6,600,605</u>

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

***Notes to Financial Statements
For the Year Ended June 30, 2011***

Note 11 - Continued

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows for the year ended June 30, 2011:

Purpose restriction accomplished-	
Science expansion	\$ 1,178,709
Malaria vaccine	133,394
TB drug development	1,425,633
Infrastructure - operating	462,640
BioQuest educational program	104,542
Time restrictions and other	92,360
	<u>\$ 3,397,278</u>

During the year ending June 30, 2011, a donor released the restriction on endowment net assets of \$50,000 that were previously reported as permanently restricted.

Note 12 - Retirement Plans

The Institute has a qualified defined contribution retirement plan covering substantially all employees. Benefits vest based on years of employment with full vesting upon completion of one year of employment. Contributions to the plan are based on a graduated schedule based on age and years of service ranging from five to ten percent of each employee's annual salary. Total plan costs for the years ended June 30, 2011 and 2010, were \$1,076,579 and \$973,196, respectively. Non-vested terminated employee refunds for the years ended June 30, 2011 and 2010, were \$14,260 and \$14,650, respectively.

Note 13 - Related Party Note Receivable

At June 30, 2011, the Institute had four loans outstanding with employees. The loans accrue interest at rates ranging from 3.25% to 8.25%. Each loan and accrued interest is forgivable after five years of employment and will be deemed compensation in the year the loan is forgiven. However, if the employee leaves prior to five years of employment, the loan plus all accrued interest will be payable upon termination of the employment.

SUPPLEMENTARY INFORMATION

SEATTLE BIOMEDICAL RESEARCH INSTITUTE dba SEATTLE BIOMED

**Statement of Functional Expenses
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)**

	<i>Research Program</i>	<i>Education Program</i>	<i>Management & Administrative</i>	<i>Fundraising</i>	<i>2011 Total</i>	<i>2010 Total</i>
Salaries	\$ 12,783,057	\$ 224,659	\$ 1,631,680	\$ 360,333	\$ 14,999,729	\$ 13,977,143
Fringe benefits	3,200,271	56,513	405,256	88,611	3,750,651	3,402,653
Other non-employee personnel	621,549		6,946		628,495	827,188
	<u>16,604,877</u>	<u>281,172</u>	<u>2,043,882</u>	<u>448,944</u>	<u>19,378,875</u>	<u>18,206,984</u>
Subcontracts	11,236,346				11,236,346	15,675,904
Occupancy	3,079,429	171,619	2,548,094	52,015	5,851,157	5,725,149
Supplies	3,574,938	19,631	107,302	12,454	3,714,325	3,848,774
Depreciation and amortization	1,413,662	37,736	312,396	16,450	1,780,244	1,916,725
Consulting, legal and other professional services	331,039	208,072	548,698	50,939	1,138,748	1,489,932
Outside purchases services	535,264	9,101	73,227	1,708	619,300	954,748
Equipment rental and maintenance	529,781	8,082	63,770	5,566	607,199	596,053
Other	397,318	40,682	21,690	17,327	477,017	492,334
Travel	338,820	47,784	18,476	2,515	407,595	344,650
Conference and meetings	185,013	19,194	39,905	91,293	335,405	290,446
Insurance	123,855	683	150,623	1,062	276,223	237,878
Stipends	246,161	2,650			248,811	125,611
Interest	140,727	5,330	44,124	2,324	192,505	254,750
Communications and publications	34,858	17,597	40,067	89,172	181,694	171,475
Telephone	81,665	1,336	11,082	1,280	95,363	86,159
Fees and licenses	28,178	292	52,866	3,432	84,768	62,920
Recruitment and relocation	63,749	50	4,175		68,311	53,744
Bad debt				29,068	29,068	67,420
Donor cultivation and stewardship			227	19,385	19,612	91,164
Equipment donated to others						25,154
	<u>38,945,680</u>	<u>871,011</u>	<u>6,080,604</u>	<u>845,271</u>	<u>46,742,566</u>	<u>50,717,974</u>
Total						
Special events expenses included in support and revenue on the Statement of Activities				115,604	115,604	102,957
Total Expenses	<u>\$ 38,945,680</u>	<u>\$ 871,011</u>	<u>\$ 6,080,604</u>	<u>\$ 729,667</u>	<u>\$ 46,626,962</u>	<u>\$ 50,615,017</u>

See independent auditors' report.