



**THE SALK INSTITUTE  
FOR BIOLOGICAL STUDIES**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

# **C O N T E N T S**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
The Salk Institute for Biological Studies

We have audited the accompanying statements of financial position of The Salk Institute for Biological Studies (the "Institute") as of June 30, 2010 and 2009 and the related statements of activities and cash flows for the years 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 The Salk Institute for Biological Studies as of June 30, 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.

*Moss Adams LLP*  
San Diego, California  
October 28, 2010

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

(In Thousands)

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	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,893	\$ 8,854
Receivables and other assets, net	13,901	13,555
Contributions receivable, net	17,691	12,535
Funds held by trustee	25,251	2,171
Investments	156,751	136,036
Property, net	58,874	56,826
Total assets	<u>\$ 282,361</u>	<u>\$ 229,977</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 13,806	\$ 15,345
Unexpended advances	10,150	10,249
Retirement obligations	6,789	5,660
Debt	58,685	35,751
Total liabilities	<u>89,430</u>	<u>67,005</u>
<b>Commitments and Contingencies (Note 10)</b>		
<b>Net Assets</b>		
Unrestricted	60,292	48,592
Temporarily restricted	48,790	42,190
Permanently restricted	83,849	72,190
Total net assets	<u>192,931</u>	<u>162,972</u>
Total liabilities and net assets	<u>\$ 282,361</u>	<u>\$ 229,977</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Grants	\$ 80,572	\$ -	\$ -	\$ 80,572
Contributions	3,664	16,849	11,357	31,870
Other	4,226	-	-	4,226
Investment return designated for current operations	3,490	2,088	-	5,578
Net assets released from restrictions	15,907	(15,907)	-	-
Total revenues, gains, and other support	<u>107,859</u>	<u>3,030</u>	<u>11,357</u>	<u>122,246</u>
<b>EXPENSES</b>				
Research	79,310	-	-	79,310
Management and general	19,489	-	-	19,489
Fundraising	3,665	-	-	3,665
Total expenses	<u>102,464</u>	<u>-</u>	<u>-</u>	<u>102,464</u>
<b>EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES</b>	5,395	3,030	11,357	19,782
<b>INVESTMENT RETURN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS UNDER SPENDING POLICY</b>	7,850	3,570	302	11,722
<b>COSTS OF DEFEASANCE OF DEBT</b>	(589)	-	-	(589)
<b>POSTRETIREMENT BENEFIT CHANGES OTHER THAN NET PERIODIC BENEFIT COST</b>	<u>(956)</u>	<u>-</u>	<u>-</u>	<u>(956)</u>
<b>CHANGE IN NET ASSETS</b>	11,700	6,600	11,659	29,959
<b>NET ASSETS</b>				
Beginning of year	<u>48,592</u>	<u>42,190</u>	<u>72,190</u>	<u>162,972</u>
End of year	<u>\$ 60,292</u>	<u>\$ 48,790</u>	<u>\$ 83,849</u>	<u>\$ 192,931</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Grants	\$ 71,736	\$ -	\$ -	\$ 71,736
Contributions	3,039	7,554	2,722	13,315
Other	11,942	-	-	11,942
Investment return designated for current operations	3,891	1,816	-	5,707
Net assets released from restrictions	11,033	(9,693)	(1,340)	-
Total revenues, gains, and other support	<u>101,641</u>	<u>(323)</u>	<u>1,382</u>	<u>102,700</u>
<b>EXPENSES</b>				
Research	77,728	-	-	77,728
Management and general	19,857	-	-	19,857
Fundraising	3,266	-	-	3,266
Total expenses	<u>100,851</u>	<u>-</u>	<u>-</u>	<u>100,851</u>
<b>EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER (UNDER) EXPENSES</b>	790	(323)	1,382	1,849
<b>INVESTMENT LOSSES IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS UNDER SPENDING POLICY</b>	(22,405)	(11,979)	(480)	(34,864)
<b>POSTRETIREMENT BENEFIT CHANGES OTHER THAN NET PERIODIC BENEFIT COST</b>	186	-	-	186
<b>CHANGE IN NET ASSETS</b>	(21,429)	(12,302)	902	(32,829)
<b>NET ASSETS</b>				
Beginning of year	70,021	54,492	71,288	195,801
End of year	<u>\$ 48,592</u>	<u>\$ 42,190</u>	<u>\$ 72,190</u>	<u>\$ 162,972</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2010 AND 2009 (In Thousands)

	2010	2009
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 29,959	\$ (32,829)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,274	8,131
Contributions restricted for long-term assets	(7,143)	(469)
Write-off of debt issuance costs	278	-
Net (gain) loss on investments	(15,993)	31,871
Changes in assets and liabilities:		
Receivables and other assets	(686)	251
Contributions receivable	(6,445)	4,780
Accounts payable and accrued expenses	(1,539)	(257)
Unexpended advances	(99)	2,695
Retirement obligations	1,129	31
Net cash provided by operating activities	<u>7,735</u>	<u>14,204</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property	(10,288)	(4,540)
Purchases of investments	(40,961)	(51,387)
Proceeds from sales of investments	36,901	45,385
Net cash used in investing activities	<u>(14,348)</u>	<u>(10,542)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for:		
Investment in perpetuity	8,012	524
Investment in plant	420	230
Proceeds from debt issuance	37,207	-
Repayment of debt through defeasance	(12,920)	-
Payments on debt	(1,325)	(1,290)
Investment of project funds from debt issuance	(23,742)	-
Net cash provided by (used in) financing activities	<u>7,652</u>	<u>(536)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,039	3,126
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>8,854</u>	<u>5,728</u>
End of year	<u>\$ 9,893</u>	<u>\$ 8,854</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 1,577</u>	<u>\$ 1,683</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 1 – Nature of the Institute

The Salk Institute for Biological Studies, San Diego, California (the “Institute”) conducts basic biomedical research funded primarily with grants and contributions from agencies of the United States government, foundations, and the general public.

The Institute is a California not-for-profit public benefit corporation exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Income determined to be unrelated business income is taxable, when present.

### Note 2 – Significant Accounting Policies

**General:** The financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Net assets and activities are presented as unrestricted, temporarily restricted, and permanently restricted based on related donor restrictions or lack of such restrictions. Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions. Temporarily restricted net assets consist of contributed funds whose use is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to the stipulations. Permanently restricted net assets are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund research and other activities.

The costs of providing the program and other activities are summarized on a functional expense basis in the statement of activities and, accordingly, certain costs have been allocated among the activities benefited.

**FASB Codification:** The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification became the single authoritative source for nongovernmental GAAP and supersedes all previous authoritative GAAP effective for periods ended after September 15, 2009.

#### Revenue Recognition

**Grants:** Grant revenue is recognized as unrestricted revenue when the related research costs are incurred, up to the maximum grant amount. Unspent grant funds received in advance of the related expenditures are reported as unexpended advances. Reimbursement for indirect expenses on certain research grants is based on a fixed rate applied to allowable direct expenses.

**Contributions:** Contributions are recorded as revenue at their fair value when unconditionally pledged or when received, whichever is earlier. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted depending on the nature of the donor’s restriction. When a donor restriction expires or is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of equipment or other long-lived assets are recognized when pledged or received, whichever is earlier, and recorded at the fair value of the contributed asset at the time of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 2 – Significant Accounting Policies (Continued)

**Cash and Cash Equivalents:** Cash and cash equivalents are defined as cash on hand and in banks, plus highly liquid investments, which fund the daily operating activities of the Institute and have a maturity, at the date of purchase, of three months or less. Cash and cash equivalents held within the investment portfolio as part of the Institute's investment strategy are included in investments on the statement of financial position.

**Receivables and Other Assets:** Receivables and other assets include amounts billed and unbilled on grants and other agreements through June 30. An allowance for estimated uncollectible accounts is recorded based on past experience and on an analysis of current receivable balances. Accounts are written off against the allowance when deemed uncollectible. Management has determined that an allowance of \$58 and \$70 is necessary at June 30, 2010 and 2009, respectively.

Also included in receivables and other assets is the Institute's beneficial interest in split-interest agreements which provide for the payment of distributions to the donor or other designated beneficiaries over the split-interest agreement's term (usually the beneficiary's lifetime). At the end of a split-interest agreement's term, the remaining assets are available for use by the Institute for the purpose specified by the donor. The portion of the assets attributable to the fair value of the future benefits to be received by the Institute is recorded in the statement of activities as temporarily or permanently restricted contribution revenue in the year the split-interest agreement is established. The fair value of the Institute's beneficial interest in split-interest agreements is calculated based on a discounted cash flow model using applicable mortality tables and discount rates of 3.2 percent and 2.8 percent at June 30, 2010 and 2009, respectively. The fair value of the Institute's beneficial interest in split-interest agreements totaled \$2,056 and \$2,123 at June 30, 2010 and 2009, respectively.

Included in receivables and other assets at June 30, 2010 and 2009, are \$1,648 and \$1,900, respectively, in notes receivable from employees of the Institute for relocation and housing assistance. The notes bear interest at rates ranging from 0 percent to 6 percent, are secured by second priority deeds of trust, and are forgiven or repaid over terms of 2 to 12 years, subject to continued employment and service to the Institute.

**Contributions Receivable:** Contributions receivable consists of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. The discounts on these amounts are computed using risk-free rates established at the time those promises are received. The discount rates for the contributions receivable range from .9 percent to 4.5 percent for fiscal years 2010 and 2009. Amortization of the discounts is included in contributions. Conditional promises to give are not recorded as revenue until the conditions are substantially met. An allowance for estimated uncollectible contributions receivable is recorded based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Accounts are written off against the allowance when deemed uncollectible. Management has determined that no allowance for uncollectible contributions receivable is necessary as of June 30, 2010 and 2009.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 2 – Significant Accounting Policies (Continued)

**Investments:** Investments in marketable equity securities and all investments in debt securities are carried at their fair values based on quoted prices in an active market. Non-marketable securities for which quoted market prices are not available are valued at fair value by third-party fund managers or the general partners of the related investment partnerships, based on factors deemed relevant by the general partners including, but not limited to, market conditions, purchase price, estimated liquidation value, restrictions on transfer, and meaningful third-party transactions in the private market. The Institute reviews and evaluates the values provided by third-party fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of non-marketable securities, including alternative investments. For these investments, the Institute uses the net asset value (“NAV”) provided by the investment fund managers to evaluate the fair value of the investments (see Notes 4 and 9). The NAV may be adjusted based on liquidity factors or other information about the investments that management considers significant to the valuation of the investments.

Realized and unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

The Institute’s portfolio is managed by independent professional investment managers subject to direction and oversight by a committee of the Board of Trustees. Certain of these managers are authorized to invest a limited portion of the Institute’s portfolio in alternative investments to increase portfolio diversification and return and reduce volatility.

**Funds Held By Trustee:** Funds held by trustee are amounts required to be held in a separate account under the Certificates of Participation agreements and revenue bonds (Note 6) and are comprised of cash and cash equivalents. The funds include \$23,742 in proceeds from the 2010 Certificates of Participation to be used for the project described in Note 6.

**Property:** Property, including land, buildings, and equipment, is carried at cost. The Institute capitalizes acquisitions of property of \$5 or more. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years.

**Impairment of Long-lived Assets:** The Institute evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

**Endowments:** The Institute’s endowment consists of 75 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In August 2008, the FASB issued authoritative guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”).

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 2 – Significant Accounting Policies (Continued)

Effective January 1, 2009, the State of California enacted a version of UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. The Institute considered the effects of and implemented UPMIFA during the year ended June 30, 2009.

The Board of Trustees of the Institute (the “Board”) has interpreted California’s enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purposes of the Institute and the donor-restricted endowment fund;
- 3) General economic conditions;
- 4) The possible effect of inflation and deflation;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the Institute; and
- 7) The investment policies of the Institute.

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and activities supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Institute’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is a total return, over rolling ten-year periods, which exceeds inflation by an average of 5.5 percent per year. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Institute has a policy of appropriating for distribution each year a percentage of its endowment funds’ average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The percentage distribution is determined annually by the Board in the budget approval process and was 5 percent for each of the years ended June 30, 2010 and 2009. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long term, the Institute expects the current spending policy to allow its endowment to grow at an average of .5 percent over inflation annually. This is consistent with the Institute’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 2 – Significant Accounting Policies (Continued)

**Use of Estimates:** The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

**Fair Value of Financial Instruments:** The Institute carries certain assets at fair value as described in Note 9. The Institute has determined the fair value of these assets in accordance with authoritative guidance. The carrying values of cash and cash equivalents, receivables, and accounts payable approximate their fair values due to the relatively short period of time between origination of the instruments and their expected realization. See Note 6 for fair value of debt.

**Risks and Uncertainties:** The Institute invests in various types of securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and such changes could materially affect the amounts reported in the statement of financial position.

In 2010 and 2009, there has been significant volatility in the domestic and international investment markets, primarily as a result of liquidity issues in credit markets. Consequently, the fair value of the Institute's investments is exposed to higher than typical price volatility which could result in a substantial reduction in the fair value of certain investments from the amounts reported as of June 30, 2010.

**Subsequent Events:** Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. The Institute recognizes in the financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Institute's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued. The Institute has evaluated subsequent events through October 28, 2010, which is the date the financial statements are available to be issued.

### Note 3 – Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	2010	2009
Contributions receivable to be paid in:		
Less than one year	\$ 9,014	\$ 5,634
One to five years	9,164	7,236
More than five years	500	500
	<u>18,678</u>	<u>13,370</u>
Less unamortized discount	(987)	(835)
Total contributions receivable, net	<u>\$ 17,691</u>	<u>\$ 12,535</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 3 – Contributions Receivable (Continued)

At June 30, 2010 and 2009, net contributions receivable of \$3,268 and \$3,558, respectively, are from members of the Board of Trustees of the Institute.

In 2008, the Institute received two conditional promises to give from members of the Board of Trustees. One of the conditional gifts is a promise to give \$1,000 for each \$2,000 endowed chair established by other donors, up to a maximum of \$10,000. As of June 30, 2010, cash contributions and pledges have been received for three endowed chairs, and the related matching funds have been recognized as permanently restricted contributions. The second conditional gift is a promise to match up to \$20,000 in contributions for any purpose resulting from a specific development plan over five years ending April 30, 2013. The promised matching funds are restricted for the creation of a biophotonics center. Advance payments of \$6,000 and \$3,000 were received from the donor in 2010 and 2008, respectively, and recorded as an unexpended advance. Contributions of \$7,403 and \$2,146 were received in response to the development plan in 2010 and 2009, respectively. Through 2010, \$9,699 of the conditional promise to give has been recognized as temporarily restricted contributions, and \$699 is included in contributions receivable in the statement of financial position as of June 30, 2010. In July 2010, the donor paid the outstanding balance of the conditional promise to give.

In late 2009, the Institute received a conditional promise to give from a member of the Board of Trustees to match up to \$1,000 raised to fund a specific capital project. Contributions of \$410 were pledged or received in 2010 and matched by the Board member.

### Note 4 – Investments

Investments are summarized as follows at June 30:

	2010	2009
Alternative investments	\$ 76,231	\$ 52,679
Marketable securities:		
Equity securities	54,593	54,917
Fixed income securities	11,662	9,427
Cash and cash equivalents	9,501	14,868
Mutual funds:		
Equity	3,426	2,918
Fixed income	1,338	1,227
Total investments	<u>\$ 156,751</u>	<u>\$ 136,036</u>

At June 30, 2010 and 2009, investments include \$4,625 and \$4,145, respectively, held in a rabbi trust to fund the Institute's retiree health benefits plan (Note 8).

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 4 – Investments (Continued)

Alternative investments are generally less liquid than the Institute's other investments. The nature and risks of these investments as of June 30, 2010, are summarized as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
Distressed securities funds				
Active	\$ 22,452	\$ -	quarterly, biannually, annually	60-120 days
Liquidating	4,553	-	n/a	n/a
Long/short equity funds				
Active	23,377	-	quarterly	30-45 days
Liquidating	850	-	n/a	n/a
Fixed income funds	13,026	-	daily, monthly	5-15 days
Global equity funds	10,852	-	bi-monthly	1 day
Private equity funds	1,121	2,802	n/a	n/a
	<u>\$ 76,231</u>	<u>\$ 2,802</u>		

The distressed securities funds primarily invest in distressed debt and mortgage investments, undervalued securities, private investments, debt and equity securities of companies involved in or affected by the real estate and mortgage crisis, and fixed income securities, including commercial bank loan debt. The fair values of the investments in this category have been estimated using the NAV of the Institute's ownership interest in the funds. This category includes investments of \$3,148 and \$2,989 which are not eligible for redemption until June 30, 2013, and October 1, 2014, respectively. The investment manager for investments of \$5,884 in this category may suspend redemption rights for up to one year if disposal of the fund's assets would not be reasonably practicable, would be prejudicial to non-redeeming members, or would have an adverse effect on the fund; in addition, full redemption of the investment may occur over a three-year period. Investments of \$10,431 include gate provisions that do not exceed one year after the initial redemption period. The liquidating distressed securities fund is expected to be fully liquidated and distributed by December 31, 2012, and the fair value has been estimated based on the Institute's share of partners' capital.

The long/short equity funds invest in long and short positions in both United States and global equity securities. The fair values of the investments in this category have been estimated using the NAV of the Institute's ownership interest in the funds. This category includes investments of \$5,267 which are not eligible for redemption until March 31, 2011, and for which the fund's board may suspend redemption rights if disposal of the fund's assets would not be reasonably practicable, would be prejudicial to non-redeeming members, or would have an adverse effect on the fund. Investments of \$6,377 include gate provisions that do not exceed one year after the initial redemption period. The liquidating long/short equity fund will be liquidated and distributed based on timing determined by the fund's investment advisor.

The fixed income funds invest primarily in investment grade debt and fixed income securities, fixed and floating rate debt securities, and debt obligations of governments or government-related issuers worldwide. The fair values of the investments in this category have been estimated using the NAV of the Institute's ownership interest in the funds. Investments of \$7,582 are in a fund whose board may suspend redemption rights if it deems such suspension is in the best interests of the fund.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 4 – Investments (Continued)

Global equity funds are invested in shares of companies listed on stock exchanges around the world. The fair values of the investments in this category have been estimated using the NAV of the Institute's ownership interest in the funds.

The private equity funds are primarily invested in pooled investment vehicles purchased from existing owners of such pooled investment vehicles and not from the issuers of such investments. The fair values of the investments in this category have been estimated based on the Institute's share of partners' capital. The investments in this category can never be redeemed with the funds. The nature of these investments is that distributions are received through the liquidation of the underlying assets of the fund. After the investment period that ends in June 2012, the partnership term is ten years and provides for extensions.

Investments include endowments funds and general funds of the Institute. The Board of Trustees has designated a portion of the Institute's cumulative investment return on general funds to be used for support of current operations. Under the Institute's spending policy, 5 percent of the average of the fair value of the Institute's general fund investment balances for the previous three years is appropriated to support current operations.

The composition of investment return includes the following for the years ended June 30:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Interest and dividends	\$ 793	\$ 776	\$ -	\$ 1,569
Net gains	10,547	4,882	302	15,731
Investment return	11,340	5,658	302	17,300
Investment return designated for current operations	(3,490)	(2,088)	-	(5,578)
Investment return in excess of amounts designated for current operations	<u>\$ 7,850</u>	<u>\$ 3,570</u>	<u>\$ 302</u>	<u>\$ 11,722</u>
	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Interest and dividends	\$ 1,639	\$ 1,075	\$ -	\$ 2,714
Net losses	(20,153)	(11,238)	(480)	(31,871)
Investment return	(18,514)	(10,163)	(480)	(29,157)
Investment return designated for current operations	(3,891)	(1,816)	-	(5,707)
Investment losses in excess of amounts designated for current operations	<u>\$ (22,405)</u>	<u>\$ (11,979)</u>	<u>\$ (480)</u>	<u>\$ (34,864)</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 5 – Property

Property is summarized as follows at June 30:

	2010	2009
Land	\$ 1,154	\$ 1,154
Buildings and improvements	116,865	115,309
Laboratory equipment	48,434	43,117
Computer and other equipment	6,331	5,940
Construction in progress	3,493	655
	<u>176,277</u>	<u>166,175</u>
Less accumulated depreciation and amortization	<u>(117,403)</u>	<u>(109,349)</u>
Total property, net	<u>\$ 58,874</u>	<u>\$ 56,826</u>

Included in total expenses is depreciation expense of \$8,240 and \$8,099 for the years ended June 30, 2010 and 2009, respectively.

### Note 6 – Debt

In July 2005, the Institute issued revenue bonds through the California Statewide Communities Development Authority totaling \$25,135 to prepay, together with other available moneys, \$26,940 aggregate principal amount of the outstanding Certificates of Participation issued in 1994 to fund the construction of the research buildings expansion project. The 2005 bonds consist of \$25,135 in serial bonds due from July 1, 2007 through July 1, 2024 at interest rates ranging from 3.00 percent to 5.25 percent. At June 30, 2010, a premium of \$441 on the bonds is being amortized over the life of the bonds.

In May 2010, the Institute issued Certificates of Participation (the “2010 Certificates”) through the County of San Diego totaling \$37,445 to fund the construction and renovation of the Institute’s facilities, including the renewal and expansion of the central plant and electrical distribution infrastructure, and to prepay, together with other available moneys, \$12,920 aggregate principal amount of the outstanding Certificates of Participation issued in 2000 (the “2000 Certificates”) to fund the construction of a new research building. The 2010 Certificates consist of \$8,595 in serial certificates due from July 1, 2011, through July 1, 2025, at interest rates ranging from 3.00 to 5.00 percent, \$7,320 in 5.25 percent term certificates due on July 1, 2030, and \$21,530 in 5.125 percent term certificates due on July 1, 2040. At June 30, 2010, a discount of \$236 is being amortized over the life of the 2010 Certificates.

In 2000, the Institute issued the 2000 Certificates through the County of San Diego totaling \$15,000 to fund the construction of a new research building. Upon the issuance of the 2010 Certificates, funds sufficient to pay the July 1, 2010, principal and interest payments and the prepayment price of the 2000 Certificates were placed in an escrow account for the repayment of the outstanding balance on July 1, 2010. The related 2000 Certificates liability, trust assets, and unamortized debt issuance costs were removed from the financial statements of the Institute in May 2010.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 6 – Debt (Continued)

As of June 30, 2010, future annual principal payments under the Certificates of Participation and revenue bonds are as follows:

Years ending June 30,	
2011	\$ 1,055
2012	1,455
2013	1,560
2014	1,605
2015	1,670
Thereafter	51,135
	<u>\$ 58,480</u>

The Institute's debt is collateralized by all of the revenue of the Institute and further secured by a deed of trust on the Institute's main campus. The fair value of the debt as of June 30, 2010 and 2009, is approximately \$59,292 and \$34,715, respectively, based on current interest rates for obligations with similar terms.

Issuance costs related to the Certificates of Participation and revenue bonds are included in receivables and other assets in the accompanying statements of financial position and are being amortized over the life of the certificates; the unamortized balance of such costs is \$1,056 and \$873 at June 30, 2010 and 2009, respectively. Amortization expense related to the issuance costs was \$63 and \$62 for the years ended June 30, 2010 and 2009.

Interest expense related to the Certificates of Participation and revenue bonds was \$1,637 and \$1,683 for the years ended June 30, 2010 and 2009, respectively. In addition, \$113 in interest was capitalized in 2010 as part of the construction and renovation projected funded by the 2010 Certificates of Participation.

Under the terms of the Certificates of Participation and revenue bonds, the Institute is subject to compliance with certain covenants, including restrictions on additional indebtedness.

### Note 7 – Net Assets

Net assets at June 30 are summarized as follows:

	2010	2009
<b>Unrestricted</b>	<u>\$ 60,292</u>	<u>\$ 48,592</u>
<b>Temporarily Restricted</b>		
Research	47,074	40,146
Building projects	<u>1,716</u>	<u>2,044</u>
Total temporarily restricted	<u>48,790</u>	<u>42,190</u>
<b>Permanently Restricted</b>		
Research	66,156	54,585
Unrestricted use	<u>17,693</u>	<u>17,605</u>
Total permanently restricted	<u>83,849</u>	<u>72,190</u>
Total net assets	<u>\$ 192,931</u>	<u>\$ 162,972</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 7 – Net Assets (Continued)

Net assets were released from restrictions by satisfying donor restrictions for the following purposes during the years ended June 30:

	2010	2009
<b>Temporarily Restricted</b>		
Research	\$ 12,225	\$ 9,284
Building projects	3,682	409
Total temporarily restricted	<u>15,907</u>	<u>9,693</u>
<b>Permanently Restricted</b>		
Research	-	90
Other	-	1,250
Total permanently restricted	<u>-</u>	<u>1,340</u>
Total releases from restriction	<u>\$ 15,907</u>	<u>\$ 11,033</u>

During the year ended June 30, 2009, two donors allowed the Institute to release from permanent restriction investment gains which had been added to the corpus of their endowments in earlier years. In addition, another donor directed the Institute to use a portion of his endowment's corpus to fund the related endowed activities in years in which the endowment's market value is less than the original gift amount.

The net asset composition of the Institute's donor-restricted and board-designated endowments is as follows at June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment Net Assets:</b>				
<b>2010</b>				
Donor-restricted	\$ (549)	\$ 5,143	\$ 83,849	\$ 88,443
Board-designated	977	-	-	977
Total	<u>\$ 428</u>	<u>\$ 5,143</u>	<u>\$ 83,849</u>	<u>\$ 89,420</u>
<b>2009</b>				
Donor-restricted	\$ (3,673)	\$ 1,943	\$ 72,190	\$ 70,460
Board-designated	901	-	-	901
Total	<u>\$ (2,772)</u>	<u>\$ 1,943</u>	<u>\$ 72,190</u>	<u>\$ 71,361</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 7 – Net Assets (Continued)

The changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2008	\$ 1,136	\$ 10,625	\$ 71,288	\$ 83,049
Investment return:				
Interest and dividends	18	1,071	-	1,089
Net losses	<u>(3,884)</u>	<u>(9,187)</u>	<u>(480)</u>	<u>(13,551)</u>
Total investment return	<u>(3,866)</u>	<u>(8,116)</u>	<u>(480)</u>	<u>(12,462)</u>
Contributions	-	-	2,722	2,722
Amounts appropriated for expenditure	(42)	(1,816)	(90)	(1,948)
Other changes	<u>-</u>	<u>1,250</u>	<u>(1,250)</u>	<u>-</u>
Endowment net assets at June 30, 2009	(2,772)	1,943	72,190	71,361
Investment return:				
Interest and dividends	10	775	-	785
Net gains	<u>3,232</u>	<u>4,513</u>	<u>302</u>	<u>8,047</u>
Total investment return	<u>3,242</u>	<u>5,288</u>	<u>302</u>	<u>8,832</u>
Contributions	-	-	11,357	11,357
Amounts appropriated for expenditure	<u>(42)</u>	<u>(2,088)</u>	<u>-</u>	<u>(2,130)</u>
Endowment net assets at June 30, 2010	<u>\$ 428</u>	<u>\$ 5,143</u>	<u>\$ 83,849</u>	<u>\$ 89,420</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2010 and 2009, respectively, these deficiencies totaled \$549 and \$3,673. These deficiencies resulted from unfavorable financial market conditions over the past two years.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 8 – Employee Benefit Plans

**Retirement Plans:** The Institute has an Employee Retirement Plan for certain of its employees. The plan is a defined contribution plan under which the Institute contributes a percentage of the participant's annual compensation. The Institute's contributions are made in accordance with Section 403(b) of the Internal Revenue Code. Total contributions expense related to the plan was \$3,966 and \$4,096 for the years ended June 30, 2010 and 2009, respectively.

**Retiree Health Benefits Plan:** The Institute sponsors a defined benefit plan (the "Plan") that provides for retirees' health and related benefits. Employees hired prior to June 30, 1993, may become eligible for these postretirement benefits upon attainment of age 60 with 10 years of service. The Plan includes cost-sharing features such as deductibles, coinsurance, and contributions, which can be adjusted annually, and the Institute's policy is to fund these benefits through a rabbi trust. The Institute uses a June 30 measurement date for the Plan.

The changes in the accumulated postretirement benefit obligation for the Plan are as follows:

	2010	2009
Benefit obligation, beginning of year	\$ 5,660	\$ 5,629
Service cost	31	34
Interest cost	324	334
Actuarial loss (gain)	942	(170)
Benefits paid	<u>(168)</u>	<u>(167)</u>
Benefit obligation, end of year	<u>\$ 6,789</u>	<u>\$ 5,660</u>
Funded status of plan, end of year	<u>\$ (6,789)</u>	<u>\$ (5,660)</u>
Rabbi trust investments, end of year	<u>\$ 4,625</u>	<u>\$ 4,145</u>

The components of the net periodic postretirement benefit cost are:

	2010	2009
Service cost	\$ 31	\$ 34
Interest cost	324	334
Amortization of transition obligation	117	117
Amortization of net gain	<u>(131)</u>	<u>(101)</u>
Net periodic postretirement benefit cost	<u>\$ 341</u>	<u>\$ 384</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 8 – Employee Benefit Plans (Continued)

The deferred transition obligation and deferred actuarial gains and losses are not reflected in net periodic postretirement benefit cost and are included in unrestricted net assets at June 30. The changes in the deferred amounts are as follows:

	2010		2009	
	Deferred Gain	Transition Obligation	Deferred Gain	Transition Obligation
Balance, beginning of year	\$ 1,439	\$ (699)	\$ 1,370	\$ (816)
Actuarial (loss) gain	(942)	-	170	-
Amortization:				
Deferred transition obligation	-	117	-	117
Deferred actuarial (loss)	(131)	-	(101)	-
Balance, end of year	<u>\$ 366</u>	<u>\$ (582)</u>	<u>\$ 1,439</u>	<u>\$ (699)</u>

The amounts of the transition obligation and the net actuarial gain included in unrestricted net assets at June 30, 2010, that are expected to be recognized in net periodic postretirement benefit cost during the fiscal year ended June 30, 2011, are (\$117) and \$0, respectively.

The benefits expected to be paid from the Plan in each of the next five years and in the aggregate for the following five years are as follows:

Years ending June 30,	
2011	\$ 447
2012	454
2013	429
2014	435
2015	459
2016-2020	<u>2,375</u>
	<u>\$ 4,599</u>

Contributions to the Plan are expected to equal benefit payments. For the years ended June 30, 2010 and 2009, employer contributions were \$168 and \$167, respectively, and participant contributions were \$93 and \$98, respectively.

The Plan's weighted-average assumptions used to determine net periodic postretirement benefit cost for the years ended June 30 were as follows:

	2010	2009
Discount rate	5.15%	6.25%
Rate of compensation increase	5.00%	5.00%

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 8 – Employee Benefit Plans (Continued)

The amounts reported are affected by the healthcare trend assumptions. The assumed healthcare cost trend rate used in measuring the accumulated benefit obligation was 11 percent and 10 percent for 2010 and 2009, respectively, and is assumed to decrease gradually to 5.25 percent in 2075 and remain at that level thereafter. If the healthcare cost trend assumptions were increased by 1 percent, the accumulated postretirement benefit obligation at June 30, 2010 and 2009, would be increased by approximately \$168 and \$104, respectively. The effect of this change would increase the aggregate of the service and interest cost components of the net periodic postretirement benefit cost by approximately \$6 in each of the years ended June 30, 2010 and 2009. If the healthcare cost trend assumptions were decreased by 1 percent, the accumulated postretirement benefit obligation as of June 30, 2010 and 2009, would be decreased by approximately \$150 and \$93, respectively. The effect of this change would reduce the aggregate of the service and interest cost components of the net periodic postretirement benefit cost by approximately \$5 and \$6 for the years ended June 30, 2010 and 2009, respectively.

### Note 9 – Fair Value of Financial Instruments

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents information about each major category of the Institute’s financial assets measured at fair value on a recurring basis:

	Fair Value Measurement at June 30, 2010			
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 80,520	\$ -	\$ -	\$ 80,520
Alternative investments:				
Distressed securities funds	-	-	27,005	27,005
Long/short equity funds	-	18,110	6,117	24,227
Fixed income funds	-	5,444	7,582	13,026
Global equity funds	-	10,852	-	10,852
Private equity	-	-	1,121	1,121
Funds held by trustee	25,251	-	-	25,251
Beneficial interest in split-interest agreements	-	-	2,056	2,056
	<u>\$ 105,771</u>	<u>\$ 34,406</u>	<u>\$ 43,881</u>	<u>\$ 184,058</u>

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

### Note 9 – Fair Value of Financial Instruments (Continued)

	Fair Value Measurement at June 30, 2009			
	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 83,357	\$ -	\$ -	\$ 83,357
Alternative investments:				
Distressed securities funds	-	-	21,404	21,404
Long/short equity funds	-	-	19,930	19,930
Fixed income funds	-	-	10,547	10,547
Private equity	-	-	798	798
Funds held by trustee	2,171	-	-	2,171
Beneficial interest in split-interest agreements	-	-	2,123	2,123
	<u>\$ 85,528</u>	<u>\$ -</u>	<u>\$ 54,802</u>	<u>\$ 140,330</u>

The following table presents the summary of changes in the fair value of the Institute's Level 3 classified assets for 2010:

	Alternative Investments				Beneficial Interest in Split-Interest Agreements	Total
	Distressed securities funds	Long/short equity funds	Fixed income funds	Private equity		
Balance, July 1, 2008	\$ 22,901	\$ 26,195	\$ 10,749	\$ -	\$ 2,754	\$ 62,599
Realized and unrealized losses	(3,497)	(3,242)	(202)	(82)	-	(7,023)
Change in value of beneficial interest	-	-	-	-	(590)	(590)
Net purchases and sales	<u>2,000</u>	<u>(3,023)</u>	<u>-</u>	<u>880</u>	<u>(41)</u>	<u>(184)</u>
Balance, June 30, 2009	21,404	19,930	10,547	798	2,123	54,802
Transfers out of Level 3	-	(14,418)	(10,547)	-	(152)	(25,117)
Realized and unrealized gains (losses)	2,601	(811)	82	38	-	1,910
Change in value of beneficial interest	-	-	-	-	85	85
Net purchases and sales	<u>3,000</u>	<u>1,416</u>	<u>7,500</u>	<u>285</u>	<u>-</u>	<u>12,201</u>
Balance, June 30, 2010	<u>\$ 27,005</u>	<u>\$ 6,117</u>	<u>\$ 7,582</u>	<u>\$ 1,121</u>	<u>\$ 2,056</u>	<u>\$ 43,881</u>

Transfers out of Level 3 assets in 2010 are reclassifications of investments redeemable at NAV in accordance with authoritative guidance issued in September 2009.

Realized and unrealized gains of \$1,910 and losses of \$7,021 are reported in the statement of activities as a component of investment return or losses in excess of amount designated for current operations for the years ended June 30, 2010 and 2009, respectively. The change in the value of the beneficial interest in split-interest agreements is included in contributions on the statements of activities. Of the total fiscal year 2010 net gains and 2009 net losses that are included in investment return or losses in excess of amount designated for current operations, \$2,321 are due to net unrealized gains and \$6,196 are due to net unrealized losses from Level 3 assets still held at June 30, 2010 and 2009, respectively.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 9 – Fair Value of Financial Instruments (Continued)

See Note 2 for the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. The Institute had no liabilities required to be reported at fair value at June 30, 2010 or 2009.

### Note 10 – Commitments and Contingencies

**Commitments:** At June 30, 2010, contractual commitments on construction and purchases pending or in process are \$6,654.

**Leases:** The Institute has entered into operating leases for building space and equipment that expire through October 2015. Rent expense totaled \$694 and \$683 for the years ended June 30, 2010 and 2009, respectively. Future minimum rental payments required under non-cancelable operating leases that have remaining lease terms in excess of one year as of June 30, 2010, are as follows:

Years ending June 30,		
2011	\$	751
2012		690
2013		660
2014		635
2015		640
Thereafter		215
	\$	<u>3,591</u>

**Grants:** The Institute has grants with various organizations and government agencies which are subject to audit. Management believes that any liability which may result from these audits would not be material.

**Income Taxes:** The Institute has no unrecognized tax benefits as of June 30, 2010 and 2009.

The Institute files an exempt organization tax return in the United States federal jurisdiction and a copy with the state charities division. With few exceptions, the Institute is no longer subject to United States federal or state/local income tax examinations by tax authorities for years before 2007.

**Legal:** The Institute is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional liabilities, if any, under these actions will not result in material charges against net assets.

# THE SALK INSTITUTE FOR BIOLOGICAL STUDIES

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

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### Note 10 – Commitments and Contingencies (Continued)

**Guarantees and Indemnities:** From time to time, the Institute enters into certain types of contracts that contingently require the Institute to indemnify parties against third-party claims. These contracts primarily relate to: (i) certain technology transfer/license agreements under which the Institute may be required to indemnify licensees, and (ii) certain agreements with the Institute's officers, directors, and employees, under which the Institute may be required to indemnify such persons for liabilities arising out of their employment relationship. The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under those contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations on the Institute's statements of financial position for the years ended June 30, 2010 and 2009.

### Note 11 – Concentrations of Credit Risk

Cash in bank deposit accounts and the investment portfolio exceeds federally insured deposit limits. No losses have been experienced in such accounts.

The Institute receives funds under various research grants from federal and non-federal agencies. Funding from the National Institutes of Health represents approximately 64 percent and 70 percent of total grant revenue for the years ended June 30, 2010 and 2009, respectively.

### Note 12 – Related Party

In May 2006, the Institute and three other research institutions formed the San Diego Consortium for Regenerative Medicine, subsequently renamed Sanford Consortium for Regenerative Medicine ("SCRM") to coordinate the institutions' resources, personnel, and programs for scientific research and education in the field of stem cell research and related fields. The nine-member board of SCRM includes a member of the Institute's Board of Trustees and the Institute's President/Chief Executive Officer.

In October 2009, the consortium members and SCRM executed an agreement (the "Collaboratory Agreement") in which SCRM grants the members a non-exclusive license to use space for stem cell research in SCRM's research facility, which is expected to be ready for occupancy by January 1, 2012. The initial term of the Collaboratory Agreement is 10 years with options to extend. Under the agreement, the members agree to pay a license fee equal to each member's allocable share of licensed space debt service and operating expenses. The Institute's license fee and operating expenses for the use of three modules in SCRM's building are expected to be \$238 and \$190 per year, respectively.