

Albert B. Sabin Vaccine Institute, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2018 and 2017

Albert B. Sabin Vaccine Institute, Inc.

Financial Statements
December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Albert B. Sabin Vaccine Institute, Inc. ("the Institute"), which comprise the statements of financial position as of December 31, 2018 and 2017; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rogers + Company PLLC

Vienna, Virginia
May 24, 2019

Albert B. Sabin Vaccine Institute, Inc.

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 10,875,135	\$ 7,918,387
Investments	1,540,018	2,856,011
Grants receivable, net	393,095	761,908
Other receivables	8,150	18,156
Prepaid expenses and deposits	116,160	103,201
Property and equipment, net	1,020,814	776,946
Patent, net	2,212,353	2,464,953
Deferred compensation asset	297,301	294,729
Total assets	<u>\$ 16,463,026</u>	<u>\$ 15,194,291</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,424,511	\$ 592,250
Deferred grant revenue	5,969	4,100
Deferred rent	1,628,579	1,203,868
Deferred compensation liability	297,301	294,729
Security deposit	5,969	-
Total liabilities	<u>3,362,329</u>	<u>2,094,947</u>
Net Assets		
Without donor restrictions	1,774,230	2,029,399
With donor restrictions	11,326,467	11,069,945
Total net assets	<u>13,100,697</u>	<u>13,099,344</u>
Total liabilities and net assets	<u>\$ 16,463,026</u>	<u>\$ 15,194,291</u>

See accompanying notes.

Albert B. Sabin Vaccine Institute, Inc.

Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Grants	\$ -	\$ 10,240,606	\$ 10,240,606
Contributions	159,723	85,799	245,522
Investment income	50,164	20,854	71,018
Rental revenue	47,753	-	47,753
Released from restrictions	10,090,737	(10,090,737)	-
Total operating revenue and support	<u>10,348,377</u>	<u>256,522</u>	<u>10,604,899</u>
Expenses			
Program services	<u>8,549,331</u>	<u>-</u>	<u>8,549,331</u>
Supporting services:			
General and administrative	1,637,194	-	1,637,194
Fundraising	203,576	-	203,576
Total supporting services	<u>1,840,770</u>	<u>-</u>	<u>1,840,770</u>
Total expenses	<u>10,390,101</u>	<u>-</u>	<u>10,390,101</u>
Change in Net Assets from Operations	(41,724)	256,522	214,798
Non-Operating Activities			
Project funds transfer	<u>(213,445)</u>	<u>-</u>	<u>(213,445)</u>
Total non-operating activities	<u>(213,445)</u>	<u>-</u>	<u>(213,445)</u>
Change in Net Assets	(255,169)	256,522	1,353
Net Assets, beginning of year	<u>2,029,399</u>	<u>11,069,945</u>	<u>13,099,344</u>
Net Assets, end of year	<u><u>\$ 1,774,230</u></u>	<u><u>\$ 11,326,467</u></u>	<u><u>\$ 13,100,697</u></u>

See accompanying notes.

Albert B. Sabin Vaccine Institute, Inc.

Statement of Activities
For the Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenue and Support			
Grants	\$ 70,000	\$ 7,506,560	\$ 7,576,560
Contributions	389,466	397,828	787,294
Investment income	80,821	11,402	92,223
Membership dues	-	1,225	1,225
Other revenue	15,222	-	15,222
Released from restrictions	<u>10,601,165</u>	<u>(10,601,165)</u>	<u>-</u>
Total operating revenue and support	<u>11,156,674</u>	<u>(2,684,150)</u>	<u>8,472,524</u>
Expenses			
Program services	<u>7,354,404</u>	<u>-</u>	<u>7,354,404</u>
Supporting services:			
General and administrative	1,983,587	-	1,983,587
Fundraising	<u>396,723</u>	<u>-</u>	<u>396,723</u>
Total supporting services	<u>2,380,310</u>	<u>-</u>	<u>2,380,310</u>
Total expenses	<u>9,734,714</u>	<u>-</u>	<u>9,734,714</u>
Change in Net Assets from Operations	1,421,960	(2,684,150)	(1,262,190)
Non-Operating Activity			
Project transfer (BCM)	<u>(1,121,003)</u>	<u>-</u>	<u>(1,121,003)</u>
Total non-operating activity	<u>(1,121,003)</u>	<u>-</u>	<u>(1,121,003)</u>
Change in Net Assets	300,957	(2,684,150)	(2,383,193)
Net Assets, beginning of year	<u>1,728,442</u>	<u>13,754,095</u>	<u>15,482,537</u>
Net Assets, end of year	<u><u>\$ 2,029,399</u></u>	<u><u>\$ 11,069,945</u></u>	<u><u>\$ 13,099,344</u></u>

See accompanying notes.

Albert B. Sabin Vaccine Institute, Inc.

Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018				2017			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Salaries	\$ 2,461,779	\$ 563,378	\$ 157,239	\$ 3,182,396	\$ 2,172,467	\$ 804,648	\$ 272,794	\$ 3,249,909
Employee benefits	231,197	91,310	14,890	337,397	215,678	130,927	24,892	371,497
Payroll taxes	154,397	38,829	10,706	203,932	145,864	46,992	18,232	211,088
Professional fees	1,737,680	117,878	4,577	1,860,135	971,784	246,076	15,703	1,233,563
Website and promotions	139,530	4,656	-	144,186	76,974	37,564	5,136	119,674
Office supplies	9,733	14,407	147	24,287	11,620	13,945	868	26,433
Telephone	13,452	28,744	999	43,195	15,968	25,614	1,127	42,709
Postage and printing	15,493	3,214	342	19,049	16,112	6,650	888	23,650
Computer and copier	18,177	6,733	1,874	26,784	5,863	5,916	-	11,779
Rent	-	560,407	-	560,407	-	456,925	-	456,925
Insurance	-	43,726	-	43,726	19,223	57,443	-	76,666
Internet	491	10,073	-	10,564	2,174	10,192	40	12,406
Seminar and training	215	1,143	1,400	2,758	881	157	-	1,038
Books and publications	416	-	-	416	-	-	-	-
Dues and subscriptions	21,116	6,188	7,245	34,549	25,843	16,259	8,196	50,298
Sponsored events	1,103,244	5,289	110	1,108,643	826,941	15,617	-	842,558
Sub-recipient grants	1,941,343	-	-	1,941,343	2,149,949	-	27,041	2,176,990
Travel	424,264	3,861	2,792	430,917	433,986	4,141	18,033	456,160
Interest	73	39	-	112	278	13	-	291
Depreciation and amortization	252,600	120,539	-	373,139	252,600	85,977	-	338,577
Recruiting	16,537	5,024	1,195	22,756	7,701	3,961	3,583	15,245
Foreign exchange loss	-	-	-	-	1,022	-	-	1,022
Miscellaneous	7,594	11,756	60	19,410	1,476	14,570	190	16,236
Total Expenses	\$ 8,549,331	\$ 1,637,194	\$ 203,576	\$ 10,390,101	\$ 7,354,404	\$ 1,983,587	\$ 396,723	\$ 9,734,714

See accompanying notes.

Albert B. Sabin Vaccine Institute, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 1,353	\$ (2,383,193)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Leasehold improvements purchased with tenant improvement allowance	-	(833,755)
Depreciation and amortization on property and equipment	120,539	85,977
Amortization on patent	252,600	252,600
Net change in discount on grants receivable	8,569	-
Unrealized and realized gain	(27,732)	(65,215)
Donated securities	-	(4,935)
Change in operating assets and liabilities:		
Decrease in grants receivable	360,244	673,300
Decrease in other receivables	10,006	252,428
(Increase) decrease in prepaid expenses and deposits	(12,959)	112,005
Decrease (increase) in deferred compensation asset	11,934	(60,503)
Increase (decrease) in accounts payable and accrued expenses	832,261	(737,530)
Increase (decrease) in deferred grant revenue	1,869	(80,924)
Increase in deferred rent	424,711	1,191,329
Increase in deferred compensation liability	2,572	60,503
Increase in security deposit	5,969	-
Net cash provided by (used in) operating activities	1,991,936	(1,537,913)
Cash Flows from Investing Activities		
Purchase of fixed assets	(364,407)	-
Purchase of investments	(11,744)	(286,218)
Proceeds from sale of investments	1,340,963	2,566,389
Net cash provided by investing activities	964,812	2,280,171
Net Increase in Cash and Cash Equivalents	2,956,748	742,258
Cash and Cash Equivalents, beginning of year	7,918,387	7,176,129
Cash and Cash Equivalents, end of year	\$ 10,875,135	\$ 7,918,387

See accompanying notes.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

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 (IRC). It is dedicated to continuing the work and achieving the vision of Dr. Albert Sabin to make vaccines more accessible, enable innovation, and expand immunization across the globe.

The Institute receives support in the form of contributions, sponsorships, and grants. The Institute is a leading advocate for expanding vaccine access and uptake globally, advancing vaccine research and development, and amplifying vaccine knowledge and innovation. Unlocking the potential of vaccines through partnership, the Institute has built a robust ecosystem of funders, innovators, implementers, practitioners, policy makers, and public stakeholders to advance its vision of a future free from preventable diseases. As a non-profit with more than two decades of experience, the Institute is committed to finding solutions that last and extending the full benefits of vaccines to all people, regardless of who they are or where they live.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting. The project funds transfer is considered to be a non-operating activity. The Institute does not consider this item to be a part of normal operating activities, and accordingly, separately identifies it in the accompanying statement of activities. Revenue is recognized when earned and expenses are recorded when incurred.

Net assets are classified as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a reserve fund in the amount of \$1,006,164. The purpose of the reserve fund is to help ensure the long-term ability of the Institute to meet its mission by creating an internal line of credit to maintain cash flow and financial flexibility; to enable the Institute to sustain operations through delays in payments of committed funding; and to pay for one-time, nonrecurring expenses that will build capacity, such as staff development or research and development. The target minimum reserve fund approximates six months of operating expenses on average.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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. Excluded from this definition are amounts intended for use as investment reserves.

Investments

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

Donated marketable securities are recorded at fair value at the time of receipt. The Institute's general policy is to liquidate these investments shortly after receipt.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Grants Receivable

Grants receivable represent amounts that have been promised but not yet received. All grants receivable are reflected at either net realizable value, or at net present value based on projected cash flows. Grants receivable due in more than one year initially recorded in 2018 were discounted at an average annual rate of 3%, using a rate that considers market and credit risk. No allowance for doubtful accounts has been recorded as management believes that all receivables are fully collectible.

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 and amortization, 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 and amortization 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.

Patent

The donated patent is stated at the original assessed value less amortization computed on the straight-line method over the estimated life of the patent.

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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. All other revenue is recognized when earned.

Donated Goods and Services

Donations of goods are recorded as support at their estimated fair values at the date of donation. During the years ended December 31, 2018 and 2017, the Institute received donated securities in the amount of \$0 and \$4,935, respectively.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Donated Goods and Services (continued)

Donated services are recognized if the services received 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. For the years ended December 31, 2018 and 2017, the Institute received pro bono legal services in the amount of \$75,601 and \$288,024, respectively, which are recorded in contributions revenue and donated legal expenses in the accompanying statements of activities.

Foreign Currency Transactions

The Institute has certain contracts that call for the use of transactions denominated in foreign currencies. The foreign currency transaction gains (losses) resulting from exchange rate fluctuations on transactions denominated in a currency other than the U.S. dollar are included net in program expenses on the statements of activities, as they related to programmatic revenue. The Institute experienced a net foreign currency transaction gain of \$13,226 during the year ended December 31, 2018 and a net foreign currency transaction loss of \$1,022 during the year ended December 31, 2017.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

The Institute expenses advertising costs as incurred. Advertising expenses were \$12,903 and \$14,452 for the years ended December 31, 2018 and 2017, respectively.

Non-Operating Activities

During the year ended December 31, 2018, the Institute returned \$115,000 of funds to a grantor due to management's decision to not carry out the project. Additionally, during the year ended December 31, 2018, the Institute returned \$98,445 of unused funds to the grantor from a project closed in 2017. During the year ended December 31, 2017, a project was transferred to another organization, as described in Note 12. These transactions are included as non-operating activities in the accompanying financial statements, as they are not a part of the Institute's daily operating activities.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Institute has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for liquidity and availability, which is permitted by the ASU in the year of adoption. The implementation had no impact on previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2020.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through May 24, 2019, the date the financial statements were available to be issued.

3. Liquidity and Availability

The Institute has \$1,489,931 of financial assets available within one year of the statement of financial position date. The Institute strives to maintain liquid financial assets on hand to meet six months of general expenditures. Management periodically reviews the Institute's liquid asset needs and adjusts the cash balances as necessary. Amounts in excess of operating liquidity needs are invested in short-term and highly liquid securities.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

3. Liquidity and Availability (continued)

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 10,875,135
Short-term investments	1,540,018
Grants receivable – current portion	251,664
Other receivables	8,150
Less: restricted by donors with purpose restrictions	<u>(11,326,467)</u>
Total available for general expenditures	<u><u>\$ 1,348,500</u></u>

4. Concentrations of Risk

Credit

Financial instruments that potentially subject the Institute to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Institute maintains interest-bearing cash deposits and investments with a financial institution that exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Institute has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC 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.

Revenue

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

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

5. Investments and Fair Value Measurements

The Institute follows FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three 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. The Institute recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Institute uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents the Institute's fair value hierarchy for those assets measured on a recurring basis as of December 31, 2018:

	Total fair value	Level 1	Level 2	Level 3
Investments:				
Money market funds, held for investment	\$ 1,540,018	\$ 1,540,018	\$ -	-
Deferred compensation:				
Money market funds	29,084	29,084	-	-
Equities	26,737	26,737	-	-
Mutual funds	241,480	241,480	-	-
Total assets at fair value	<u>\$ 1,837,319</u>	<u>\$ 1,837,319</u>	<u>\$ -</u>	<u>-</u>

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

5. Investments and Fair Value Measurements (continued)

The following table presents the Institute's fair value hierarchy for those assets measured on a recurring basis as of December 31, 2017:

	Total fair value	Level 1	Level 2	Level 3
Investments:				
Money market funds, held for investment	\$ 2,856,011	\$ 2,856,011	\$ -	\$ -
Deferred compensation:				
Money market funds	5,857	5,857	-	-
Equities	30,756	30,756	-	-
Mutual funds	258,116	258,116	-	-
Total assets at fair value	<u>\$ 3,150,740</u>	<u>\$ 3,150,740</u>	<u>\$ -</u>	<u>\$ -</u>

Investment income consists of the following for the years ended December 31:

	2018	2017
Interest and dividends	\$ 43,286	\$ 27,008
Unrealized and realized gain	27,732	65,215
Total investment income	<u>\$ 71,018</u>	<u>\$ 92,223</u>

The Institute did not have any investment management expenses for the years ended December 31, 2018 and 2017.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

6. Grants Receivable

Grants receivable are comprised of the following at December 31:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 251,664	\$ 761,908
Receivable in one to five years	<u>150,000</u>	<u>-</u>
Total grants receivable	401,664	761,908
Less: discount to present value	<u>(8,569)</u>	<u>-</u>
Grants receivable, net	<u><u>\$ 393,095</u></u>	<u><u>\$ 761,908</u></u>

7. Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 1,192,938	\$ 833,755
Computer equipment and software	177,002	171,778
Furniture and equipment	<u>152,006</u>	<u>152,006</u>
Total property and equipment	1,521,946	1,157,539
Less: accumulated depreciation and amortization	<u>(501,132)</u>	<u>(380,593)</u>
Property and equipment, net	<u><u>\$ 1,020,814</u></u>	<u><u>\$ 776,946</u></u>

8. Patent

During 2015, the Institute was assigned a patent donation for a safety syringe technology from one of the original inventors. At the time of donation, the patent was valued by a professional third-party company at \$2,989,800, with an estimated remaining life of 12 years and 10 months. Accumulated amortization for the years ended December 31, 2018 and 2017 was \$777,447 and \$524,847, respectively.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

9. Commitments and Contingencies

Operating Leases

During 2009, the Institute signed a sublease for office space on Pennsylvania Avenue in Washington, D.C., which expired in February 2017.

On June 24, 2016, the Institute entered into a new operating lease for office space at a new location, commencing on February 1, 2017 and expiring on January 31, 2028. The lease calls for a base monthly rental rate of \$38,278 with annual 2.5% increases, which does not include a pro rata share of the building's operating expenses and real estate taxes. As a lease incentive, the landlord provided twelve months of free rent and a leasehold improvement allowance up to \$859,845. The Institute used \$833,755 of the leasehold improvement allowance to remodel and renovate the office space during the year ended December 31, 2017. The unused portion of the allowance in the amount of \$26,090 can be applied to future rent payments.

On June 26, 2017, the aforementioned office lease was amended to include additional office space. The lease amendment commenced on January 1, 2018 and is scheduled to expire on January 31, 2028. The additional office space has the same rates per square foot as the original lease and calls for 2.5% annual increases. The Institute will account for both leases as a new lease starting January 1, 2018 in accordance with GAAP requirements.

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. Deferred rent was \$1,628,579 and \$1,203,868 at December 31, 2018 and 2017, respectively.

During 2018, the Institute entered into a sublease with a tenant to sublet a portion of its office space. The sublease commenced on May 1, 2018 and is scheduled to expire on April 30, 2021. The sublease includes fixed annual rent increases of 4% throughout the term of the sublease. The scheduled rent increases have not been recorded as rent receivable in the accompanying financial statements due to immateriality.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
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9. Commitments and Contingencies (continued)

Operating Leases (continued)

Rent expense for the years ended December 31, 2018 and 2017 under all leases amounted to \$552,502 and \$456,925, respectively.

Future minimum lease payments and receipts under all operating leases are as follows for the years ending December 31:

	<u>Payments</u>	<u>Receipts</u>	<u>Net</u>
2019	\$ 664,880	\$ 73,539	\$ 591,341
2020	681,467	76,481	604,986
2021	698,543	28,825	669,718
2022	716,005	-	716,005
2023	733,956	-	733,956
Thereafter	3,191,660	-	3,191,660
Total	<u>\$ 6,686,511</u>	<u>\$ 178,845</u>	<u>\$ 6,507,666</u>

Letter of Credit

Coinciding with entering into the office lease, the Institute issued an irrevocable letter of credit on September 21, 2016, with the new landlord listed as the beneficiary in the amount of \$38,278 as a security deposit. The letter of credit was increased by an additional \$14,565 with the amendment of additional space, as described above. The total security deposit at both December 31, 2018 and 2017 for the office lease and amendment was \$52,843. The letter of credit will be automatically extended without amendment for one-year periods from the initial expiration date of February 1, 2018, and will not extend beyond January 31, 2028, unless by subsequent mutual agreement.

Employment Agreements

The Institute has employment agreements with two key executives. These employment agreements contain provisions for fixed salaries, performance bonuses, and other allowances, some of which are deferred. Amounts related to the deferred compensation are reflected as deferred compensation liability in the accompanying statements of financial position.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
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10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

	2018	2017
Flu vaccine initiatives	\$ 2,747,854	\$ 2,368,638
Safety syringe advocacy	2,215,353	2,467,953
Typhoid initiatives	2,014,140	1,878,664
IAIM Network	1,506,896	634,943
Vaccine acceptance and demand	750,652	-
Regional pertussis meeting	321,268	-
Rubella initiatives	302,438	562,450
Meningococcal initiatives	255,694	551,546
Arbovirus workshop	255,457	555,459
R&D due diligence	230,811	177,130
Dengue initiatives	230,371	251,715
Rotavirus initiatives and conferences	189,165	363,459
Ciro de Quadros vaccinology course	131,098	48,987
Pneumococcal initiatives	41,687	228,336
Varicella surveillance project	41,280	130,793
Gold medal	39,700	-
Adolescent health platform workshops	25,277	502,789
Journalist training	24,757	30,295
Sustainable immunization financing	2,529	30,944
Pertussis initiatives	40	1,159
Vaccine policy	-	166,401
Hookworm vaccine R&D initiatives	-	98,446
NTD surveillance project	-	19,838
	\$ 11,326,467	\$ 11,069,945

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Notes to Financial Statements
December 31, 2018 and 2017

11. Retirement Plans

Defined Contribution Plan

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 compensation up to the Internal Revenue Service limit, which was \$18,500 and \$18,000 in 2018 and 2017, respectively, 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, 2018 and 2017, the Institute's match amounted to \$100,644 and \$99,104, respectively.

Defined Compensation Plan

During 2016, the Institute adopted a non-qualified deferred compensation plan under IRC Section 457(b) for an executive employee. An additional plan was adopted during 2017 for another executive employee. Deferred compensation and investments designated for such deferrals are only available and taxable upon termination of employment, retirement, death, or an unforeseeable emergency. Until paid or made available to the participant or beneficiary, all deferred amounts, and investment earnings related thereto, are solely the property and rights of the Institute. At December 31, 2018 and 2017, the deferred compensation asset and corresponding liability totaled \$297,301 and \$294,729, respectively.

12. Related Parties

Vaccine Development Program

During 2011, the Institute entered into an affiliation with Baylor College of Medicine (BCM) and Texas Children's Hospital (TCH) to jointly enhance and support efforts for vaccine development, treatment, prevention, and advocacy pertaining to neglected and other tropical diseases. In conjunction with this, the Institute relocated its Vaccine Development Program (VDP) and agreed to operate the VDP pursuant to a Memorandum of Understanding (MOU) between all parties. While the Institute's former President also served in various capacities with BCM and TCH, and there was nominal governance overlap, there was no controlling financial interest between the parties, all of whom were independent organizations.

Albert B. Sabin Vaccine Institute, Inc.

Notes to Financial Statements
December 31, 2018 and 2017

12. Related Parties (continued)

Vaccine Development Program (continued)

The Institute's President resigned his role effective April 24, 2017 to pursue his increasing responsibilities at BCM and TCH. In conjunction with his resignation, the Institute, BCM, and TCH have concluded their MOU, effective April 30, 2017. The research was transferred to BCM during 2017. Accordingly, the Institute recorded a project transfer of \$1,121,003 in the accompanying statements of activities as a non-operating activity.

The Institute has continued its focus on vaccine research and development to improve human lives and has advanced from landscape review and due diligence to initiation of new vaccine research and development opportunities. These opportunities are aligned with the Institute's strategic plan, which includes supporting innovative techniques and approaches in vaccine research and development.

13. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Program expenses represent direct costs that result in the Institute fulfilling its mission. Fundraising expenses represent costs that involve seeking, soliciting, or securing grants and contributions. General and administrative expenses represent costs necessary for the operations of the Institute that are not easily identifiable with specific program or fundraising activities. The Institute utilizes direct allocation as its preferred method of allocating expenses, and it is used most often provided it is reasonably efficient. The majority of the expenses for the Institute are allocated using the direct allocation method. Indirect allocation is used when the direct method is too burdensome, and the Institute utilizes indirect allocation for certain natural categories of expenses. The expenses that are allocated using the indirect method include salaries, employee benefits, payroll taxes, office supplies and other office-related expenses, and depreciation and amortization, among other expenses, which are allocated on the basis of estimates of time and effort.

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Notes to Financial Statements
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14. Income Taxes

Under IRC Section 501(c)(3), the Institute is exempt from the payment of taxes on income other than net unrelated business income. Tax expense approximating \$2,700 is recorded in the accompanying financial statements for the year ended December 31, 2018 for the Institute's unrelated business activities. No tax expense is recorded in the accompanying financial statements for the year ended December 31, 2017. Contributions to the Institute are deductible as provided in IRC Section 170(b)(1)(A)(vi). Management evaluated the Institute's tax positions and concluded that the Institute's financial statements do not include any uncertain tax positions.

15. Supplementary Disclosures of Cash Flow Information

Supplementary cash flow information is as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 112</u>	<u>\$ 291</u>
Non-Cash Investing Transaction		
Leasehold improvements purchased with tenant improvement allowance	<u>\$ -</u>	<u>\$ 833,755</u>