

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

Financial Statements

For the Year Ended
September 30, 2008

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Independent Auditors' Report

Board of Directors Seattle Institute for Biomedical and Clinical Research Seattle, Washington


We have audited the accompanying statement of financial position of Seattle Institute for Biomedical and Clinical Research (the Institute) as of September 30, 2008, 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 2007 financial statements and in our report dated January 16, 2008, 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, 2008, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009 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.


Clark Nuber P.S.
Certified Public Accountants
Bellevue, Washington
February 5, 2009

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Statement of Financial Position

September 30, 2008

(With Comparative Totals for 2007)

<i>Assets</i>	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash and cash equivalents	\$ 1,114,603	\$ 1,004,008
Accounts and grants receivable, net of allowance of \$144,859 (\$0 for 2007)	1,276,530	1,421,532
Interest receivable	106,837	114,227
Facility contributions receivable - current	16,193	16,243
Prepaid expenses and deposits	<u>14,175</u>	<u>35,313</u>
Total Current Assets	2,528,338	2,591,323
Research equipment, net of accumulated depreciation of \$297,911	220,884	240,623
Facility contribution receivable	220,670	220,620
Investments	<u>9,013,207</u>	<u>8,447,433</u>
Total Assets	<u>\$ 11,983,099</u>	<u>\$ 11,499,999</u>
 <i>Liabilities and Net Assets</i>		
Current Liabilities:		
Accounts payable	\$ 557,032	\$ 640,658
Accrued liabilities	604,936	557,495
Deferred revenue	<u>1,399,445</u>	<u>1,226,838</u>
Total Current Liabilities	2,561,413	2,424,991
Net Assets:		
Unrestricted	8,763,342	8,547,883
Temporarily restricted (Note 7)	<u>658,344</u>	<u>527,125</u>
Total Net Assets	<u>9,421,686</u>	<u>9,075,008</u>
Total Liabilities and Net Assets	<u>\$ 11,983,099</u>	<u>\$ 11,499,999</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, 2008

(With Comparative Totals for 2007)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>2008 Total</i>	<i>2007 Total</i>
Operating				
Support, Revenue, and Reclassifications:				
Grants - Private	\$ 2,648,746	\$ 200,541	\$ 2,849,287	\$ 2,821,311
Grants - Government	5,077,054	56,066	5,133,120	4,741,573
Interagency agreements	1,189,302		1,189,302	764,563
Investment income	376,638		376,638	357,615
In-kind facility contributions (Note 2)		16,380	16,380	16,380
Other income	19,556		19,556	4,643
	9,311,296		9,584,283	8,706,085
Net assets released from restrictions	141,768	(141,768)		
Total Support, Revenue, and Reclassifications	9,453,064	131,219	9,584,283	8,706,085
Expenses:				
Program -				
Research	7,301,151		7,301,151	6,643,718
Education	38,970		38,970	62,442
Research and development support	835,767		835,767	1,115,765
Total program	8,175,888		8,175,888	7,821,925
Supporting services -				
Management, general, and administrative	1,078,477		1,078,477	841,602
Total Expenses	9,254,365		9,254,365	8,663,527
Change in Net Assets from Operations	198,699	131,219	329,918	42,558
Other Changes in Net Assets:				
Unrealized gain on investments, net (Note 3)	16,760		16,760	67,215
Total Other Changes in Net Assets	16,760		16,760	67,215
Total Change in Net Assets	215,459	131,219	346,678	109,773
Net assets at beginning of year	8,547,883	527,125	9,075,008	8,965,235
Net Assets at End of Year	\$ 8,763,342	\$ 658,344	\$ 9,421,686	\$ 9,075,008

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, 2008

(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 346,678	\$ 109,773
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,221	54,740
Unrealized gain on investments	(16,760)	(67,215)
Changes in current assets and liabilities:		
Accounts and grants receivable	145,002	187,880
Interest receivable	7,390	(17,765)
Prepaid expenses and deposits	21,138	(5,685)
Accounts payable and accrued liabilities	8,408	115,579
Deferred revenues	172,607	376,259
Total adjustments	<u>406,006</u>	<u>643,793</u>
Net Cash Provided by Operating Activities	752,684	753,566
Cash Flows from Investing Activities:		
Payments for research equipment	(93,075)	(92,712)
Proceeds from maturity of investments	4,045,511	2,891,000
Purchases of investments	(4,594,525)	(3,216,412)
Net Cash Used by Investing Activities	(642,089)	(418,124)
Net Change in Cash and Cash Equivalents	110,595	335,442
Cash and cash equivalents, beginning of year	<u>1,004,008</u>	<u>668,566</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,114,603</u>	<u>\$ 1,004,008</u>
Supplemental Information:		
Capital assets acquired for which payables exist at year end	<u>\$ 6,007</u>	<u>\$ 50,600</u>

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 education 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, 2008, the balance of temporarily restricted net assets is available for purposes described in Note 7.

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, 2008.

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, 2008, the Institute had grants receivable of \$755,599, 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 market. The certificates and securities have interest rates of approximately 4% for 2008.

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 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.

Credit Risk - The Institute held cash and cash equivalents and investments in a financial institution at September 30, 2008, 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.

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. Any adjustments that result from finalizing the indirect cost rate are made in the period those adjustments become known.

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, 2007, from which the summarized information was derived.

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

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, 2008, the Institute incurred total costs of \$377,984 under this arrangement. In addition, Institute employees provide support to an intramural research program at VAPSHCS. For the year ended September 30, 2008, the Institute was reimbursed costs of \$1,085,542 under this arrangement.

In addition, the Institute received an in-kind contribution of rent and contributed facilities of \$16,380 for the use of the office it occupies from the VAPSHCS for the year ended September 30, 2008.

During the year ended September 30, 2008, an Institute board member was an employee of Fred Hutchinson Cancer Research Center. The Institute received grant revenue totaling \$70,743 from Fred Hutchinson Cancer Research Center during the year ended September 30, 2008.

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 the following at September 30, 2008:

Treasury notes	\$ 2,938,745
Certificates of deposit	<u>6,074,462</u>
	<u>\$ 9,013,207</u>

Investment return for the year ended September 30, 2008, was as follows:

Interest	\$ 376,638
Unrealized gain	<u>16,760</u>
	<u>\$ 393,398</u>

Note 4 - 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 has been recorded, discounted to present value, as a receivable and a temporarily restricted contribution. The facility contribution receivable was discounted to present value with the Institute receiving \$16,380 per annum. The present value is \$236,863.

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

Notes to Financial Statements

Note 5 - Retirement Plans

The Institute has a 403(b) Defined Contribution Retirement Plan available to all employees who have completed 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 \$273,289 for the year ended September 30, 2008. 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.

During 2003, the Institute adopted a nonqualified deferred compensation plan covered under section 457 of the Internal Revenue Code. Only employees specifically designated by the Board of Directors are eligible. Employee contributions are limited to the lesser of 100% of the employee's annual salary or the applicable statutory amount. The Institute will not make any contributions to the plan. Until the withdrawal date, the contributions to the 457 plan are legal assets (non-trust) of the Institute and subject to its creditors. As of September 30, 2008, there have been no contributions to the plan.

Note 6 - 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.

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2008:

Program services	\$ 421,479
Use of facility	<u>236,865</u>
	<u>\$ 658,344</u>

Note 8 - Concentrations

The Institute receives a significant amount of its funding from one primary source, the federal government. During the year ended September 30, 2008, approximately 54% 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. 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.

Note 9 - Subsequent Event

As discussed in Note 2, the Institute receives an in-kind contribution of facilities from VAPSHCS. After year end the VAPSHCS agreed to donate additional facilities starting during the year ended September 30, 2009.

SUPPLEMENTARY INFORMATION

SEATTLE INSTITUTE FOR BIOMEDICAL AND CLINICAL RESEARCH

**Statement of Functional Expenses
For the Year Ended September 30, 2008
(With Comparative Totals for 2007)**

	<i>Research</i>	<i>Education</i>	<i>Research and Development Support</i>	<i>Total Program</i>	<i>Management, General and Administrative</i>	<i>2008 Total</i>	<i>2007 Total</i>
Personnel	\$ 4,443,143	\$	\$ 539,803	\$ 4,982,946	\$ 775,072	\$ 5,758,018	\$ 5,360,509
Professional fees	62,370	30,722		93,092	89,101	182,193	107,154
Subcontracts	665,733			665,733		665,733	540,206
Interagency agreements	837,100		48,715	885,815	50,744	936,559	1,200,217
Supplies	924,175	4,530	29,450	958,155	18,808	976,963	923,627
Small equipment	31,934		8,605	40,539	46,884	87,423	94,639
Facilities					16,380	16,380	16,380
Equipment rental and repair	26,969		13,421	40,390	8,021	48,411	53,328
Communications	2,524		91	2,615	8,327	10,942	4,557
Printing, publications, and postage	20,980		2,755	23,735	3,317	27,052	14,740
Advertising	32,395		50	32,445	150	32,595	19,660
Travel	88,103	1,661	69,728	159,492	16,878	176,370	170,165
Conferences and meetings	16,963	2,057	14,511	33,531	709	34,240	39,672
Staff development and training	2,924		1,445	4,369	17,630	21,999	9,394
Dues and subscriptions			21,723	21,723	9,745	31,468	38,113
Licenses, permits, fees, and taxes	28			28	1,787	1,815	1,104
Insurance	951			951	14,924	15,875	13,657
Depreciation			68,221	68,221		68,221	54,740
Other			17,249	17,249		17,249	1,665
	7,156,292	38,970	835,767	8,031,029	1,078,477	9,109,506	8,663,527
Bad debt expense	144,859			144,859		144,859	
Total Expenses	\$ 7,301,151	\$ 38,970	\$ 835,767	\$ 8,175,888	\$ 1,078,477	\$ 9,254,365	\$ 8,663,527

See auditors' report.