Financial Statements

December 31, 2015 and 2014

# Trudeau Institute, Inc.

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C O N T E N T S

SAXBST
ACCOUNTING / TAX / ADVISORY

# Independent Auditor's Report

Board of Trustees
Trudeau Institute, Inc.
Saranac Lake, New York

**Report on the Financial Statements**

We have audited the accompanying financial statements of Trudeau Institute, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Trudeau Institute, Inc. as of December 31, 2015 and 2014, 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.

***Emphasis of Matter***

As discussed in Note 15 to the financial statements, the 2014 financial statements were restated to reflect an understatement of property, plant, and equipment, net, an understatement of accounts payable and accrued expenses, and an understatement of net assets on the statement of financial position. In addition, the U.S. government grants were overstated, and the net assets at the beginning of the year were understated on the statement of activities.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2016, on our consideration of Trudeau Institute, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trudeau Institute, Inc.'s internal control over financial reporting and compliance.

SaxBST LLP

Albany, New York
April 15, 2016

# Trudeau Institute, Inc.

Statements of Financial Position

| | December 31, 2015 | December 31, 2014 (Restated) |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 3,176,098 | $ 1,712,347 |
| Grants receivable, net | 1,992,151 | 2,973,563 |
| Investments | 9,298,894 | 9,350,009 |
| Prepaid expenses, supplies inventory, and other receivables | 364,830 | 256,332 |
| Deferred financing and legal charges, net | 56,112 | 70,140 |
| Patents, net | 142,093 | 146,766 |
| Property, plant, and equipment, net | 20,216,101 | 21,240,389 |
| Funds held in trusts | 3,501,627 | 3,804,815 |
| **TOTAL ASSETS** | **$ 38,747,906** | **$ 39,554,361** |
| **LIABILITIES** | | |
| Line-of-credit | $ 75,000 | $ 75,000 |
| Accounts payable and accrued expenses | 717,872 | 627,579 |
| Deferred revenue | 61,170 | 678,722 |
| Capital lease obligations | 2,995,000 | 3,635,000 |
| Loan payable | 1,275,000 | 1,575,000 |
| | 5,124,042 | 6,591,301 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **NET ASSETS** | | |
| Unrestricted | | |
| Available for operations | 21,002,207 | 19,996,138 |
| Board designated, Edward C. Brewster Fund | 4,000,000 | 4,000,000 |
| | 25,002,207 | 23,996,138 |
| Temporarily restricted | 2,571,103 | 2,613,180 |
| Permanently restricted | | |
| Endowment accounts | 1,444,261 | 1,444,261 |
| Funds held in trust | 3,501,627 | 3,804,815 |
| Francis B. Trudeau Chair | 1,104,666 | 1,104,666 |
| | 6,050,554 | 6,353,742 |
| | 33,623,864 | 32,963,060 |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 38,747,906** | **$ 39,554,361** |

*See accompanying Notes to Financial Statements.*

# Trudeau Institute, Inc.

Statements of Activities

| | Years Ended December 31, 2015 | 2014 (Restated) |
|---|---|---|
| **CHANGE IN UNRESTRICTED NET ASSETS** | | |
| Revenues and support | | |
| Grants | | |
| U.S. Government | $ 777,047 | $ 664,758 |
| Other for research | 1,410,566 | 1,758,626 |
| New York State Urban Development Corporation d/b/a Empire State Development | 7,743,849 | 8,098,666 |
| Trust revenue | 182,920 | 165,937 |
| Contributions | 281,565 | 387,647 |
| Rental revenue | 99,296 | 129,454 |
| License and other revenue | 87,802 | 62,128 |
| Net assets released from restrictions | | |
| Used for research | 25,000 | 52,300 |
| Used for operations | - | 155,056 |
| Used for other | 100 | 400 |
| Total revenues and support | 10,608,145 | 11,474,972 |
| Expenses | | |
| Research programs | | |
| Grant and contract expense | 2,269,842 | 2,712,826 |
| Institute research | 1,469,754 | 2,450,572 |
| Total research programs | 3,739,596 | 5,163,398 |
| General and administrative | | |
| Administrative | 1,952,342 | 1,599,693 |
| Development | 162,867 | 261,143 |
| General house and property | 1,706,143 | 1,874,665 |
| Research support services | 1,825,323 | 2,144,912 |
| Total general and administrative | 5,646,675 | 5,880,413 |
| Corporate, including interest expense | 181,767 | 241,365 |
| Total expenses | 9,568,038 | 11,285,176 |
| **Net operating activity** | **1,040,107** | **189,796** |

*See accompanying Notes to Financial Statements.*

| | Years Ended December 31, 2015 | 2014 (Restated) |
|---|---|---|
| Non-Operating Activity | | |
| Realized gains on investments, net | 30,696 | 444,554 |
| Unrealized losses on investments, net | (167,552) | (73,025) |
| Interest and dividend income | 102,818 | 124,331 |
| Net non-operating activity | (34,038) | 495,860 |
| **Increase in unrestricted net assets** | **1,006,069** | **685,656** |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | | |
| Contributions | 100 | 42,550 |
| Realized gains on investments, net | 15,383 | 157,234 |
| Unrealized losses on investments, net | (83,968) | (25,828) |
| Interest and dividend income | 51,508 | 43,975 |
| Reclassification of temporarily restricted amounts | (25,100) | (207,756) |
| | (42,077) | 10,175 |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | | |
| Unrealized losses on trusts' assets | (303,188) | (58,163) |
| **CHANGE IN NET ASSETS** | **660,804** | **637,668** |
| **NET ASSETS, *beginning of year, as originally stated*** | 32,963,060 | 32,141,733 |
| Prior period adjustment | - | 183,659 |
| **NET ASSETS, *beginning of year, as restated*** | 32,963,060 | 32,325,392 |
| **NET ASSETS, *end of year*** | **$ 33,623,864** | **$ 32,963,060** |

# Trudeau Institute, Inc.

## Statements of Cash Flows

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | | (Restated) |
| **CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES** | | |
| Change in net assets | $ 660,804 | $ 637,668 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Depreciation and amortization | 1,526,265 | 1,571,610 |
| Amortization of deferred financing and legal charges, and patents | 17,179 | 17,179 |
| Bad debts | - | 4,383 |
| Net unrealized losses on trusts' assets | 303,188 | 58,163 |
| Net unrealized losses on investments | 251,520 | 98,853 |
| Net realized gains on sale of investments | (46,079) | (601,788) |
| Decrease (increase) in | | |
| Grants receivable | 981,412 | (1,580,382) |
| Prepaid expenses, supplies inventory, and other receivables | (108,498) | 21,859 |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | 90,293 | 23,567 |
| Deferred revenue | (617,552) | (607,869) |
| | **3,058,532** | **(356,757)** |
| **CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES** | | |
| Purchase of investments | (2,689,725) | (1,931,225) |
| Proceeds from sale of investments | 2,535,399 | 4,953,212 |
| Patents, net of abandonment | 1,522 | (30,028) |
| Purchase of property, plant, and equipment | (501,977) | (352,517) |
| | **(654,781)** | **2,639,442** |
| **CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES** | | |
| Line-of-credit, net | - | (50,000) |
| Principal payments on loan payable | (300,000) | (300,000) |
| Principal payments under capital lease obligations | (640,000) | (615,000) |
| | **(940,000)** | **(965,000)** |
| **Net increase in cash** | **1,463,751** | **1,317,685** |
| **CASH, *beginning of year*** | 1,712,347 | 394,662 |
| **CASH, *end of year*** | **$ 3,176,098** | **$ 1,712,347** |
| **SUPPLEMENTARY CASH FLOW INFORMATION** | | |
| Cash paid during the year for | | |
| Interest, including service fees | $ 174,595 | $ 217,473 |

*See accompanying Notes to Financial Statements.*

# Trudeau Institute, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

## Note 1 - Organization and Summary of Significant Accounting Policies

*a. Organization*

Trudeau Institute, Inc. (Institute) is a not-for-profit organization located in Saranac Lake, New York. The Institute was formed in March 1889. The Institute staff conducts biomedical research that focuses on the immune system, the body's primary defender against all disease, including cancers, organisms that cause tuberculosis, and other infectious diseases, including those that afflict AIDS patients. The Institute seeks new insights into vaccine development strategies.

*b. Basis of Accounting and Financial Statement Presentation*

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit entities.

*Net Asset Classifications*

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

During 1992, the Board of Trustees designated $4,000,000 of unrestricted net assets as the Edward C. Brewster Fund. The income earned is to be utilized for the payment of the salary and benefits of the Institute's Director, and any income earned which is not required for this purpose is available for general operating purposes.

*Temporarily restricted net assets* - Net assets are subject to donor imposed stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Temporarily restricted net assets of approximately $25,000 were purpose restricted as of December 31, 2014, and approximately $2,571,100 and $2,588,200 were time restricted as of December 31, 2015 and 2014, respectively. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently restricted net assets* - Net assets restricted by donors to be maintained by the Institute in perpetuity which are comprised primarily of endowment funds established by donor restricted gifts. The donors of these assets permit the Institute to use the income earned on these assets.

The Institute is also the beneficiary of various trusts, held by others, established as permanently restricted endowment funds. Income (loss) from these trusts is unrestricted.

*c. Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

**Note 1 - Organization and Summary of Significant Accounting Policies - Continued**

*d. Fair Value Measurements*

The Institute reports certain assets at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date.

*e. Accounts and Grants Receivable*

Accounts and grants receivable are carried at original invoice less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Management considers accounts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required as of December 31, 2015. The allowance for doubtful accounts on accounts receivable was approximately $4,400 and on grants receivable was approximately $3,400 at December 31, 2014. Accounts receivable are recorded herein with “Prepaid expenses, supplies inventory, and other receivables.” Accounts are written off when deemed uncollectible, and recoveries of accounts previously written off are recorded when received.

Only accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on outstanding receivables.

*f. Investments*

The Institute accounts for its investments at fair value. Realized gains and losses on the sale of investments are determined using the specific identification method and recognized in the statements of activities as a non-operating activity. Unrealized appreciation or depreciation in the fair value of investments is recognized in the statements of activities as a non-operating activity.

*g. Deferred Financing and Legal Charges, Net*

Deferred charges relate to financing and legal costs incurred to obtain certain letters of credit. These costs are being amortized using the straight-line method over the ten- year life of the letters of credit.

*h. Patents, Net*

Legal costs incurred to apply for patents are capitalized. If management believes that a patent application is likely to be denied, the related capitalized costs will be charged to expense upon such determination. Cost incurred for patents issued are being amortized over their estimated useful lives of fifteen years. The Institute has several patents in process as of December 31, 2015 and 2014.

*i. Property, Plant, and Equipment, Net*

Property, plant, and equipment are recorded at cost, net of accumulated depreciation and amortization.

**Note 1 - Organization and Summary of Significant Accounting Policies - Continued**

*i. Property, Plant, and Equipment, Net* - Continued

The Institute reports gifts of land, buildings, and equipment at fair value, as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. The Institute did not have any gifts during the years ended December 31, 2015 and 2014. Absent explicit donor stipulations about how long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Depreciation, including amortization of capital leases, is provided over the estimated useful lives of the respective assets on the straight-line basis as follows:

| | Years |
|---|---|
| Land improvements | 10-40 |
| Buildings and improvements | 10-40 |
| Furniture and fixtures | 5-10 |
| Computer equipment | 3 |

Depreciation, operation, and maintenance costs are charged to operations as incurred. At the time of disposition, the related asset cost and accumulated depreciation are removed from the general ledger, and any gain or loss is recorded in the statements of activities.

*j. Long-Lived Assets*

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. During the years ended December 31, 2015 and 2014, no impairment loss was recorded for long-lived assets.

*k. Funds Held in Trusts*

Funds held in trusts represent investments held in perpetuity in which the income is received by the Institute for general operating purposes.

*l. Deferred Revenue*

Deferred revenue represents amounts received in advance from non-governmental agencies for research projects conducted by the Institute, as well as a grant from the New York State Urban Development Corporation to help spur job creation by the Institute.

*m. Contributions*

Unconditional contributions are recognized at fair value when donors' commitments are received. Conditional promises to give become unconditional when the conditions are substantially met and are recognized as revenues at fair value. Gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions whose restrictions are met in the same reporting period are classified as unrestricted. Contributions specified for the acquisition or construction of long-lived assets are reported as described in Note 1j.

### Note 1 - Organization and Summary of Significant Accounting Policies - Continued

*n. Grants*

Revenues from grants and contracts are recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of project expenses incurred.

*o. Tax Exempt Status*

The Institute is a New York State Type B nonprofit research organization which is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and has been granted public charity tax status for contributions. The Institute is not a private foundation.

The Institute files Form 990 annually with the Internal Revenue Service. When annual returns are filed, some tax positions taken are highly certain to be sustained upon examination by the taxing authorities, while other tax positions are subject to uncertainty about the technical merits of the position or amount of the position's tax benefit that would ultimately be sustained. Management evaluated the Institute's tax positions and concluded that the Institute had taken no tax positions that required adjustment in its financial statements as of December 31, 2015 and 2014.

*p. Allocation of Expenses*

Expenses that are directly identifiable are charged to research programs. Expenses related to more than one function are charged to program services and other functions using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Institute.

*q. Subsequent Events*

The Institute has evaluated subsequent events for potential recognition or disclosure through April 15, 2016, the date the financial statements were available to be issued.

### Note 2 - Investments, at Fair Value

Investments at fair value consist of the following:

| | December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Market | Cost | Market | Cost |
| Money market funds | $ 330,438 | $ 330,438 | $ 815,261 | $ 815,261 |
| Equity mutual funds | 4,815,638 | 4,043,055 | 5,047,931 | 4,033,979 |
| Fixed income mutual funds | 1,662,856 | 1,705,787 | 1,475,719 | 1,482,589 |
| Alternative investments | 2,489,962 | 2,470,236 | 2,011,098 | 1,951,109 |
| Investments, at fair value | $ 9,298,894 | $ 8,549,516 | $ 9,350,009 | $ 8,282,938 |

**Note 3 - Patents, Net**

A summary of patents, net, is as follows:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Patents issued | $ 47,329 | $ 47,260 |
| Less accumulated amortization on patents issued | 14,661 | 11,510 |
| | 32,668 | 35,750 |
| Patents in process | 109,425 | 111,016 |
| Patents, net | $ 142,093 | $ 146,766 |

Approximately $11,100 of patents in process were abandoned and, therefore, expensed during the year ended December 31, 2015.

Amortization expense on patents was approximately $3,200 for both of the years ended December 31, 2015 and 2014. Amortization expense will be approximately $3,200 per year over the next five years based on current patents issued as of December 31, 2015.

**Note 4 - Deferred Financing and Legal Charges, Net**

Deferred financing and legal charges consist of the following:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Letter of credit costs | $ 136,259 | $ 136,259 |
| Less accumulated amortization | 80,147 | 66,119 |
| Deferred financing and legal charges, net | $ 56,112 | $ 70,140 |

Amortization expense on deferred financing and legal charges was approximately $14,000 for both of the years ended December 31, 2015 and 2014.

Amortization expense will be approximately $14,000 per year over the next four years.

## Note 5 - Property, Plant, and Equipment, Net

Property, plant, and equipment, net, consist of the following:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Land improvements | $ 440,200 | $ 440,200 |
| Building improvements | 28,836,534 | 28,833,222 |
| Fixed equipment | 2,099,438 | 2,083,885 |
| Furniture and equipment | 12,196,947 | 11,879,490 |
| | 43,573,119 | 43,236,797 |
| Less accumulated depreciation | 23,658,070 | 22,128,471 |
| | 19,915,049 | 21,108,326 |
| Land | 132,063 | 132,063 |
| Work-in-process | 168,989 | - |
| Property, plant, and equipment, net | $ 20,216,101 | $ 21,240,389 |

Depreciation expense was approximately $1,526,300 and $1,571,600 for the years ended December 31, 2015 and 2014, respectively.

## Note 6 - Capital Lease Obligations

Capital lease obligations outstanding are as follows:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| County of Franklin Industrial Development Agency (FIDA) Civic Facility Revenue Bonds | | |
| 1998 Series | $ 2,040,000 | $ 2,510,000 |
| 2000 Series | 955,000 | 1,125,000 |
| Capital lease obligations | $ 2,995,000 | $ 3,635,000 |

During November 1998, the County of Franklin Industrial Development Agency (FIDA) issued $7,900,000 of Series 1998 Civic Facility Revenue Bonds. The purpose of the bond issue was: construction of an addition to the existing research center, two on-site duplexes, an on-site daycare and community building; and acquisition of machinery and equipment for the new facilities. The bonds shall bear interest as determined by the Remarketing Agent. The rate will be the weekly rate unless the bonds are converted to Fixed Rate Mode in which case, the Remarketing Agent will determine the fixed rate. As of the date of this report, all bonds are in the weekly mode (effective .15% and .16% at December 31, 2015 and 2014, respectively). The final maturity of the bonds is May 1, 2019.

**Note 6 - Capital Lease Obligations - Continued**

During June 2000, the FIDA issued $3,000,000 of Series 2000 Civic Facility Revenue Bonds. The purpose of the bond issue was acquisition of certain research equipment. The bonds shall bear interest as determined by the Remarketing Agent. The rate will be the weekly rate unless the bonds are converted to Fixed Rate Mode in which case, the Remarketing Agent will determine the fixed rate. As of the date of this report, all bonds are in the weekly mode (effective .19% and .16% at December 31, 2015 and 2014, respectively). The final maturity of the bonds is December 1, 2020.

Both projects were financed under long-term lease arrangements between the Institute and the FIDA and accounted for as capital leases by the Institute. While the bonds are not a debt of the Institute, the long-term lease obligates the Institute to make payments equivalent to interest (effective rates of .15% to .19% and .16% on both issues at December 31, 2015 and 2014, respectively) and amortization of such bonds and provides for the ultimate reversion of such properties to the Institute at the end of the bond agreements.

The total principal portion on the Institute's capital lease obligations is as follows:

| | Series 1998 | Series 2000 | Total |
|---|---|---|---|
| For the year ending December 31, | | | |
| 2016 | $ 485,000 | $ 180,000 | $ 665,000 |
| 2017 | 500,000 | 185,000 | 685,000 |
| 2018 | 520,000 | 190,000 | 710,000 |
| 2019 | 535,000 | 195,000 | 730,000 |
| 2020 | - | 205,000 | 205,000 |
| | $ 2,040,000 | $ 955,000 | $ 2,995,000 |

Interest expense is paid to the Bond Trustees monthly in an amount equal to interest owed. Interest expense (including service fees) was approximately $126,500 and $144,200 for the years ended December 31, 2015 and 2014, respectively, and is included in corporate expenses in the statements of activities.

The capital lease obligations also require the Institute to comply with certain reporting requirements and three financial ratio covenants.

*Letters of Credit*

In connection with the capital lease obligations, a financial institution issued letters of credit, with original amounts of approximately $7,737,000 and $3,044,000 which expire May 1, 2019 and December 1, 2020, respectively, and guarantee the Institute's obligations. The outstanding balances on the letters of credit are approximately $2,070,200 and $971,300 at December 31, 2015, and approximately $2,547,100 and $1,143,200 at December 31, 2014, respectively. The letters of credit are collateralized by a first mortgage on related real property and by furniture, fixtures, and equipment. The letters of credit also require the Institute to comply with certain reporting requirements and three financial ratio covenants.

## Note 7 - Line-of-Credit

The Institute has a $250,000 revolving demand note (line-of-credit) with HSBC Bank, of which $75,000 was outstanding at both December 31, 2015 and 2014. The line-of-credit is renewable annually. The line-of-credit is secured by a pledge of unrestricted investments. Interest is payable monthly at a rate of .5% below the prime rate (3.00% and 2.75% at both December 31, 2015 and 2014, respectively). The line-of-credit requires the Institute to comply with certain reporting requirements and three financial ratio covenants.

Interest incurred on the line-of-credit totaled approximately $2,100 and $2,600 for the years ended December 31, 2015 and 2014, respectively.

## Note 8 - Loan Payable

The Institute had a term note with HSBC Bank, payable in monthly installments of $25,000 plus interest at a rate of 4.01%, which was due in full on March 1, 2015. During February 2015, the term note was refinanced with HSBC Bank, which is payable in monthly installments of $25,000 plus interest at a rate of 2.8%, due March 1, 2020. The current loan is secured by unrestricted cash, securities, instruments, or other property of the Institute. The loans require the Institute to comply with certain reporting requirements and two financial ratio covenants.

Interest incurred on the term loan totaled approximately $46,000 and $70,600 for the years ended December 31, 2015 and 2014, respectively.

Future maturities of principal on the Institute's loan payable are as follows:

| | |
|---|---|
| For the year ending December 31, | |
| 2016 | $ 300,000 |
| 2017 | 300,000 |
| 2018 | 300,000 |
| 2019 | 300,000 |
| 2020 | 75,000 |
| | $ 1,275,000 |

## Note 9 - Pension Plan

The Institute has a defined contribution pension plan covering substantially all full-time employees meeting eligibility requirements. Benefits under this plan are funded through the purchase of individual retirement annuity contracts and certificates through Teachers Insurance and Annuity Association and College Retirement Equities Fund, respectively, as defined by the plan. Contributions to the plan are based on a percentage of salary. Total pension expense for this plan was approximately $216,400 and $245,100 for the years ended December 31, 2015 and 2014, respectively.

## Note 10 - Endowment

The Institute's endowment consists of three individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, 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.

### *Interpretation of Relevant Law*

The Board of Trustees of the Institute has interpreted the New York Not-for-Profit Corporation Law (NPCL) 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 unrestricted net assets. In accordance with NPCL, 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;
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the fund, giving due consideration of the effect that such alternatives may have on the Institute, and
8. The investment policies of the Institute.

Endowment net asset composition by type of fund:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ 178,864 | $ 2,571,103 | $ 2,548,927 | $ 5,298,894 |
| Board-designated endowment fund | 4,000,000 | - | - | 4,000,000 |
| Total funds | $ 4,178,864 | $ 2,571,103 | $ 2,548,927 | $ 9,298,894 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ 212,902 | $ 2,588,180 | $ 2,548,927 | $ 5,350,009 |
| Board-designated endowment fund | 4,000,000 | - | - | 4,000,000 |
| Total funds | $ 4,212,902 | $ 2,588,180 | $ 2,548,927 | $ 9,350,009 |

## Note 10 - Endowment - Continued

### *Interpretation of Relevant Law* - Continued

Changes in endowment net assets:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, *beginning of year* | $ 4,212,902 | $ 2,588,180 | $ 2,548,927 | $ 9,350,009 |
| Investment return | | | | |
| Investment income | 102,818 | 51,508 | - | 154,326 |
| Net appreciation (realized and unrealized) | (136,856) | (68,585) | - | (205,441) |
| Total investment return | (34,038) | (17,077) | - | (51,115) |
| Appropriation of endowment assets for expenditure | - | - | - | - |
| Endowment net assets, *end of year* | $ 4,178,864 | $ 2,571,103 | $ 2,548,927 | $ 9,298,894 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, *beginning of year* | $ 6,752,279 | $ 2,567,855 | $ 2,548,927 | $ 11,869,061 |
| Investment return | | | | |
| Investment income | 124,331 | 43,975 | - | 168,306 |
| Net appreciation (realized and unrealized) | 371,529 | 131,406 | - | 502,935 |
| Total investment return | 495,860 | 175,381 | - | 671,241 |
| Appropriation of endowment assets for expenditure | (3,035,237) | (155,056) | - | (3,190,293) |
| Endowment net assets, *end of year* | $ 4,212,902 | $ 2,588,180 | $ 2,548,927 | $ 9,350,009 |

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Permanently restricted net assets | | |
| The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation | $ 2,548,927 | $ 2,548,927 |

### *Funds with Deficiencies*

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 NPCL requires the Institute to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2015 and 2014.

### *Borrowing from Endowment*

The Institute has borrowed approximately $1,557,200 and $1,554,900 from its endowment to fund operations as of December 31, 2015 and 2014, respectively. It is the Institute's intention to pay this amount back to the endowment.

**Note 10 - Endowment - Continued**

***Return Objectives and Risk Parameters***

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Institute expects its endowment funds, over time, to provide an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

***Strategies Employed for Achieving Objectives***

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.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Institute has an implied long-term spending policy of 5% per annum of the capital base of the endowment. The policy and per annum value is adjusted and approved annually by the Finance Committee and the Board of Trustees to accommodate interim operating requirements; appropriating for distribution each year a specific percentage of its endowment fund's average fair value over the prior four quarters through the calendar year-end preceding the fiscal year in which the distribution is planned.

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 6% 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.

**Note 11 - Fair Value of Financial Instruments**

U.S. GAAP provides a framework for measuring fair value that includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The following three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted market prices and can include active markets and markets not considered to be active.

Level 3 Unobservable inputs that are supported by little or no market activity.

**Note 11 - Fair Value of Financial Instruments - Continued**

Fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2015 and 2014.

Money Market Funds: The carrying amounts approximate fair value because of the short maturity of these instruments.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Institute at year end.

Alternative Investments: Limited partnerships are valued at the percentage of the partnership's equity owned, and the real estate mutual funds are valued at the NAV of shares held by the Institute at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A summary of assets and liabilities measured at fair value on a recurring basis is as follows:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments, at fair value | | | | |
| Investments | | | | |
| Mutual funds | | | | |
| Fixed income bond funds | $ 1,662,856 | $ - | $ - | $ 1,662,856 |
| Equity Large Cap | 2,317,618 | - | - | 2,317,618 |
| Equity Small/Mid Cap | 425,233 | - | - | 425,233 |
| Equity International Development | 2,072,787 | - | - | 2,072,787 |
| | 6,478,494 | - | - | 6,478,494 |
| Alternative investments | | | | |
| Limited partnerships | - | - | 971,990 | 971,990 |
| Real Estate Mutual Funds | - | - | 1,517,972 | 1,517,972 |
| | - | - | 2,489,962 | 2,489,962 |
| Money Market funds | 330,438 | - | - | 330,438 |
| Investments | $ 6,808,932 | $ - | $ 2,489,962 | $ 9,298,894 |
| Funds held in trust | | | | |
| Mutual funds | | | | |
| Fixed Income | $ 972,616 | $ - | $ - | $ 972,616 |
| Equities | 1,672,859 | - | - | 1,672,859 |
| Real Estate | 362,183 | - | - | 362,183 |
| Other | 363,912 | - | - | 363,912 |
| | 3,371,570 | - | - | 3,371,570 |
| Money Market funds | 130,057 | - | - | 130,057 |
| Funds held in trust | $ 3,501,627 | $ - | $ - | $ 3,501,627 |

## Note 11 - Fair Value of Financial Instruments - Continued

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments, at fair value | | | | |
| Investments | | | | |
| Mutual funds | | | | |
| Fixed income bond funds | $ 1,475,719 | $ - | $ - | $ 1,475,719 |
| Equity Large Cap | 2,335,045 | - | - | 2,335,045 |
| Equity Small/Mid Cap | 521,724 | - | - | 521,724 |
| Equity International Development | 2,191,162 | - | - | 2,191,162 |
| | 6,523,650 | - | - | 6,523,650 |
| Alternative investments | | | | |
| Limited partnerships | - | - | 643,696 | 643,696 |
| Real Estate Mutual Funds | - | - | 1,367,402 | 1,367,402 |
| | - | - | 2,011,098 | 2,011,098 |
| Money Market funds | 815,261 | - | - | 815,261 |
| Investments | $ 7,338,911 | $ - | $ 2,011,098 | $ 9,350,009 |
| Funds held in trust | | | | |
| Mutual funds | | | | |
| Fixed Income | $ 1,055,910 | $ - | $ - | $ 1,055,910 |
| Equities | 1,741,079 | - | - | 1,741,079 |
| Real Estate | 386,357 | - | - | 386,357 |
| Other | 421,122 | - | - | 421,122 |
| | 3,604,468 | - | - | 3,604,468 |
| Money Market funds | 200,347 | - | - | 200,347 |
| Funds held in trust | $ 3,804,815 | $ - | $ - | $ 3,804,815 |

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3):

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Real Estate Investment Mutual Funds | Private Equity Funds | Gateway Y Equity Hedge Funds | Venture Capital Funds | Maine Gate MLP Fund | Total |
| Balance as of January 1, 2015 | $ 643,696 | $ 340,257 | $ 384,531 | $ 642,614 | $ - | $ 2,011,098 |
| Investment earnings included in change in net assets | 26,119 | (8,527) | 8,952 | 134,110 | 11,249 | 171,903 |
| Contributions | - | - | 470,175 | - | 90,015 | 560,190 |
| Distributions | (116,765) | (48,750) | - | (87,714) | - | (253,229) |
| Balance as of December 31, 2015 | $ 553,050 | $ 282,980 | $ 863,658 | $ 689,010 | $ 101,264 | $ 2,489,962 |
| Change in unrealized gains (losses) for the year included in change in net assets held at end of year | $ 26,119 | $ (10,746) | $ 8,952 | $ 86,722 | $ 11,249 | $ 122,296 |

## Note 11 - Fair Value of Financial Instruments - Continued

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Real Estate Investment Mutual Funds | Institutional, L.P. | Multi-Strategy Hedge Funds | Private Equity Funds | Gateway Y Equity Hedge Funds | Venture Capital Funds | Total |
| Balance as of January 1, 2014 | $ 891,426 | $ 23,184 | $ 77,568 | $ 453,288 | $ - | $ 548,140 | $ 1,993,606 |
| Investment earnings included in change in net assets | 129,042 | 3 | 27 | 3,219 | 4,531 | 133,876 | 270,698 |
| Contributions | - | - | - | - | 380,000 | - | 380,000 |
| Distributions | (376,772) | (23,187) | (77,595) | (116,250) | - | (39,402) | (633,206) |
| Balance as of December 31, 2014 | $ 643,696 | $ - | $ - | $ 340,257 | $ 384,531 | $ 642,614 | $ 2,011,098 |
| Change in unrealized gains (losses) for the year included in change in net assets held at end of year | $ 129,042 | $ 3 | $ 27 | $ (2,256) | $ 4,531 | $ 134,133 | $ 265,480 |

Fair value measurements of investments valued at net asset value per share are as follows:

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Available | Notice Period |
| Investment in Limited Partnerships (a) | | | | | |
| Novak Biddle Venture Partners II, LP | $ 35,147 | $ - | None | 12-14 yrs. from 2001 | None |
| Tucker Anthony Private Equity Fund IV, LP | 282,980 | 52,500 | None | 12-14 yrs. from 2001 | None |
| Equinox Venture Capital Fund, LP | 653,863 | 72,212 | None | 12-14 yrs. from 2008 | None |
| | 971,990 | 124,712 | | | |
| Equity Mutual Funds (b) | 863,658 | - | Daily | Immediate | N/A |
| Maine Gate MLP Fund (b) | 101,264 | - | Daily | Immediate | N/A |
| Real Estate Mutual Funds (b) | 553,050 | - | Daily | Immediate | N/A |
| Total | $ 2,489,962 | $ 124,712 | | | |

(a) This class includes investments in limited partnerships. The fair value of the investments in this class has been estimated using the partnership's equity position and the Institute's ownership percentage in each partnership.

(b) These classes include investments in real estate and equity hedge mutual funds. The fair value of the investments in this class has been estimated using the net asset value and the Institute's number of shares held in each fund.

## Note 12 - New York State Urban Development Corporation (d/b/a Empire State Development)

During November 2012, the State of New York identified up to $35,000,000 over the next five years to support an initiative with the Institute and Clarkson University (Clarkson) to support the faculty, facilities, and educational programs that will be used to create a self-sustaining biomedical research and development cluster. The Institute is earmarked for $25,450,000 of the $35,000,000 and is expecting to receive funds during the years ending December 31, 2014, 2015, 2016, 2017, and 2018. During the year ended December 31, 2015, the Institute had the following grant approved for $6,200,000 ($6,200,000 from Empire State Development) for the period April 1, 2014 through December 31, 2016. During the year ended December 31, 2014, the Institute had the following grants approved (a) one for $5,550,000 ($5,000,000 from Empire State Development and a match of $550,000 from the Institute) for the period December 19, 2013 through December 31, 2014 and (b) one for $4,000,000 ($3,600,000 from Empire State Development and a match of $400,000 from the Institute) for the period July 1, 2014 through December 31, 2014. Both grants are to be used to help cover the costs of ongoing programs, operations, and staffing at the Institute's biomedical research laboratories, as well as allow the Institute to continue to operate and expand its research laboratories to conduct biomedical research in New York State. The Institute has recognized revenues of approximately $7,143,800 and $7,498,700 during the years ended December 31, 2015 and 2014, respectively.

**Note 12 - New York State Urban Development Corporation (d/b/a Empire State Development) - Continued**

During February 2016, the Institute was approved for a fourth grant of $4,000,000 ($4,000,000 from Empire State Development). The grant is for the period of April 2015 through December 2016.

During 2014, the Institute also received a grant from Empire State Development for $1,200,000, which is subject to the Institute maintaining certain employment levels during 2014 and 2015. The Institute recognized revenues of $600,000 during both of the years ended December 31, 2015 and 2014.

**Note 13 - Risk and Uncertainties**

*a. Concentration of Credit Risk*

i. Cash

The Institute maintains cash balances in one financial institution located in New York. The Institute's account at this institution is insured, up to certain limits, by the Federal Deposit Insurance Corporation (FDIC). At times, the Institute has bank deposits in excess of amounts insured by the FDIC.

The Institute maintains its investments with a brokerage firm that is a member of the Securities Investor Protection Corporation (SIPC). Cash and securities held at the member brokerage firm are insured by the SIPC up to $500,000 per customer, including a maximum of $250,000 for cash.

ii. Investments

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the statements of financial position and the statements of activities.

iii. Funds Held in Trust

The Trusts have investments in mutual funds and money market funds and, therefore, are exposed to various risks, such as interest, market, and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonable that changes in risk in the near term could materially affect the amounts reported in the statement of financial position and the statement of activities.

*b.* Significant Contributor

The Institute's grant revenues and grants receivable are concentrated on grants from the National Institute of Health (NIH) and from New York State Urban Development Corporation (d/b/a Empire State Development). These grants made up approximately 87% and 86% of total revenues and support for the years ended December 31, 2015 and 2014, respectively. Approximately 91% and 92% of the grants receivable balance as of December 31, 2015 and 2014, respectively, was outstanding from the NIH.

### Note 14 - Contingencies

The Institute is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future governmental review and interpretations as well as regulatory actions unknown or unasserted at this time.

### Note 15 - Restatement

The financial statements for the year ended December 31, 2014 have been restated to reflect the following: (a) property, plant, and equipment, net, had been understated by approximately $361,900 on statement of financial position, (b) accounts payable and accrued expenses had been understated by approximately $264,200 on statement of financial position, (c) net assets were understated by approximately $97,700 on statement of financial position, and (d) U.S. government grants were overstated by approximately $85,900 on the statement of activities. In addition, a portion of these adjustments were applicable to the year ended December 31, 2013, in the amount of approximately $183,700, which has been treated as a retroactive restatement of the opening December 31, 2013 unrestricted net assets.