

***SEATTLE INSTITUTE FOR BIOMEDICAL
AND CLINICAL RESEARCH***

Financial Statements

For the Year Ended
September 30, 2010

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Independent Auditors' Report***Board of Directors
Seattle Institute for Biomedical and Clinical Research
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statement of financial position of Seattle Institute for Biomedical and Clinical Research (the Institute) as of September 30, 2010, 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 2009 audited financial statements and in our report dated February 25, 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 *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 September 30, 2010, 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 Schedule of Functional Expenses on page 10 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2011 on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Certified Public Accountants
March 3, 2011

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Statement of Financial Position

September 30, 2010

(With Comparative Totals for 2009)

<i>Assets</i>	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 1,233,927	\$ 1,700,316
Accounts and grants receivable, net of allowance of \$130,707 (\$144,859 for 2009)	3,031,925	1,682,605
Interest receivable	46,503	76,986
Facility contribution receivable - current		16,193
Prepaid expenses and deposits	<u>91,053</u>	<u>30,144</u>
Total Current Assets	4,403,408	3,506,244
Research equipment, net of accumulated depreciation of \$449,555 (\$340,786 for 2009)	431,417	204,999
Facility contribution receivable (Note 5)		220,670
Investments (Note 3)	<u>9,645,785</u>	<u>9,419,914</u>
Total Assets	<u>\$ 14,480,610</u>	<u>\$ 13,351,827</u>
 <i>Liabilities and Net Assets</i>		
Current Liabilities:		
Accounts payable	\$ 1,066,396	\$ 561,696
Accrued liabilities	1,155,981	796,783
Deferred revenue	<u>1,991,755</u>	<u>1,521,911</u>
Total Current Liabilities	4,214,132	2,880,390
Net Assets:		
Unrestricted	9,535,606	9,344,971
Temporarily restricted (Note 8)	<u>730,872</u>	<u>1,126,466</u>
Total Net Assets	<u>10,266,478</u>	<u>10,471,437</u>
Total Liabilities and Net Assets	<u>\$ 14,480,610</u>	<u>\$ 13,351,827</u>

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

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

**Statement of Activities
For the Year Ended September 30, 2010
(With Comparative Totals for 2009)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Operating				
Support, Revenue, and Reclassifications:				
Grants and contributions - private	\$ 1,581,334	\$ 76,796	\$ 1,658,130	\$ 2,914,494
Grants - government	10,603,252		10,603,252	5,792,184
Interagency agreements	1,387,121		1,387,121	1,524,140
Investment income (Note 3)	252,521		252,521	334,782
In-kind facility contributions (Note 2)	16,193		16,193	16,193
Other income	27,786		27,786	25,968
	<u>13,868,207</u>	<u>76,796</u>	<u>13,945,003</u>	<u>10,607,761</u>
Net assets released from restrictions	235,527	(235,527)		
Total Support, Revenue, and Reclassifications	14,103,734	(158,731)	13,945,003	10,607,761
Expenses:				
Program -				
Research	11,228,155		11,228,155	7,620,634
Education	28,194		28,194	27,631
Research and development support	1,248,335		1,248,335	873,089
Total program	<u>12,504,684</u>		<u>12,504,684</u>	<u>8,521,354</u>
Supporting services -				
Management, general, and administrative	1,401,286		1,401,286	1,098,406
Total Expenses	13,905,970		13,905,970	9,619,760
Change in Net Assets from Operations	197,764	(158,731)	39,033	988,001
Other Changes in Net Assets:				
Facility contribution write-off (Note 5)		(236,863)	(236,863)	
Unrealized (loss) gain on investments, net (Note 3)	(7,129)		(7,129)	61,750
Total Other Changes in Net Assets	(7,129)	(236,863)	(243,992)	61,750
Total Change in Net Assets	190,635	(395,594)	(204,959)	1,049,751
Net assets at beginning of year	<u>9,344,971</u>	<u>1,126,466</u>	<u>10,471,437</u>	<u>9,421,686</u>
Net Assets at End of Year	\$ 9,535,606	\$ 730,872	\$ 10,266,478	\$ 10,471,437

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

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

**Statement of Cash Flows
For the Year Ended September 30, 2010
(With Comparative Totals for 2009)**

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (204,959)	\$ 1,049,751
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	108,769	75,440
Unrealized loss (gain) on investments	7,129	(61,750)
Donated research equipment	(20,600)	
Changes in current assets and liabilities:		
Accounts and grants receivable	(1,349,320)	(406,075)
Facility contribution receivable	236,863	
Interest receivable	30,483	29,851
Prepaid expenses and deposits	(60,909)	(15,969)
Accounts payable and accrued liabilities	810,653	202,518
Deferred revenue	469,844	122,466
Total adjustments	<u>232,912</u>	<u>(53,519)</u>
Net Cash Provided by Operating Activities	27,953	996,232
Cash Flows from Investing Activities:		
Payments for research equipment	(261,342)	(65,562)
Proceeds from maturity of investments	4,907,000	4,786,000
Purchases of investments	<u>(5,140,000)</u>	<u>(5,130,957)</u>
Net Cash Used by Investing Activities	(494,342)	(410,519)
Net Change in Cash and Cash Equivalents	(466,389)	585,713
Cash and cash equivalents, beginning of year	<u>1,700,316</u>	<u>1,114,603</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,233,927</u>	<u>\$ 1,700,316</u>
Supplemental Information:		
Donated research equipment	\$ 20,600	
Capital assets acquired for which payables exist at year end	\$ 53,245	

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

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - Seattle Institute for Biomedical and Clinical Research (the Institute) is a nonprofit organization incorporated in 1989 to provide a flexible funding mechanism for the conduct of biomedical and clinical research and educational activities in conjunction with the Veterans Affairs Puget Sound Health Care System (the VAPSHCS) Seattle and American Lake Divisions (formerly the Veterans Affairs Medical Center) and other similarly qualified organizations. The Director, Chief of Staff, Associate Chief of Staff for Research and Development, and Director of Center for Education and Development of the VAPSHCS also serve as directors for the Institute.

Basis of Presentation - Net assets 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.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Institute and/or the passage of time. As of September 30, 2010, the balance of temporarily restricted net assets is available for purposes described in Note 8.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. The Institute had no permanently restricted net assets at September 30, 2010.

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 use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on the 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.

Grants and Contributions - To ensure observance of limitations placed on the expenditure of grant funds and contributions, the Institute tracks the activity for each grant award or other funding source. Although each funding source has specific limitations that require separate accountability, all grant funding and other revenue sources support common research activities when viewed in total. Accordingly, for financial reporting purposes, expenses relating to grant awards and other support and revenue are combined and reported as a single activity having a common purpose and goal. At September 30, 2010, the Institute had grants and contracts receivable of \$2,509,876 due within one year, which is included in accounts and grants receivable at year end.

Contributions, which include unconditional promises to give, are recognized as revenue in the period received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Institute considers all highly liquid investments with original maturities of 90 days and less to be cash equivalents, except for those held for long-term investment purposes.

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

Note 1 - Continued

Accounts and 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. 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.

Investments - The Institute's investments, consisting of certificates of deposit and government issued securities, are stated at fair value.

Research Equipment - Research equipment with an original cost of \$5,000 or greater is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of 2 to 5 years.

Taxes - The IRS has determined the Institute to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and the Institute is not considered a private foundation.

The Institute files income tax returns with the U.S. and various state and local governments. The Institute is subject to income tax examinations by the tax authorities of these governments for the current year and certain prior years based on the applicable laws and regulations of each jurisdiction.

Credit Risk - The Institute held cash and cash equivalents and investments in a financial institution at September 30, 2010, in excess of federally insured limits.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Allocation of Expenses - The costs of providing the various programs and other activities have been recorded in the statement of activities. Accordingly, certain costs have been allocated among the programs and management, general and administration based on the benefits derived. Fundraising costs are immaterial and have been included in management, general, and administrative.

Indirect Costs - Indirect costs are charged to research grants through the application of indirect cost rates applied to direct expenses. Under an agreement between the Institute and the Department of Health and Human Services (the Institute's oversight agency), indirect costs are billed at an approved rate.

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

Note 1 - Continued

Comparative Totals - The financial information includes 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 accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

Subsequent Events - The Institute has evaluated subsequent events through March 3, 2011, the date on which the financial statements were available to be issued.

Note 2 - Related Party Transactions

In connection with certain research activities the VAPSHCS provides services to the Institute under a cost-reimbursement arrangement. For the year ended September 30, 2010, the Institute incurred total costs of \$288,059 under this arrangement. In addition, Institute employees provide support to an intramural research program at VAPSHCS. For the year ended September 30, 2010, the Institute was reimbursed costs of \$1,340,930 under this arrangement. At September 30, 2010, the Institute had receivables due from VAPSHCS of \$368,513 and payables due of \$79,227.

In addition, the Institute received an in-kind contribution of rent and contributed facilities of \$16,193 for the use of the office it occupies from the VAPSHCS for the year ended September 30, 2010.

During the year ended September 30, 2010, an Institute board member was an employee of Fred Hutchinson Cancer Research Center. The Institute received grant revenue totaling \$213,027 from Fred Hutchinson Cancer Research Center during the year ended September 30, 2010.

The Institute has joint personnel agreements and also occasionally subcontracts with the University of Washington. The Institute has board members who are faculty at the University.

Note 3 - Investments

Investments consist of certificates of deposit of \$9,645,785 at September 30, 2010.

Investment return for the year ended September 30, 2010, was as follows:

Interest	\$ 252,521
Unrealized loss	<u>(7,129)</u>
Total Investment Return	<u>\$ 245,392</u>

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

Note 4 - Fair Value Measurements

Generally accepted accounting principles (GAAP) define fair value, establish a framework for measuring fair value, and require 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). The Institute's assets measured at fair value consist of certificates of deposit. Certificates of deposit are valued at the closing price reported on the active market on which the asset type is traded. There have been no changes in the methodologies used at September 30, 2010 and 2009.

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.

Fair values of the Institute's investments are determined using Level 2 inputs (see Note 3).

Note 5 - Facility Contribution Receivable

As discussed in Note 2, the Institute receives an in-kind contribution of facilities from VAPSHCS. The space provided by VAPSHCS is restricted to the Institute continuing to support VAPSHCS programs. The value of the total contribution was recorded, discounted to present value, as a receivable and a temporarily restricted contribution. During December 2010, the Institute moved its administrative offices to a separate facility from VAPSHCS. Therefore, the Institute has written off the remaining facility contribution receivable as of September 30, 2010.

Note 6 - Retirement Plans

The Institute has a 403(b) Defined Contribution Retirement Plan available to all employees who have completed the equivalent of six months and work at least half time. The Institute contributes an amount equal to 5% of the gross pay of all eligible employees. The Institute will also match employee contributions up to an amount not to exceed 2.5% of the contributing employee's gross pay. All contributions under the Plan are immediately vested with the employee. Retirement expense amounted to \$360,539 for the year ended September 30, 2010. It is the policy of the Institute to fund retirement costs accrued currently.

In addition, a 403(b) Salary Deferral Plan is available to all eligible employees. This Plan permits them to defer a portion of their salary until future years.

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

Note 7 - Contingencies

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, management considers the contingency remote. Direct and indirect costs charged to grants are subject to review and audit by granting agencies. Any liabilities that result from a disallowed cost would be recorded when the liability becomes known.

Leases - During December 2010, the Institute entered into an administrative office facilities lease. The five-year non-cancelable lease expires November 2015. Future minimum annual rental commitments under the non-cancellable lease agreement are as follows:

Fiscal Years Ending September 30,

2011	\$	90,025
2012		110,731
2013		114,053
2014		117,474
2015		120,998
Thereafter		<u>20,265</u>
Total	\$	<u>573,546</u>

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets of \$730,872 are available for research related purposes at September 30, 2010.

Net asset releases related to program restrictions were \$235,527 for the year ending September 30, 2010.

Note 9 - Concentrations

The Institute receives a significant amount of its funding from one primary source, the federal government. During the year ended September 30, 2010, approximately 77% of the Institute's revenue was from federal government agencies. Loss of this funding could have a material effect on the Institute; however, management of the Institute does not anticipate a significant loss of such funding.

SUPPLEMENTARY INFORMATION

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

**Schedule of Functional Expenses
For the Year Ended September 30, 2010
(With Comparative Totals for 2009)**

	<u>Research</u>	<u>Education</u>	<u>Research and Development Support</u>	<u>Total Program</u>	<u>Management, General, and Administrative</u>	<u>2010 Total</u>	<u>2009 Total</u>
Personnel	\$ 6,007,736	\$ -	\$ 760,272	\$ 6,768,008	\$ 958,071	\$ 7,726,079	\$ 6,133,875
Professional fees	63,269	26,165	5,260	94,694	110,756	205,450	124,871
Subcontracts	2,555,752			2,555,752		2,555,752	931,792
Interagency agreements	1,167,977		1,093	1,169,070	84,784	1,253,854	856,918
Supplies	1,158,966	196	92,789	1,251,951	88,025	1,339,976	947,766
Small equipment	56,896		67,238	124,134	59,707	183,841	115,546
Facilities			9,897	9,897	16,193	26,090	16,193
Equipment rental and repair	23,663		86,371	110,034	6,249	116,283	47,750
Communications	18,461		152	18,613	9,224	27,837	23,247
Printing, publications, and postage	19,954		8,544	28,498	2,743	31,241	23,140
Advertising	9,750		261	10,011	569	10,580	17,704
Travel	113,933	14	64,387	178,334	10,909	189,243	165,919
Conferences and meetings	43,519	1,819	16,625	61,963	1,204	63,167	60,007
Staff development and training	2,105		1,829	3,934	14,027	17,961	16,118
Dues and subscriptions			19,567	19,567	17,755	37,322	35,679
Licenses, permits, fees, and taxes					5,390	5,390	1,775
Insurance	326			326	15,680	16,006	15,508
Depreciation			108,769	108,769		108,769	75,440
Other			5,281	5,281		5,281	10,512
	<u>11,242,307</u>	<u>28,194</u>	<u>1,248,335</u>	<u>12,518,836</u>	<u>1,401,286</u>	<u>13,920,122</u>	<u>9,619,760</u>
Bad debt expense	<u>(14,152)</u>			<u>(14,152)</u>		<u>(14,152)</u>	
Total Expenses	<u>\$ 11,228,155</u>	<u>\$ 28,194</u>	<u>\$ 1,248,335</u>	<u>\$ 12,504,684</u>	<u>\$ 1,401,286</u>	<u>\$ 13,905,970</u>	<u>\$ 9,619,760</u>

See independent auditors' report.