

Albert B. Sabin Vaccine Institute, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2010 and 2009

Albert B. Sabin Vaccine Institute, Inc.

Financial Statements
December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Albert B. Sabin Vaccine Institute, Inc. as of December 31, 2010 and 2009 and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included at page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.



Vienna, Virginia
June 17, 2011

Albert B. Sabin Vaccine Institute, Inc.

Statement of Activities
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants	\$ -	\$ 20,772,669	\$ 20,772,669
Contributions	438,677	133,950	572,627
Investment income	1,941	23,266	25,207
Released from restrictions	16,552,280	(16,552,280)	-
Total revenue and support	<u>16,992,898</u>	<u>4,377,605</u>	<u>21,370,503</u>
Expenses			
Program services	<u>15,282,994</u>	<u>-</u>	<u>15,282,994</u>
Supporting services:			
General and administrative	1,651,676	-	1,651,676
Fundraising	<u>239,616</u>	<u>-</u>	<u>239,616</u>
Total supporting services	<u>1,891,292</u>	<u>-</u>	<u>1,891,292</u>
Total expenses	<u>17,174,286</u>	<u>-</u>	<u>17,174,286</u>
Change in Net Assets	(181,388)	4,377,605	4,196,217
Net Assets, beginning of year	<u>1,987,911</u>	<u>17,010,435</u>	<u>18,998,346</u>
Net Assets, end of year	<u>\$ 1,806,523</u>	<u>\$ 21,388,040</u>	<u>\$ 23,194,563</u>

Albert B. Sabin Vaccine Institute, Inc.

Statement of Activities
For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants	\$ -	\$ 15,349,136	\$ 15,349,136
Contributions	161,735	1,613,030	1,774,765
Membership dues	5,000	-	5,000
Investment income	25,458	69,192	94,650
Released from restrictions	20,508,909	(20,508,909)	-
	<u>20,701,102</u>	<u>(3,477,551)</u>	<u>17,223,551</u>
Total revenue and support			
Expenses			
Program services	18,441,527	-	18,441,527
Supporting services:			
General and administrative	1,713,392	-	1,713,392
Fundraising	17,852	-	17,852
	<u>1,731,244</u>	<u>-</u>	<u>1,731,244</u>
Total supporting services			
Total expenses	<u>20,172,771</u>	<u>-</u>	<u>20,172,771</u>
Change in Net Assets	528,331	(3,477,551)	(2,949,220)
Net Assets, beginning of year	<u>1,459,580</u>	<u>20,487,986</u>	<u>21,947,566</u>
Net Assets, end of year	<u>\$ 1,987,911</u>	<u>\$ 17,010,435</u>	<u>\$ 18,998,346</u>

Albert B. Sabin Vaccine Institute, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 4,196,217	\$ (2,949,220)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,661	19,474
Net decrease in discount on grants receivable	(19,056)	(12,610)
Net realized and unrealized gains	-	(11,147)
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable	837,085	(2,523,952)
Decrease (increase) in grants receivable	200,000	(100,000)
Increase in prepaid expenses and deposits	(645)	(93,265)
Decrease in prepaid sub-recipient grants	420,508	49,220
Increase in accounts payable and accrued expenses	48,215	1,413,390
Decrease in deferred grant revenue	-	(42,467)
Increase in deferred rent	24,033	173,309
	<u>5,722,018</u>	<u>(4,077,268)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	-	(20,703)
Net proceeds from sale (purchases) of investments	3,415,695	(8,041,290)
	<u>3,415,695</u>	<u>(8,061,993)</u>
Cash Flows from Financing Activities		
Principal payments on capital lease obligation	(5,874)	(5,764)
	<u>(5,874)</u>	<u>(5,764)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,131,839	(12,145,025)
Cash and Cash Equivalents, beginning of year	<u>2,614,328</u>	<u>14,759,353</u>
Cash and Cash Equivalents, end of year	<u>\$ 11,746,167</u>	<u>\$ 2,614,328</u>

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

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 to reduce needless human suffering from vaccine preventable and neglected tropical diseases through innovative vaccine research and development; and to advocate for improved access to vaccines and essential medicines for citizens around the globe.

The Institute receives support in the form of contributions, memberships, sponsorships, and grants. Through various program activities, the Institute has been at the forefront of efforts to control, treat, and eliminate vaccine preventable and neglected tropical diseases by developing low-cost and safe vaccines, advocating use of existing vaccines, promoting increased access to affordable medical treatments, and convening thought leaders and policy makers and facilitating linkages between like-minded organizations.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting following generally accepted accounting and reporting principles for not-for-profit organizations. Revenue is recognized when earned and expenses when 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 were \$1,806,523 and \$1,987,911 at December 31, 2010 and 2009, 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 \$21,388,040 and \$17,010,435 in temporarily restricted net assets at December 31, 2010 and 2009, respectively.

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.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at fair value, based on quoted market prices and consist of equities, fixed income securities, and money market funds held for investment. Realized and unrealized gains and losses are reported as a component of investment income in the accompanying statements of activities.

Accounts Receivable

Accounts receivable represent amounts receivable under contract service agreements and 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. All amounts are expected to be collected within one year.

Grants Receivable

Grants receivable represents amounts which have been promised but not yet received. Grants receivable beyond one year have been discounted to reflect the present value. No allowance for doubtful accounts has been recorded as management believes that all receivables are fully collectible.

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.

Property and Equipment

Property and equipment with a cost greater than \$5,000 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.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

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 statements of activities as net assets released from restrictions.

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

All other revenue is recognized when earned.

Fair Value Measurements

The Institute follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for measuring financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and level 3 is based on unobservable inputs.

In addition, the Institute follows ASC 825-10, *Financial Instruments*, which allows entities the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. At adoption, the effect of the first remeasurement to fair value is recorded as a cumulative effect adjustment to the opening balance of unrestricted net assets. The Institute did not elect to measure any additional eligible financial assets or financial liabilities at fair value. Accordingly, adoption of this standard had no impact on the Institute's results of operations or financial position.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Effective January 1, 2010, the Institute adopted Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*, which has amended the existing guidance in ASC 820. This guidance permits, as a practical expedient, the fair value of investments that do not have a quoted market price to be estimated using net asset value (NAV) per share or its equivalent. At December 31, 2010, the Institute did not have any investments requiring to be valued using NAV.

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 2009 financial statements have been reclassified to conform to the 2010 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 (FDIC) and Securities Investor Protection Corporation (SIPC). The Institute has not experienced any credit 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 credit loss is minimal.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

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

The following summarizes the composition of investments and related income as of and for the years ended December 31:

	<u>2010</u>	<u>2009</u>
<u>Investments</u>		
Money market funds, held for investment	\$ 12,593,629	\$ 16,009,324
Total investments	<u>\$ 12,593,629</u>	<u>\$ 16,009,324</u>
<u>Investment Income</u>		
Interest and dividends	\$ 25,207	\$ 83,503
Net realized and unrealized gains	<u>-</u>	<u>11,147</u>
Total investment income	<u>\$ 25,207</u>	<u>\$ 94,650</u>

5. Grants Receivable

Grants receivable include unconditional promises to give and are receivable as follows at December 31:

	<u>2010</u>	<u>2009</u>
Receivables in less than one year	\$ 450,000	\$ 425,000
Receivable in one to five years	150,000	375,000
Less: discount	<u>(22,507)</u>	<u>(41,563)</u>
Grants receivable, net	<u>\$ 577,493</u>	<u>\$ 758,437</u>

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

5. Grants Receivable (continued)

The Institute has not recorded an allowance for uncollectible amounts, as management believes all grant amounts are fully collectible. The discount on grants receivable was calculated using risk free rates ranging from 2.2% to 4.2%.

6. Property and Equipment

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

	<u>2010</u>	<u>2009</u>
Computer equipment and software	\$ 95,010	\$ 95,010
Furniture and equipment	<u>127,796</u>	<u>127,796</u>
 Total property and equipment	 222,806	 222,806
Less: accumulated depreciation and amortization	<u>(183,739)</u>	<u>(168,078)</u>
 Property and equipment, net	 <u><u>\$ 39,067</u></u>	 <u><u>\$ 54,728</u></u>

7. 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 up to the IRS limit, in 2010 it was \$16,500, of earned compensation into the plan each year 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, 2010 and 2009, the Institute's match amounted to \$67,087 and \$56,120, respectively.

8. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows at December 31, 2010:

	Total fair value	Level 1	Level 2	Level 3
Money market funds, held for investment	<u>\$ 12,593,629</u>	<u>\$ 12,593,629</u>	<u>\$ -</u>	<u>\$ -</u>

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

8. Fair Value Measurements (continued)

Fair value of assets measured on a recurring basis is as follows at December 31, 2009:

	Total fair value	Level 1	Level 2	Level 3
Money market funds, held for investment	\$ 16,009,324	\$ 16,009,324	\$ -	\$ -

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no level 2 or level 3 financial assets at December 31, 2010 and 2009.

9. Capital Lease

The Institute leases certain office equipment under capitalized lease arrangements. The capitalized assets have been included in property and equipment as of December 31, 2010 and 2009 in the amounts of \$15,970 and \$32,059, respectively. Interest expense related to the leases for the years ended December 31, 2010 and 2009 amounted to \$1,088 and \$100, respectively. Minimum future payments under the capital leases are as follows for the years ending December 31:

2011	\$ 3,840
2012	3,840
2014	3,840
2015	<u>3,518</u>
Total minimum lease payments	15,038
Less: amount representing interest	<u>(2,041)</u>
Present value of future minimum lease payments	<u>\$ 12,997</u>

10. In-Kind Donations

From time to time, the Institute receives donated goods or other intangible items. When significant, such amounts are recognized at fair value at the time of receipt. No significant donated items were receiving during the years ended December 31, 2010 and 2009.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

10. In-Kind Donations (continued)

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 donations. The Institute has included \$268,816 and \$0 as donated services in the accompanying financial statements for the years ended December 31, 2010 and 2009, respectively,

11. Temporarily Restricted Net Assets

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

	2010	2009
Global Network	\$ 8,069,413	\$ 3,400,705
Hookworm initiatives	6,427,930	8,260,463
Sustainable immunization financing	2,047,453	2,303,389
Rubella initiatives	848,608	95,996
Rotovirus initiatives and conferences	781,709	469,798
Pertussis initiatives	776,513	561,895
Typhoid initiatives	710,994	-
EPI manager ACIP training, vaccine awareness journalist training and vaccinology course	710,000	27,031
Schistosomiasis vaccine initiatives	322,887	647,060
Pneumococcal initiatives	250,980	612,538
Human papilloma virus initiatives	166,103	360,485
Smallpox initiatives	121,972	35,952
Malaria initiatives	107,739	163,740
Other meetings and colloquia	45,739	71,383
Temporarily restricted net assets	\$ 21,388,040	\$ 17,010,435

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

12. Operating Leases

Previously, the Institute leased office space located on F Street in Washington, D.C. The lease term was for 60 months, which began on September 1, 2005, was to end on August 31, 2010, and called for annual fixed rental increases. Deferred rent under this lease was not recorded due to immateriality. During the year ended December 31, 2009, the Institute entered into an agreement whereby it assigned all rights and liability under this lease to a third party. Under the terms of the assignment, the Institute was required to pay rent and other charges through April 15, 2009, at which point it was relieved of any further commitment. During 2009, the Institute signed a sublease for new office space on Pennsylvania Avenue in Washington, D.C., commencing in March 2009 and continuing for an eight-year term. The sublease calls for monthly payments of \$40,377, with fixed annual increases. Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis ratably over the term of the sublease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statements of financial position.

Rent expense for the years ended December 31, 2010 and 2009 under all leases amounted to approximately \$522,366 and \$476,677, respectively.

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

2011	\$	511,535
2012		526,881
2013		542,688
2014		558,968
2015		575,737
Thereafter		<u>692,326</u>
Total future minimum payments	\$	<u>3,408,135</u>

13. 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, 2010 and 2009 as there was no net unrelated business income. Contributions to the Institute are deductible as provided in IRC Section 170(b)(1)(A)(vi). The Institute had no significant uncertain tax positions for the year ended December 31, 2010.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2010 and 2009

14. Supplemental Disclosures of Cash Flow Information

	<u>2010</u>	<u>2009</u>
Cash paid during the year for interest	\$ 2,457	\$ 1,378

15. Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through June 17 2011, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

Albert B. Sabin Vaccine Institute, Inc.

Schedules of Functional Expenses
For the Years Ended December 31, 2010 and 2009

	2010				2009			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Salaries	\$ 2,693,511	\$ 536,180	\$ 23,811	\$ 3,253,502	\$ 2,502,906	\$ 502,545	\$ -	\$ 3,005,451
Employee benefits	269,599	69,346	5,415	344,360	245,648	41,212	-	286,860
Payroll taxes	160,288	31,367	1,781	193,436	135,248	33,720	-	168,968
Professional fees	1,450,304	349,930	184,725	1,984,959	2,254,693	403,492	17,318	2,675,503
Advertising & promotions	609,674	2,328	-	612,002	1,178,040	12,140	-	1,190,180
Office supplies	127,986	17,898	114	145,998	25,396	37,608	-	63,004
Telephone	52,531	9,579	13	62,123	48,145	22,195	-	70,340
Postage & printing	57,438	9,086	831	67,355	124,215	11,827	-	136,042
Computer & copier	16,277	2,888	900	20,065	15,783	5,298	-	21,081
Rent	62,674	459,772	-	522,446	59,195	426,349	-	485,544
Insurance	16,006	40,586	-	56,592	14,070	34,119	-	48,189
Information technology	131,665	51,947	-	183,612	155,077	31,287	-	186,364
Seminar & training	140	1,753	-	1,893	25,304	2,579	-	27,883
Books & publications	2,568	642	1,016	4,226	4,244	3,859	534	8,637
Dues & subscriptions	38,293	2,584	-	40,877	9,792	5,998	-	15,790
Conferences & meetings	928,575	3,943	866	933,384	791,824	6,550	-	798,374
Sub-recipient grants	7,920,650	-	-	7,920,650	10,013,058	-	-	10,013,058
Travel	667,373	24,620	19,632	711,625	786,997	13,652	-	800,649
Interest	1,270	1,187	-	2,457	1,019	359	-	1,378
Bank charges	6,341	943	-	7,284	10,702	2,200	-	12,902
Depreciation & amortization	-	15,661	-	15,661	-	19,474	-	19,474
Recruiting	51,524	14,901	451	66,876	14,451	31,202	-	45,653
Moving expenses	-	-	-	-	-	56,692	-	56,692
Miscellaneous	18,307	4,535	61	22,903	25,720	9,035	-	34,755
Total Expenses	\$ 15,282,994	\$ 1,651,676	\$ 239,616	\$ 17,174,286	\$ 18,441,527	\$ 1,713,392	\$ 17,852	\$ 20,172,771