

**Albert B. Sabin Vaccine Institute, Inc.**

Financial Statements  
and Independent Auditors' Report

December 31, 2006 and 2005

**Albert B. Sabin Vaccine Institute, Inc.**

Financial Statements  
December 31, 2006 and 2005

**Contents**

Report of Independent Auditors.....	1-2
<i>Audited Financial Statements</i>	
Statements of Financial Position.....	3
Statements of Activities.....	4-5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7-13
<i>Supplemental Information</i>	
Schedules of Functional Expenses.....	14

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Albert B. Sabin Vaccine Institute, Inc.

We have audited the accompanying statement of financial position of Albert B. Sabin Vaccine Institute, Inc. as of December 31, 2006 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Albert B. Sabin Vaccine Institute, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Albert B. Sabin Vaccine Institute, Inc. as of December 31, 2005, were audited by other auditors whose report dated May 22, 2006 expressed an unqualified opinion of those statements. As discussed in Note 12, Albert B. Sabin Vaccine Institute, Inc. has restated its 2005 financial statements during the current year to correct an overstatement of net assets, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the 2005 financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 Albert B. Sabin Vaccine Institute, Inc. at December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 12 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2005 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 financial statements taken as a whole.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Albert B. Sabin Vaccine Institute, Inc. taken as a whole. The schedule of functional expenses for 2006 is presented for purposes of additional analysis and is not a required part of the financial statements of Albert B. Sabin Vaccine Institute, Inc. Such information has been subject 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. The schedule of functional expenses for 2005 was subjected to the auditing procedures applied in the audit of the basic financial statements of other independent auditors whose report dated May 22, 2006 indicated that such information is fairly stated in all material respects to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia  
October 30, 2007

**Albert B. Sabin Vaccine Institute, Inc.**

Statements of Financial Position  
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,988,441	\$ 1,854,125
Investments	5,022,709	2,704,601
Accounts receivable	25,064	25,057
Prepaid expenses and deposits	39,165	45,353
Prepaid sub-recipient grants	333,514	388,495
Furniture and equipment	57,042	76,206
	<u>7,465,935</u>	<u>5,093,837</u>
Total assets	<u>\$ 7,465,935</u>	<u>\$ 5,093,837</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 655,783	\$ 1,463,310
Sponsorship payable	-	7,890
Obligation under capital lease	4,709	7,304
Deferred membership dues	105,088	73,480
Deferred grant revenue	15,136	-
Refundable advances on grants	7,890	479,427
	<u>788,606</u>	<u>2,031,411</u>
Total liabilities	<u>788,606</u>	<u>2,031,411</u>
<b>Net Assets</b>		
Unrestricted	1,005,499	239,070
Temporarily restricted	5,671,830	2,823,356
	<u>6,677,329</u>	<u>3,062,426</u>
Total net assets	<u>6,677,329</u>	<u>3,062,426</u>
Total liabilities and net assets	<u>\$ 7,465,935</u>	<u>\$ 5,093,837</u>

*See accompanying notes.*

**Albert B. Sabin Vaccine Institute, Inc.**

Statement of Activities  
For the Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
Grants	\$ 430,822	\$ 10,098,429	\$ 10,529,251
Contributions	762,678	-	762,678
Membership dues	247,934	-	247,934
Fundraising event	207,978	-	207,978
Investment income	59,561	146,564	206,125
In-kind contribution	50,000	-	50,000
Registration fees	12,444	-	12,444
Net assets released from restrictions	7,396,519	(7,396,519)	-
Total revenue and support	<u>9,167,936</u>	<u>2,848,474</u>	<u>12,016,410</u>
<b>Expenses</b>			
Program services	<u>7,416,700</u>	<u>-</u>	<u>7,416,700</u>
Supporting services:			
General and administrative	778,119	-	778,119
Fundraising	<u>148,991</u>	<u>-</u>	<u>148,991</u>
Total supporting services	<u>927,110</u>	<u>-</u>	<u>927,110</u>
Cost of direct benefits to donors	<u>57,697</u>	<u>-</u>	<u>57,697</u>
Total expenses	<u>8,401,507</u>	<u>-</u>	<u>8,401,507</u>
<b>Changes in Net Assets</b>	766,429	2,848,474	3,614,903
<b>Net Assets, beginning of year</b>	<u>239,070</u>	<u>2,823,356</u>	<u>3,062,426</u>
<b>Net Assets, end of year</b>	<u>\$ 1,005,499</u>	<u>\$ 5,671,830</u>	<u>\$ 6,677,329</u>

See accompanying notes.

**Albert B. Sabin Vaccine Institute, Inc.**Statement of Activities  
For the Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
Grants	\$ 3,937,749	\$ 2,539,911	\$ 6,477,660
Contributions	455,110	130,000	585,110
Membership dues	162,386	-	162,386
Fundraising event	535,018	-	535,018
Investment income	4,037	82,683	86,720
In-kind contribution	50,000	-	50,000
Registration fees	105,878	-	105,878
Other	5,127	-	5,127
Net assets released from restrictions	1,023,994	(1,023,994)	-
Total revenue and support	<u>6,279,299</u>	<u>1,728,600</u>	<u>8,007,899</u>
<b>Expenses</b>			
Program services	<u>5,668,995</u>	<u>-</u>	<u>5,668,995</u>
Supporting services:			
Management and general	423,083	-	423,083
Fundraising	<u>328,045</u>	<u>-</u>	<u>328,045</u>
Total supporting services	<u>751,128</u>	<u>-</u>	<u>751,128</u>
Costs of direct benefits to donors	<u>80,194</u>	<u>-</u>	<u>80,194</u>
Total expenses	<u>6,500,317</u>	<u>-</u>	<u>6,500,317</u>
<b>Changes in Net Assets</b>	(221,018)	1,728,600	1,507,582
<b>Net Assets, beginning of year - restated</b>	<u>460,088</u>	<u>1,094,756</u>	<u>1,554,844</u>
<b>Net Assets, end of year</b>	<u>\$ 239,070</u>	<u>\$ 2,823,356</u>	<u>\$ 3,062,426</u>

**Albert B. Sabin Vaccine Institute, Inc.**

Statements of Cash Flows  
For the Years Ended December 31, 2006 and 2005

	2006	2005
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 3,614,903	\$ 1,507,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,164	16,890
Net realized and unrealized loss on investments	-	7,653
Reclassification of patent costs	-	26,000
Bad debt expense	10,000	-
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(10,007)	5,877
Decrease (increase) in prepaid expenses and deposits	6,188	(4,837)
Decrease (increase) in prepaid sub-recipient grants	54,981	(150,379)
Increase in capitalized patent costs	-	(5,382)
(Decrease) increase in accounts payable/accrued expenses	(807,527)	1,234,309
Decrease in sponsorship payable	(7,890)	-
Increase in deferred membership dues	31,608	19,182
Increase (decrease) in deferred grant revenue	15,136	(7,250)
Decrease in refundable advances on grants	(471,537)	(273,270)
	<u>2,455,019</u>	<u>2,376,375</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of furniture and equipment	-	(53,581)
Net purchases of investments	(2,318,108)	(1,851,738)
	<u>(2,318,108)</u>	<u>(1,905,319)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on capital lease obligations	(2,595)	(433)
	<u>(2,595)</u>	<u>(433)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	134,316	470,623
<b>Cash and Cash Equivalents, beginning of year</b>	<u>1,854,125</u>	<u>1,383,502</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 1,988,441</u>	<u>\$ 1,854,125</u>
Cash paid during the year for interest	<u>\$ 373</u>	<u>\$ 62</u>

See accompanying notes.

## **Albert B. Sabin Vaccine Institute, Inc.**

Notes to Financial Statements  
December 31, 2006 and 2005

### **1. Nature of Operations**

The Albert B. Sabin Vaccine Institute, Inc. (the Institute) is a not-for-profit organization that was incorporated in January 1994 under the laws of the state of Maryland to operate for charitable, educational, and scientific purposes under Section 501(c)(3) of the Internal Revenue Code. It is dedicated to continuing the work and achieving the vision of Dr. Albert Sabin and fully realizing the potential of vaccination in disease prevention.

The Institute receives support in the form of contributions, memberships, registrations, sponsorships, and grants. Program activities include, but are not limited to: advocating the effective integration of scientific advances and public policy in the vaccine field; seeking consensus on science and public policy issues; promoting public awareness of the need for vaccines, and; sponsoring meetings and colloquia, which provide a forum for interdisciplinary communication between the scientific, industrial, and public communities concerned with the development and use of vaccines.

### **2. Summary of Significant Accounting Policies**

#### Basis of Accounting

The financial statements are prepared on the accrual basis of accounting whereby revenue is recognized when earned and expenses are recognized when incurred.

#### Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Institute considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

#### Investments

Investments at December 31, 2006 and 2005 consist of money market funds and government securities and are stated at fair value, based on quoted market prices. All realized and unrealized gains and losses are included in investment income in the accompanying statements of activities.

#### Receivables

Accounts receivable are evaluated periodically for collectability based upon evaluation of past loss experience, known and inherent risks in its accounts, and other factors that could affect collectability. Management believes all accounts for which the collectability is doubtful have been written off and the remaining accounts are deemed to be collectible.

## Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements  
December 31, 2006 and 2005

### 2. Summary of Significant Accounting Policies (continued)

#### Prepaid Sub-recipient Grants

Prepaid sub-recipient grants represent the portions of amounts paid in advance to organizations who have engaged in service contracts with the Institute for which expenses have not yet been incurred. The contracts relate to services rendered by the organizations that further the Institute's program service objectives.

#### Furniture and Equipment

Property and equipment with a cost greater than \$500 and a projected useful life exceeding one year are capitalized and recorded at cost. Property and equipment are stated at cost less accumulated depreciation which is computed using the straight-line method over the assets' estimated useful lives, which range from 5 to 7 years. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses. Expenditures for maintenance and repairs are charged to expenses as incurred.

#### Classification of Net Assets

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Institute's operations. Unrestricted net assets as December 31, 2006 and 2005 were \$1,005,499 and \$239,070, respectively.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Institute or the passage of time. There were \$5,671,830 and \$2,832,356 in temporarily restricted net assets at December 31, 2006 and 2005, respectively.

#### Revenue Recognition

All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The Institute reports grants and contributions as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

## **Albert B. Sabin Vaccine Institute, Inc.**

Notes to Financial Statements  
December 31, 2006 and 2005

### **2. Summary of Significant Accounting Policies (continued)**

#### Revenue Recognition (continued)

Membership dues represent fees associated with annual membership that are generally paid in advance for one of service. The unearned portion is reported as deferred revenue and amortized as the related period elapses.

All other revenue is recognized when earned.

#### Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Reclassifications

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

### **3. Concentration of Credit Risk**

Financial instruments that potentially subject the Institute to significant concentrations of credit risk consist of cash and investments. The Institute maintains cash deposits and investments with various financial institutions that exceed insurable limits under the Federal Depository Insurance Corporation Act (FDICA) and Securities Investor Protection Corporation (SIPC). The Institute has not experienced any losses on its cash and investments to date as it relates to FDICA and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any loss is minimal.

## Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements  
December 31, 2006 and 2005

### 3. Concentration of Credit Risk (continued)

The Institute derives its revenue and other support primarily from grants and contributions from private foundations and corporations in the pharmaceutical industry. Any change in the level of support from these organizations could affect the Institute's program activities.

### 4. Investments

Investments and investment income were comprised of the following as of and for the years ended December 31:

	<u>2006</u>	<u>2005</u>
Money market funds, held for investment	\$ 5,022,709	\$ 1,866,714
U.S. Government agency securities	<u>-</u>	<u>837,887</u>
Total investments	<u>\$ 5,022,709</u>	<u>\$ 2,704,601</u>
Interest and dividends	\$ 206,125	\$ 102,490
Net realized and unrealized loss	<u>-</u>	<u>(15,770)</u>
Total investment income	<u>\$ 206,125</u>	<u>\$ 86,720</u>

### 5. Property and Equipment

The Institute held the following property and equipment at December 31:

	<u>2006</u>	<u>2005</u>
Computer equipment and software	\$ 91,094	\$ 91,094
Furniture and equipment	<u>85,180</u>	<u>85,180</u>
Total property and equipment	176,274	176,274
Less: accumulated depreciation	<u>(119,232)</u>	<u>(100,068)</u>
Property and equipment, net	<u>\$ 57,042</u>	<u>\$ 76,206</u>

## Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements  
December 31, 2006 and 2005

### 6. Capital Lease

The Institute currently leases a copier under a capitalized lease arrangement. The lease provides for a term of 36 months, annual payments of approximately \$3,000, and a bargain purchase option at the end of the lease term. The copier has been included in property and equipment as of December 31, 2006 in the amount of \$7,737. Interest expense related to the lease for the years ended December 31, 2006 and 2005 amounted to \$373 and \$62, respectively. Minimum future payments under the capital lease are as follows for the years ending December 31:

2007	\$ 2,971
2008	<u>2,476</u>
Total minimum lease payments	5,447
Less: amount representing interest	<u>(738)</u>
Present value future minimum lease payments	<u>\$ 4,709</u>

### 7. In-Kind Contributions

The Chairman volunteers his services to the Institute, which have been valued at \$50,000 based on comparable market rates. These services are outside the scope of his role as Chairman, and would need to be purchased if not otherwise donated. The Institute has reflected an in-kind contribution and corresponding expense in the accompanying statements of activities and schedules of functional expenses for each of the years ended December 31, 2006 and 2005 to account for these services rendered.

Additionally, other services have been provided by various organizations and volunteers who have contributed their time to the Institute. However, the contributions are only recognized if the goods or services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and would typically need to be purchased if not provided by the donation. Since these services do not meet these requirements, they have not been recorded as in-kind contributions in the accompanying financial statements.

From time to time, the Institute receives donated goods or other tangible items. When significant, such amounts are recognized at fair value at the time of receipt. No significant donated items were received during the years ended December 31, 2006 and 2005.

**Albert B. Sabin Vaccine Institute, Inc.**

Notes to Financial Statements  
December 31, 2006 and 2005

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at December 31:

	<u>2006</u>	<u>2005</u>
Hookworm initiatives	\$ 4,802,342	\$ 2,622,594
Rubella initiatives	307,418	-
Rotavirus initiatives and conferences	165,026	170,762
Pneumococcal initiatives	397,044	-
Institute newsletters	-	30,000
	<u>                    </u>	<u>                    </u>
Temporarily restricted net assets	<u>\$ 5,671,830</u>	<u>\$ 2,823,356</u>

**9. Operating Leases**

The Institute leases office space located on F Street in Washington, D.C. The lease term is 60 months, which began on September 1, 2005 and ends on August 31, 2010, and calls for annual fixed rental increases. Deferred rent is not recorded due to immateriality. In conjunction with this lease, the Institute rents parking spaces at \$220 per space, per month on a month-to-month basis. Rent expense for the years ended December 31, 2006 and 2005 under this lease amounted to approximately \$146,000 and \$47,000, respectively.

On May 1, 2006, the Institute renewed its New Canaan, Connecticut office lease for another year. Rent expense for the years ended December 31, 2006 and 2005 under this lease amounted to approximately \$42,000 and \$65,000, respectively.

During 2005, the Institute moved out of two office spaces, one located in Bethesda, MD and the other in Washington, DC. Rent expense under the two leases was \$11,868 for the year ended December 31, 2005. The Institute also leased office equipment under a lease which expired during the 2006. Rent expense under this lease was approximately \$2,100 and \$3,000, respectively, for the years ended December 31, 2006 and 2005.

Minimum future payments under all leases are as follows for the years ended December 31:

2007	\$ 145,252
2008	143,758
2009	147,353
2010	<u>99,858</u>
	<u>                    </u>
Total minimum lease payments	<u>\$ 536,221</u>

## **Albert B. Sabin Vaccine Institute, Inc.**

Notes to Financial Statements  
December 31, 2006 and 2005

### **10. Employee Benefits**

The Institute offers a 401(k) Plan to full-time employees who are 21 years of age and have completed three consecutive months of employment. Employees may participate by deferring between 1% and 12% of their salary on a voluntary basis. Additionally, the Institute may elect to match a portion of the employee's contribution on an annual basis. During the years ended December 31, 2006 and 2005, the Institute's match amounted to \$18,705 and \$17,675, respectively.

### **11. Income Taxes**

Under Section 501(c)(3) of the Internal Revenue Code (IRC), the Institute is exempt from the payment of taxes on income other than net unrelated business income. No provision for income tax is required for the years ended December 31, 2006 or 2005 as there was no net unrelated business income. Contributions to the Institute are deductible as provided in IRC Section 170(b)(1)(A)(vi).

### **12. Prior Period Adjustment**

The accompanying financial statements for the year ended December 31, 2005, have been restated to correct an overstatement in prepaid expenses, deposits, and beginning net assets and an understatement of expenses. The results of the restatement decreased previously reported 2005 "prepaid patent costs" by \$52,782 and "prepaid expenses and deposits" by \$3,333. The total effect of the restatement was to reduce the 2005 "change in unrestricted net assets" as previously reported by \$29,333 and "beginning net assets" by \$26,793.

These restatements were to properly expense costs associated with intangible assets, which had previously been capitalized. Management feels these costs did not meet the criteria for capitalization under Statement of Financial Accounting Standards Board No. 142, *Goodwill and Other Intangible Assets*, which requires expensing such costs when they are either not specifically identifiable, have indeterminate lives, or are inherent in the continuing business operations.

**SUPPLEMENTAL INFORMATION**

---

**Albert B. Sabin Vaccine Institute, Inc.**  
Schedules of Functional Expenses  
For the Years Ended December 31, 2006 and 2005

	2006				2005			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Salaries	\$ 931,777	\$ 249,432	\$ 52,618	\$ 1,233,827	\$ 879,519	\$ 136,921	\$ 158,377	\$ 1,174,817
Employee benefits	45,283	14,806	6,029	66,118	58,963	13,156	11,786	83,905
Payroll taxes	55,606	20,937	4,006	80,549	58,311	8,941	10,496	77,748
Professional fees	452,586	154,263	27,343	634,192	406,167	87,573	7,522	501,262
Office supplies	11,382	13,290	-	24,672	16,655	4,291	1,879	22,825
Telephone	33,557	21,742	1,549	56,848	32,868	1,851	3,502	38,221
Postage and printing	31,327	9,566	20,557	61,450	17,395	13,904	595	31,894
Computer and copier	11,117	13,921	179	25,217	48,734	4,315	5,582	58,631
Rent	61,888	126,222	1,655	189,765	123,165	22,605	17,042	162,812
Insurance	13,102	13,632	-	26,734	39,993	2,527	853	43,373
Maintenance expense	-	-	-	-	-	2,959	-	2,959
Seminar and training	6,729	3,494	-	10,223	6,098	2,158	-	8,256
Books and publications	19,984	1,755	286	22,025	33,422	4,713	615	38,750
Dues and subscriptions	17,538	4,109	-	21,647	38,201	3,692	2,006	43,899
Transcription services	50,317	-	-	50,317	16,798	-	-	16,798
Conferences and meetings	68,293	15,661	541	84,495	138,630	16,243	-	154,873
Sub-recipient grants	4,886,807	2,700	25,000	4,914,507	3,534,904	-	-	3,534,904
Travel	643,504	18,338	6,357	668,199	189,204	31,536	11,025	231,765
Fund-raising event	-	4,888	-	4,888	-	-	94,485	94,485
Interest	-	372	-	372	-	62	-	62
Website and internet	44,893	8,571	-	53,464	-	-	-	-
Bank charges	11,170	1,717	12	12,899	14,773	1,394	-	16,167
Depreciation	-	19,165	-	19,165	12,668	1,942	2,280	16,890
In-kind donation	-	50,000	-	50,000	-	50,000	-	50,000
Bad debt expense	10,000	-	-	10,000	-	-	-	-
Miscellaneous	9,840	9,538	2,859	23,237	2,527	12,300	-	14,827
<b>Total expenses</b>	<b>\$ 7,416,700</b>	<b>\$ 778,119</b>	<b>\$ 148,991</b>	<b>\$ 8,343,810</b>	<b>\$ 5,668,995</b>	<b>\$ 423,083</b>	<b>\$ 328,045</b>	<b>\$ 6,420,123</b>