

# Institute of the Americas



## **Financial Statements**

Year Ended December 31, 2010

**With Summarized Financial Information for 2009**



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## **Independent Auditors' Report**

To the Audit Committee  
**Institute of the Americas**  
La Jolla, California

We have audited the accompanying statement of financial position of **Institute of the Americas** ("the Institute") as of December 31, 2010 and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Institute's 2009 financial statements and, in our report dated March 31, 2010, we expressed an unqualified opinion, except for the effects of recognizing membership and steering membership revenue the earlier of when billed or received, on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Institute of the Americas** recognizes membership and steering membership revenue the earlier of when billed or received. In our opinion, U.S. generally accepted accounting principles require that **Institute of the Americas** recognize membership revenue ratably over the period of membership. The effects on the financial statements of that departure from those accounting principles are not reasonably determinable.

In our opinion, except for the effects of recognizing membership and steering membership revenue the earlier of when billed or received, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Institute of the Americas** as of December 31, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

*Mayer Hoffman McCann P.C.*

April 21, 2011

# Institute of the Americas

## Statements of Financial Position

*With Summarized Financial Information for 2009*

<i>December 31,</i>	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	<b>Total 2010</b>	Total 2009
<b>Assets</b>					
Cash (Notes 1 and 12)	\$ 71,366	\$ -	\$ -	\$ <b>71,366</b>	\$ 76,658
Receivables (Note 1)	173,722	-	-	<b>173,722</b>	52,715
Contributions receivable	25,000	-	-	<b>25,000</b>	20,000
Investments (Notes 1, 2, 3, 9 and 12)	1,715,976	564,196	-	<b>2,280,172</b>	1,584,340
Fixed assets - net (Notes 1, 5 and 6)	1,953,842	3,316,537	-	<b>5,270,379</b>	5,425,895
Restricted investments (Notes 1, 3, 4, 9 and 12)	-	-	4,170,290	<b>4,170,290</b>	4,170,290
<b>Total assets</b>	<b>\$ 3,939,906</b>	<b>\$ 3,880,733</b>	<b>\$ 4,170,290</b>	<b>\$ 11,990,929</b>	<b>\$ 11,329,898</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Line of credit (Note 7)	\$ 711,661	\$ -	\$ -	\$ <b>711,661</b>	\$ 702,555
Capital leases payable (Note 11)	51,308	-	-	<b>51,308</b>	64,230
Accounts payable and accrued liabilities	267,780	-	-	<b>267,780</b>	248,106
Deferred revenue	21,120	-	-	<b>21,120</b>	48,359
<b>Total liabilities</b>	<b>1,051,869</b>	<b>-</b>	<b>-</b>	<b>1,051,869</b>	<b>1,063,250</b>
Commitments and contingencies (Note 11)					
<b>Net assets (Note 9)</b>	<b>2,888,037</b>	<b>3,880,733</b>	<b>4,170,290</b>	<b>10,939,060</b>	<b>10,266,648</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,939,906</b>	<b>\$ 3,880,733</b>	<b>\$ 4,170,290</b>	<b>\$ 11,990,929</b>	<b>\$ 11,329,898</b>

*The accompanying notes are an integral part of these financial statements.*

# Institute of the Americas

## Statements of Activities

*With Summarized Financial Information for 2009*

<i>Years Ended December 31,</i>	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	<b>Total 2010</b>	Total 2009
<b>Revenues (Note 1)</b>					
Sponsorship and registration fees (Note 8)	\$ 1,220,260	\$ -	\$ -	\$ 1,220,260	\$ 935,383
Agency and foundation grants (Notes 8 and 11)	852,573	-	-	<b>852,573</b>	460,069
Other income	218,649	-	-	<b>218,649</b>	206,728
Interest and dividends	56,726	156,512	-	<b>213,238</b>	134,390
Contributions (Note 14)	78,020	-	-	<b>78,020</b>	105,500
Membership dues (Note 8)	14,475	-	-	<b>14,475</b>	14,500
Net realized and unrealized gain (loss) on investments (Note 9)	135,899	374,952	-	<b>510,851</b>	718,900
Net assets released from restrictions (Note 9)	106,325	(106,325)	-	-	-
<b>Total revenues</b>	<b>2,682,927</b>	<b>425,139</b>	<b>-</b>	<b>3,108,066</b>	<b>2,575,470</b>
<b>Expenses</b>					
Program services (Note 8)	1,577,612	-	-	<b>1,577,612</b>	1,224,312
General and administrative	538,749	-	-	<b>538,749</b>	530,443
Fundraising	101,045	-	-	<b>101,045</b>	114,220
Depreciation and amortization (Notes 1, 5, 6, and 11)	174,639	-	-	<b>174,639</b>	157,446
Publications	43,609	-	-	<b>43,609</b>	26,740
<b>Total expenses</b>	<b>2,435,654</b>	<b>-</b>	<b>-</b>	<b>2,435,654</b>	<b>2,053,161</b>
Excess of revenues over expenses	247,273	425,139	-	<b>672,412</b>	522,309
Net assets at beginning of year	2,640,764	3,455,594	4,170,290	<b>10,266,648</b>	9,744,339
Net assets at end of year	\$ 2,888,037	\$ 3,880,733	\$ 4,170,290	<b>\$ 10,939,060</b>	\$ 10,266,648

*The accompanying notes are an integral part of these financial statements.*

# Institute of the Americas

## Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2010</b>	2009
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 672,412	\$ 522,309
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gain on investments	(510,851)	(718,900)
Depreciation and amortization	174,639	157,446
Loss on disposal of equipment	-	1,455
Increase (decrease) in cash resulting from changes in:		
Receivables	(126,007)	22,479
Accounts payable and accrued liabilities	19,674	(23,847)
Deferred revenue	(27,239)	36,061
Net cash provided by (used in) operating activities	<b>202,628</b>	(2,997)
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	1,723,920	1,672,742
Purchases of investments	(1,908,901)	(1,669,760)
Purchases of fixed assets	(19,123)	(16,926)
Net cash used in investing activities	<b>(204,104)</b>	(13,944)
<b>Cash Flows From Financing Activities</b>		
Net increase in line of credit	9,106	10,056
Payments on capital leases	(12,922)	(5,772)
Net cash provided by (used in) financing activities	<b>(3,816)</b>	4,284
<b>Net Change in Cash</b>	<b>(5,292)</b>	(12,657)
<b>Cash at Beginning of Year</b>	<b>76,658</b>	89,315
<b>Cash at End of Year</b>	<b>\$ 71,366</b>	\$ 76,658

### Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$ 14,353	\$ 12,545
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### Noncash Investing and Financing Activities:

The Organization acquired approximately \$70,000 of fixed assets under capital lease agreements during 2009.

*The accompanying notes are an integral part of these financial statements.*

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

A summary of the Institute's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

#### *Nature of activities*

The **Institute of the Americas** ("the Institute") is a California non-profit public benefit corporation organized for charitable purposes and exempt from taxation under the Internal Revenue Code. The purpose of the Institute is to carry out programs to improve relations and promote understanding between the United States and the countries of Latin America, Canada, the Caribbean, as well as the Pacific Rim, including, but not limited to, political, social, and economic aspects of such relations.

The Institute accomplishes its program objectives primarily through conferences, meetings, and events held in the United States, South America and the Pacific Rim Countries.

#### *Use of estimates*

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *Income taxes*

The Institute is generally exempt from income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code and comparable statutes of the state of California.

All tax-exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the organization as a tax-exempt entity under Internal Revenue Code Section and applicable state statutes.

At December 31, 2010, the federal statute of limitation remains open for the 2007 through 2010 tax years. The statute of limitations for the state income tax returns remains open for the 2006 through 2010 tax years.

#### *Cash*

The Institute's management has defined "cash" to include only bank accounts including funds on deposit that are available for general use. Board designated cash is separately stated and treated as an investment for presentation in the statements of cash flow. Money market accounts are defined as investments.

*Receivables* The Institute has historically collected all of its membership dues and sponsorship receivables. It is the Institute's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Based on the information available, management believes that no allowance is needed as of December 31, 2010 and 2009.

*Fair value measurements* Authoritative guidance establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

The Institute measures fair value at the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

*Investments* Under the provisions of authoritative guidance, investments in equity securities and debt securities with readily determinable fair market values should be reported at fair value with gains and losses included in the Statement of Activities.

The Institute's investments consist of exchange traded funds and debt instruments and are recorded at fair value. The fair value of investments in securities traded on national security exchanges are valued at the closing price on the last day of the period.

*Investments,  
cont'd*

Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair market value of the individual investments for the year or since the acquisition date if acquired during the year and are recorded as a component of unrestricted net assets or temporarily restricted until those amounts are appropriated for expenditure by the Institute.

*Fixed assets*

Assets donated for use by the Institute in carrying out its exempt purpose and assets purchased with contributions restricted to the purchase of assets are considered temporarily restricted for the useful life of the asset. Restrictions are satisfied by the expiration of the asset's usefulness through depreciation.

The Institute's policy is to capitalize assets with a useful life of greater than one year and a value of \$1,000 or more. The basis for valuation of purchased fixed assets is cost and estimated fair value on the date of contribution for contributed fixed assets.

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term.

**Basis of  
Presentation**

*Net assets*

The Institute's net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Institute are classified and reported as follows:

*Unrestricted Net Assets* – All net assets that are not subject to donor-imposed restrictions are reported as unrestricted net assets.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.

*Net assets,  
cont'd*

*Permanently Restricted Net Assets* – Permanently restricted net assets include gifts that require by donor-imposed restrictions that the corpus be invested permanently and only the investment income be made available for the Institute’s operations.

*Revenue  
recognition*

Unconditional promises to give are recognized upon receipt of the promise at their estimated fair value. Conditional promises to give are recognized upon determination that there is only a remote possibility that the donor conditions will not be met.

Contributions for which donor imposed restrictions are satisfied in the same period as the contribution is received are reported as increases in unrestricted net assets.

Event fees are recognized when the event occurs.

Membership and steering membership dues are recognized the earlier of when billed or received. Generally accepted accounting principles (“GAAP”) require that membership revenue is recognized ratably over the period of membership. See discussion of this departure from GAAP in the Independent Auditors’ Report. Membership dues include Friend of the Americas memberships between \$250 and \$1,000. Sponsorship and registration fees revenue in the Statements of Activities included approximately \$358,000 and \$308,000 of steering membership revenue for 2010 and 2009, respectively. Income from agency and foundation grants is recognized as the program services funded by the grants are delivered.

Rental income is recognized on a straight-line basis over the life of the lease agreement (see Note 13).

*Functional  
allocation of  
expenses*

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services, general and administrative and fundraising.

*Summarized information*

The financial statements include certain prior year summarized financial information in total, but not net asset classification, and are presented to provide a basis for comparison to financial information for 2010. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for 2009, from which the summarized information was derived.

**2. Fair Value Measurements**

The following table summarizes the valuation of our financial instruments in accordance with authoritative guidance pricing levels as of December 31, 2010:

	Unadjusted Quoted Market Prices (Level 1)
Exchange traded funds	\$5,368,747
Debt instruments	786,625
Money market accounts	295,090
<b>Total</b>	<b>\$6,450,462</b>

The following table summarizes the valuation of our financial instruments in accordance with authoritative guidance pricing levels as of December 31, 2009:

	Unadjusted Quoted Market Prices (Level 1)
Exchange traded funds	\$4,900,001
Debt instruments	717,000
Money market accounts	123,032
<b>Total</b>	<b>\$5,740,033</b>

# Institute of the Americas

## Notes to Financial Statements

<b>3. Investments with Investment Management Company</b>	Investments at quoted market value consisted of the following (Note 7):		
	<i>December 31,</i>	<b>2010</b>	2009
	Exchange traded funds	<b>\$5,368,747</b>	\$4,900,001
	Debt instruments	<b>786,625</b>	717,000
	Cash and money market accounts	<b>295,090</b>	137,629
	Total investments and mutual funds held by management company	<b>6,450,462</b>	5,754,630
	Temporarily restricted investments (Note 9)	<b>(564,196)</b>	(53,470)
	Permanently restricted investments (Note 4)	<b>(4,170,290)</b>	(4,170,290)
	Total unrestricted investments	<b>\$1,715,976</b>	\$1,530,870
<b>4. Permanently Restricted Investments</b>	In 1993 the Institute entered into an agreement with The Gildred Foundation whereby the Gildred Foundation established an endowment of approximately \$4.1 million for the Institute. Income from the endowment is available for the use of the Institute at the discretion of the Institute's Board of Directors (see Note 9).		
<b>5. Fixed Assets</b>	Fixed assets consisted of the following:		
	<i>December 31,</i>	<b>2010</b>	2009
	Leasehold interest (Note 6)	<b>\$5,975,233</b>	\$5,975,233
	Residential real estate	<b>1,495,451</b>	1,495,451
	Equipment	<b>350,393</b>	419,472
	Furniture and fixtures	<b>282,505</b>	282,505
	Leasehold improvements	<b>85,049</b>	85,049
		<b>8,188,631</b>	8,257,710
	Less accumulated depreciation and amortization	<b>(2,918,252)</b>	(2,831,815)
		<b>\$5,270,379</b>	\$5,425,895

Depreciation and amortization expense was approximately \$175,000 and \$157,000 for 2010 and 2009, respectively.

- 6. Leasehold Interest** Pursuant to an agreement entered into in 1983, as amended in 1993 and 2002, with the Regents of the University of California, a California constitutional corporation, and The Gildred Foundation, the Institute constructed the structures referred to in the agreement as Phases I, II and III on land owned by the University of California, San Diego (“UCSD”) and conveyed to UCSD. In exchange for the structures, the Institute received, subject to the terms of the agreement, a leasehold interest, including facilities maintenance, until August 2044 for the portion of the structures known as Phase I and Phase II and until April 2052 for Phase III. Phase III of the leasehold interest is sublet to UCSD (see Note 13).
- The structures are amortized over the term of the leasehold interest, the estimated useful life of the assets (see Note 1). The leasehold interest of approximately \$6 million is included in fixed assets (see Note 5). Amortization expense of the leasehold interest was approximately \$86,000 and \$91,000 in 2010 and 2009, respectively and was included in depreciation and amortization expense.
- 7. Line of Credit** The Institute has a loan agreement with a bank for a line of credit in which the maximum balance on the line of credit fluctuates with the fair market value of the investments held in the endowment portfolio (see Note 3). The loan agreement includes provision for monthly payment of interest at the average monthly LIBOR rate (0.26% as of December 31, 2010) plus 1.0%. The line of credit is secured by investments held by an Investment Management Company (see Note 3). The borrowing limit was approximately \$2,930,000 and \$2,309,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the outstanding balance on the line was \$711,661 and \$702,555, respectively.
- Interest expense related to the line was approximately \$9,000 and \$10,000 for 2010 and 2009, respectively.
- 8. Program Revenues and Expenses** Following is a breakdown of grants, sponsorship, membership dues and registration fees revenues and expenses by program categories. Variances between program revenue and the revenue included in the Statements of Activities were composed primarily of general operations grants and non-program specific event revenue.

8. Program Revenues and Expenses, Cont'd	<i>Years Ended December 31,</i>	<b>2010</b>	2009
	Revenues:		
	Energy	<b>\$1,063,767</b>	\$ 792,820
	Journalism/Training	<b>863,355</b>	418,529
	CEPAS/Community	<b>85,325</b>	57,928
	General Programs	<b>85,000</b>	30,325
	ICT	-	35,000
	Project Mexico	-	29,950
		<b>\$2,097,447</b>	<b>\$1,364,552</b>
	Expenses:		
	Journalism/Training	<b>\$ 795,161</b>	\$ 408,572
	Energy	<b>482,024</b>	460,216
	General Programs	<b>197,502</b>	203,545
	CEPAS/Community	<b>102,925</b>	86,519
	Depreciation	<b>15,000</b>	15,000
	Project Mexico	-	32,888
	ICT	-	32,573
		<b>\$1,592,612</b>	<b>\$1,239,313</b>

### 9. Net Assets

The Board of Directors of the Institute has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. The Institute classifies as permanently restricted net assets the original value of the gift donated to the permanent endowment. The remaining portion of the donor-restricted fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets to be used as set forth in the Institute's Endowment Policy or upon Board approval for special needs.

The Board adopted an Endowment Policy (spending policy) upon recommendation of the Endowment and Finance Committee. The policy allows for withdrawals from the endowment for use in operations upon approval by the Committee. Except under extraordinary circumstances, approved withdrawals should be between 3% and 5% of income and net appreciation generated by the endowment per year. Board approved withdrawals are reclassified from temporarily restricted net assets to unrestricted net assets in the period that they are withdrawn for use.

**9. Net Assets,  
Cont'd**

In order to achieve the Institute's long-term investment objective, the portfolio will be administered with a moderate level of risk, accepting some volatility in principal while attempting to grow the portfolio over time. The Institute's Investment Policy provides asset managers with a target allocation for the portfolio that approximates 65% invested in equity securities, and the remainder of the portfolio invested in fixed income and other securities. At a minimum, an annual rebalancing will be administered to bring the portfolio back in line with the asset allocation model.

Changes in endowment net assets for the year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	\$ -	\$ 53,470	\$4,170,290	\$4,223,760
Investment return:				
Net investment income	-	156,512	-	156,512
Net appreciation (realized and unrealized)	-	374,952	-	374,952
Total investment gain	-	531,464	-	531,464
Endowment net assets appropriated for expenditure	-	(20,738)	-	(20,738)
Endowment net assets, end of year	\$ -	\$ 564,196	\$4,170,920	\$4,734,486

# Institute of the Americas

## Notes to Financial Statements

**9. Net Assets,**  
Cont'd

Changes in endowment net assets for the year ended December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, Beginning of year	\$ (535,179)	\$ -	\$4,170,290	\$3,635,111
Investment return:				
Net investment income	69,994	-	-	69,994
Net depreciation (realized and unrealized)	465,185	53,470	-	518,655
Total investment gain	535,179	53,470	-	588,649
Endowment net assets, end of year	\$ -	\$ 53,470	\$4,170,290	\$4,223,760

Endowment net asset composition by type of fund as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor – restricted endowment fund	\$ -	\$ 564,196	\$4,170,290	\$4,734,486

Endowment net asset composition by type of fund as of December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor – restricted endowment fund	\$ -	\$ 53,470	\$4,170,290	\$4,223,760

There were no draws from the endowment in 2010 or 2009.

*Net assets released from restrictions*

Net assets were released from donor restrictions during 2010 and 2009 by incurring expenses satisfying the restricted purposes as follows:

<i>Years Ended December 31,</i>	<b>2010</b>	2009
Depreciation and amortization expense	<b>\$ 85,587</b>	\$ 91,496
Endowment investment management fees	<b>20,738</b>	-
	<b>\$ 106,325</b>	\$ 91,496

### 10. Employee Benefit Plans

*SEP Plan*

The Institute has a Simplified Employee Pension Plan (“the Plan”). All personnel who have completed at least one year of service and have attained the age of 21 are eligible to participate in the Plan. The Institute contributes, at its discretion, an amount equal to 5% of each employee’s base salary to the Plan. Contributions made by the Institute were approximately \$48,000 and \$44,000 in 2010 and 2009, respectively.

*TDA Plan*

The Institute maintains a tax deferred annuity plan that is available to all of its employees. The employees fund contributions to the plan.

### 11. Commitments and Contingencies

*Capitalized lease obligations*

The Organization leases certain equipment under non-cancelable capital leases, which were included in fixed assets as follows:

<i>December 31,</i>	<b>2010</b>	2009
Copier	<b>\$ 44,800</b>	\$ 44,800
Phone	<b>25,202</b>	25,202
Less accumulated depreciation	<b>(20,811)</b>	(5,261)
	<b>\$ 49,191</b>	\$ 64,741

Depreciation expense related to these capitalized leases was approximately \$16,000 and \$5,000 during 2010 and 2009, respectively.

*Capitalized lease obligations, cont'd*

Future minimum lease payments are as follows:

<i>Year Ending December 31,</i>			
2011	\$	17,007	
2012		17,007	
2013		17,007	
2014		9,521	
Total minimum lease payments			60,542
Amount representing interest			(9,234)
Present value of minimum lease payments		\$	51,308

*Grant awards*

The Institute regularly receives grants conditional upon performance of certain grantor stipulated activities. If the Institute does not comply with the grantor's stipulations, grant funds must be returned to the grantor. The Institute believes it has satisfied all grantor conditions related to grant revenue recognized in 2010 and 2009.

*Hotel agreement*

During 2010 the Institute entered into an agreement with a hotel to host a conference in May 2011. If the Institute were to cancel the conference it would be required to pay the hotel up to \$52,000.

*Employment contract*

During 2003 the Institute entered into an employment contract under which it required an executive to live in Institute-owned housing. Management believes the contract requirements qualify the lodging for exclusion from the employee's taxable compensation in accordance with Internal Revenue Code Section 119.

## 12. Concentrations

*Credit and market risk*

The Institute maintains cash balances at financial institutions located in San Diego County, California. At times, balances may exceed federally insured limits. The Institute has not experienced any losses in such accounts. Management believes that the Institute is not exposed to any significant credit risk with respect to its cash.

The Institute holds investments in exchange traded funds and debt instruments. These securities, in general, are subject to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain of these investment securities, it is reasonably possible that changes in the values of these investment securities may occur in the near term and that such change could materially affect the amounts reported in the financial statements.

- 13. Sublease** The Institute subleases approximately 4,770 square feet of its leasehold interest (see Note 6) to UCSD under a non-cancelable lease ending October 31, 2011 with the option to extend the sublease for two consecutive one-year periods. Monthly rent for the period January 1, 2011 through October 31, 2011 is \$11,566.
- Other income included approximately \$135,000 and \$129,000 of sublease income for 2010 and 2009, respectively.
- 14. Related Parties** Contribution revenue included approximately \$23,000 and \$56,000 of contributions from members of the Board of Directors during 2010 and 2009, respectively. There were no amounts due from Board members at December 31, 2010 and 2009.
- 15. Subsequent Events** The Institute has evaluated subsequent events through April 21, 2011, which is the date the financial statements were issued.