

TRUDEAU INSTITUTE

IMPROVING HEALTH THROUGH MEDICAL RESEARCH

FINANCIAL STATEMENTS and INDEPENDENT AUDITOR'S REPORT

December 31, 2009 and 2008

TRUDEAU INSTITUTE, INC.
FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT
December 31, 2009 and 2008

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BOLLAM, SHEEDY, TORANI & CO. LLP
Certified Public Accountants
Albany, New York

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Trudeau Institute, Inc. as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Trudeau Institute, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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, 2009 and 2008, and the change 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bollam Sheedy Torani & Co. LLP

Albany, New York
March 15, 2010

TRUDEAU INSTITUTE, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 177,830	\$ 288,174
Accounts receivable	5,473	7,739
Grants receivable	938,858	3,522,784
Inventories and other assets	300,966	353,416
Contributions receivable	59,744	6,911
Investments, at fair value	24,848,020	24,129,050
Deferred charges, net	102,560	130,378
Patents, net	54,951	32,113
Property, plant, and equipment, net	26,374,959	20,582,809
Funds held in trusts	3,307,284	2,701,798
	<u>3,307,284</u>	<u>2,701,798</u>
TOTAL ASSETS	<u>\$ 56,170,645</u>	<u>\$ 51,755,172</u>
LIABILITIES		
Line-of-credit	\$ 3,000,000	\$ 1,850,852
Accounts payable and accrued expenses	448,769	568,169
Accounts payable, construction	290,765	1,275,994
Deferred revenue	252,783	202,386
Capital lease obligations	6,520,000	7,040,000
Fair value of interest rate swaps	101,463	253,316
	<u>101,463</u>	<u>253,316</u>
	<u>10,613,780</u>	<u>11,190,717</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted		
Available for operations	33,093,164	28,581,803
Board designated, Edward C. Brewster Fund	4,000,000	4,000,000
	<u>37,093,164</u>	<u>32,581,803</u>
Temporarily restricted	<u>70,103</u>	<u>12,466</u>
Permanently restricted		
Endowment accounts	3,981,648	4,163,722
Funds held in trust	3,307,284	2,701,798
Francis B. Trudeau Chair	1,104,666	1,104,666
	<u>8,393,598</u>	<u>7,970,186</u>
	<u>45,556,865</u>	<u>40,564,455</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,170,645</u>	<u>\$ 51,755,172</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

TRUDEAU INSTITUTE, INC.
STATEMENTS OF ACTIVITIES

	Years Ended December 31,	
	2009	2008
CHANGE IN UNRESTRICTED NET ASSETS		
Revenues and support		
Grants		
U.S. Government	\$ 8,498,861	\$ 8,588,624
Other for research	2,121,941	1,106,409
Trust revenue	131,479	193,090
Contributions	199,839	233,361
Rental revenue	122,441	128,938
License and other revenue	23,565	62,835
Net assets released from restrictions		
Used for expansion project	13,840	16,267
Total revenues and support	<u>11,111,966</u>	<u>10,329,524</u>
Expenses		
Research programs		
Direct grant and contract expense	11,261,813	10,314,196
Institute research	954,477	1,575,416
Total research programs	<u>12,216,290</u>	<u>11,889,612</u>
General and administrative		
Administrative	1,867,679	1,795,772
General house and property	2,175,403	2,072,428
Research support services	2,205,175	2,574,128
General and administrative allocated to research programs	<u>(4,359,338)</u>	<u>(3,881,606)</u>
Total general and administrative	<u>1,888,919</u>	<u>2,560,722</u>
Other general and administrative		
Corporate, including interest expense	295,223	493,786
Daycare	46,197	59,081
Development	492,150	428,157
Total other general and administrative	<u>833,570</u>	<u>981,024</u>
Total expenses	<u>14,938,779</u>	<u>15,431,358</u>
Net operating activity	<u>(3,826,813)</u>	<u>(5,101,834)</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

	Years Ended December 31,	
	2009	2008
NON-OPERATING ACTIVITY		
Capital grants	2,988,481	4,902,694
Contributions, non-operating	50,000	3,325,416
Net realized gains (losses)	(793,311)	1,020,859
Unrealized gains (losses)	5,423,526	(10,431,252)
Interest and dividends	540,151	637,045
Commissions and management fees	(22,526)	(51,831)
Unrealized gain on interest rate swap	151,853	52,674
Net non-operating activity	<u>8,338,174</u>	<u>(544,395)</u>
Increase (decrease) in unrestricted net assets	<u>4,511,361</u>	<u>(5,646,229)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	71,477	22,500
Reclassification of temporarily restricted amounts	(13,840)	(16,267)
	<u>57,637</u>	<u>6,233</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	-	1,000
Realized gain (loss)	(182,074)	91,211
Unrealized gain (loss) on trust assets	605,486	(1,581,469)
	<u>423,412</u>	<u>(1,489,258)</u>
CHANGE IN NET ASSETS	4,992,410	(7,129,254)
NET ASSETS, beginning of year	<u>40,564,455</u>	<u>47,693,709</u>
NET ASSETS, end of year	<u>\$ 45,556,865</u>	<u>\$ 40,564,455</u>

TRUDEAU INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2009	2008
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ 4,992,410	\$ (7,129,254)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	1,025,620	1,077,824
Amortization	27,426	27,818
Unrealized (gain) loss on Trusts' assets	(605,486)	1,581,471
Unrealized (gain) loss on investments	(5,423,526)	10,431,252
Realized (gain) loss on sale of investments	793,311	(1,020,859)
Gain on disposal of property	-	(45,000)
Unrealized gain on interest rate Swaps	(151,853)	(52,674)
Decrease (increase) in		
Accounts receivable	2,266	(6,216)
Grants receivable	2,583,926	(3,121,981)
Contributions receivable	(52,833)	(1,568)
Inventories and other assets	52,450	129,571
Increase (decrease) in		
Accounts payable and accrued expenses	(119,401)	(67,526)
Deferred revenue	50,397	(98,789)
Patents	(22,446)	(32,113)
	<u>3,152,261</u>	<u>1,671,956</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sale of investments, net	3,911,245	4,798,635
Purchase of property, plant, and equipment	(6,817,769)	(6,272,017)
Accounts payable, construction	(985,229)	1,275,994
Proceeds from the sale of property, plant, and equipment	-	45,000
	<u>(3,891,753)</u>	<u>(152,388)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Line-of-credit, net	1,149,148	(802,178)
Principal payments under capital lease obligations	(520,000)	(505,000)
	<u>629,148</u>	<u>(1,307,178)</u>
Net increase (decrease) in cash and cash equivalents	(110,344)	212,390
CASH AND CASH EQUIVALENTS, beginning of year	288,174	75,784
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 177,830</u>	<u>\$ 288,174</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, including service fees	\$ 260,930	\$ 451,613

The accompanying Notes to Financial Statements are an integral part of these statements.

TRUDEAU INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

a. Description of 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.

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

b. Accounting Method

The financial statements are prepared on the accrual basis of accounting.

The Institute adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) on December 31, 2009. The ASC is an aggregation of previously issued authoritative accounting principles generally accepted in the United States (GAAP) in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates.

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

c. Fair Value of Financial Instruments

The Institute reports certain assets and liabilities at fair value. Fair value is defined as an exchange price that would be received for an asset or paid to transfer a liability (an "exit" price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date.

d. Cash and Cash Equivalents

The Institute considers all highly liquid investments, generally with original maturities of three months or less to be cash equivalents, excluding investments in the endowment and similar funds.

e. Accounts Receivable

Accounts receivable are carried at original invoice. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The Institute considered accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts was necessary as of December 31, 2009 and 2008.

An account receivable is 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 accounts receivable.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - Continued

f. Inventories

Inventories of feed for laboratory test animals and other supplies are stated at the lower of cost (first-in, first-out method) or market.

g. 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. Funds held in trusts are recognized at the estimated fair value of the assets which approximates the present value of the future cash flows when the irrevocable trust is established or the Institute is notified of its existence.

h. Investments

The Institute accounts for its investments at fair value based on quoted market prices, and valuation is subject to market and interest rate fluctuations. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Realized gains and losses on the sale of investments are determined using the specific identification method and recognized in the statement of activities as nonoperating activity. Unrealized appreciation or depreciation in the fair value of investments is recognized in the statement of activities as non-operating activity.

The Institute has investments in limited partnerships, referred to as "alternative investments," which are recorded at estimated fair value. Estimated fair value, as determined by alternative investments' managers, is based upon the Institute's proportionate share of the net assets of the alternative investments at December 31, 2009 and 2008. The underlying investments of the alternative investments primarily consist of an ownership percentage of limited partnerships, privately held equity securities (preferred and common), publicly traded equity securities, and international private investment companies.

i. Deferred Charges

Deferred charges relate to costs incurred in connection with obtaining certain long-term capital lease obligations. The related costs of \$399,351 (reported net of accumulated amortization of \$296,791 and \$268,973 at December 31, 2009 and 2008, respectively) are being amortized on a straight-line method over the life of the related obligation. Amortization expense was \$28,210 for both of the years ended December 31, 2009 and 2008.

Amortization expense is expected to be \$27,818 for each of the years ending through December 31, 2012 and \$19,106 for the year ending December 31, 2013.

j. Patents, Net

Legal costs incurred to apply for and prosecute 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. Patents and patents pending are subject to a two-step process for impairment testing, to be performed at least annually, as well as when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Patents issued are being amortized over their estimated useful lives of fifteen years. The Institute also has several patents in process as of December 31, 2009 and 2008.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - Continued

k. Property, Plant, and Equipment

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

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. 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:

	<u>Years</u>
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 statement of activities.

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.

l. Deferred Revenue

Deferred revenue represents amounts received in advance from non-governmental agencies for research projects conducted by the Institute.

m. Financial Instruments

All derivative instruments are recorded on the statements of financial position at their fair value. The Institute uses interest rate swaps as financial derivatives to manage exposure to fluctuations in interest rates. The differential to be paid or received on the interest rate swaps if they were bought out prior to maturity is recognized as an adjustment to interest expense. Specific types of loans and amounts that the Institute hedges are determined based on prevailing market conditions. (See Note 6).

n. Net Asset Classifications

Resources are reported for accounting purposes in separate classifications of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into the following categories:

Unrestricted net assets are those 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.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - Continued

n. Net Asset Classifications - Continued

During 1992, the Board of Trustees designated \$4,000,000 of the 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 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 consist primarily of gifts and pledges restricted for debt service.

Permanently restricted net assets have been 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 from these trusts is unrestricted.

Expenses of the Institute are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one classification of net assets and decrease another are reported as reclassifications between the applicable classifications of net assets.

o. Contributions

Contributions, including unconditional pledges, 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 unrestricted net assets when the assets are placed in service.

p. 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.

q. 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.

On January 1, 2009, the Institute adopted ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. The Institute files a Form 990 (Return of Organization Exempt from Income Tax) annually. When the return is filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the tax position taken or the amount of the position that would ultimately be sustained. This standard prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES - Continued

q. *Tax Exempt Status - Continued*

Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more likely than not” recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying statement of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Forms 990 filed by the Institute are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the Institute are no longer subject to examination for the fiscal years ended December 31, 2005, and prior.

The adoption of this standard resulted in no uncertain tax benefits or provisions identified and recorded as a liability or asset.

r. *Allocation of Expenses*

Directly identifiable expenses 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.

s. *Risks and Uncertainties*

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 would materially affect the amounts reported in the statements of financial position and the statements of activities.

The Institute depends heavily on grants from the National Institute of Health.

t. *Reclassifications*

Certain 2008 amounts have been reclassified to conform with 2009 presentation.

u. *New Accounting Pronouncements*

On January 1, 2009, the Institute adopted ASC 815, *Derivatives and Hedging*, which establishes enhanced disclosures about derivative and hedging activities (see Note 6).

v. *Subsequent Events*

On December 31, 2009, the Institute adopted ASC 855, *Subsequent Events*, which establishes general standards of accounting for, and disclosure of, events that occur after the date of the financial statements but before the financial statements are issued or are available to be issued. In preparing the financial statements and notes thereto, the Institute has considered subsequent events through March 15, 2010, the date the financial statements were issued.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 2 - INVESTMENTS, AT FAIR VALUE

Investments at fair value consist of the following:

	December 31,			
	2009		2008	
	Market	Cost	Market	Cost
Cash and temporary investments	\$ 530,356	\$ 530,356	\$ 2,235,800	\$ 2,235,800
Equity mutual funds	10,421,121	12,887,796	9,085,895	15,901,395
Fixed income mutual funds	6,105,504	5,996,770	5,543,105	5,894,255
Equity securities	2,837,906	2,486,033	2,519,798	2,859,757
Alternative investments	4,953,133	5,116,137	4,744,452	4,742,559
	<u>\$ 24,848,020</u>	<u>\$ 27,017,092</u>	<u>\$ 24,129,050</u>	<u>\$ 31,633,766</u>

The Institute is committed to advance an additional \$405,435 to meet alternative investments capital requirements.

NOTE 3 - PATENTS, NET

A summary of patents, net, is as follows:

	December 31,	
	2009	2008
Patents in process	\$ 48,163	\$ 32,113
Patents issued	7,180	-
Less accumulated amortization on patents issued	392	-
	<u>\$ 54,951</u>	<u>\$ 32,113</u>

Amortization expense on patents issued for the years ended December 31, 2009 and 2008, was \$392 and \$-0-, respectively.

A summary of future amortization expense is as follows:

For the year ending December 31,		\$ 479
	2010	479
	2011	479
	2012	479
	2013	479
	2014	479
Thereafter		4,393
		<u>\$ 6,788</u>

TRUDEAU INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT, NET

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

	December 31,	
	2009	2008
Land improvements	\$ 409,158	\$ 409,158
Building	22,432,818	17,722,404
Fixed equipment	940,134	940,134
Furniture and equipment	12,192,259	12,192,259
	35,974,369	31,263,955
Less accumulated depreciation	17,011,443	16,115,356
	18,962,926	15,148,599
Land	132,063	132,063
Construction in progress	7,279,970	5,302,147
	\$ 26,374,959	\$ 20,582,809

NOTE 5 - SELF-INSURED PHARMACY PLAN

The Institute has established a plan to self-insure participants' pharmacy claims.

A summary of the funded status of the plan (reflected herein as a component of "accounts payable and accrued expenses") is as follows:

	December 31,	
	2009	2008
Cumulative employee plan contributions	\$ 641,536	\$ 589,611
Cumulative claims paid by the Institute	(637,027)	(519,389)
	\$ 4,509	\$ 70,222

NOTE 6 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding are as follows:

	December 31,	
	2009	2008
County of Franklin Industrial Development Agency (FIDA) Civic Facility Revenue Bonds		
1998 Series	\$ 4,620,000	\$ 5,000,000
2000 Series	1,900,000	2,040,000
	\$ 6,520,000	\$ 7,040,000

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 6 - CAPITAL LEASE OBLIGATIONS - Continued

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 this report, all bonds are in the weekly mode. The final maturity of the bonds is to be May 1, 2019.

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 this report, all bonds are in the weekly mode. The final maturity of the bonds is to be 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 payments equivalent to interest (effective rates of 0.2% on the 1998 issue and 0.35% on the 2000 issue, and 0.7% on both issues at December 31, 2009 and 2008) 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 are as follows:

	Series 1998	Series 2000	Total
Year ending December 31, 2010	\$ 395,000	\$ 145,000	\$ 540,000
2011	410,000	150,000	560,000
2012	420,000	155,000	575,000
2013	435,000	160,000	595,000
2014	450,000	165,000	615,000
Thereafter	2,510,000	1,125,000	3,635,000
	\$ 4,620,000	\$ 1,900,000	\$ 6,520,000

Interest expense is paid to the Trustees monthly in an amount equal to interest owed. Interest expense (including service fees) approximated \$261,000 and \$441,000 in 2009 and 2008, respectively, and is included in corporate expenses in the statements of activities.

Interest Rate Swaps

During February 1999 and June 2000, the Institute entered into interest rate swap agreements with expiration dates of May 1, 2009 and December 1, 2010, respectively. Neither the Institute nor the counterparty, which is a prominent bank institution, are required to collateralize their respective obligations under this swap. The purpose of these swaps is to fix the interest rate on the two separate series of variable rate FIDA bonds and reduce the related exposure to interest rate fluctuations. The original notional amounts of the swaps were approximately \$7.9 million and \$3.0 million, respectively. The swap agreement that expired on May 1, 2009, was not renewed.

Under the agreements, the Institute will pay the counterparty interest at a fixed rate of 4.57% and 5.89% on the Series 1998 and 2000 Bonds, respectively. The counterparty will pay the Institute at a variable rate equal to the Weekly Rate of each of the Bond Series. Under the current swap agreements, additional interest expense in the amount of \$191,298 and \$184,161 was incurred as a result of settlements under these agreements in 2009 and 2008, respectively. The notional amounts do not represent amounts exchanged by the parties, and are thus not a measure of exposure of the Institute. The amounts exchanged are based on the notional amount and other terms of the swap.

TRUDEAU INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 6 - CAPITAL LEASE OBLIGATIONS - Continued

Interest Rate Swaps - Continued

The Institute recognizes net unrealized gains/losses (reported as unrealized gain on interest rate swaps on the statement of activities) of \$151,853 and \$52,674, representing the change in fair value of the interest rate swap agreement at December 31, 2009 and 2008, respectively.

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 15, 2010 and December 15, 2010, respectively, and guarantee the Institute's obligations. The outstanding balances on the letters of credit are \$4,688,351 and \$2,070,181 at December 31, 2009, and \$5,115,266 and \$2,087,609 at December 31, 2008, 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 restrictive financial covenants, including maintaining a minimum debt service coverage ratio.

NOTE 7 - LINE-OF-CREDIT

During March 2008, the Institute signed a \$3,000,000 revolving demand note (line-of-credit) with HSBC Bank. The line-of-credit is payable on demand and is secured by a pledge of unrestricted investments.

The Institute has the option to pay either HSBC Bank's adjusted prime or adjusted LIBOR interest rate formulas. The effective rate of interest was 2% at both December 31, 2009 and 2008. The balance on the line-of-credit was \$3,000,000 and \$1,850,852 at December 31, 2009 and 2008, respectively. The line-of-credit agreement requires the Institute to meet certain covenants.

Interest incurred on the line-of-credit totaled approximately \$42,000 and \$5,000 for the years ended December 31, 2009 and 2008, respectively. All of the interest incurred during 2009 was capitalized.

NOTE 8 - 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 \$744,809 and \$783,709 in 2009 and 2008, respectively.

NOTE 9 - 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 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.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 9 - ENDOWMENT - Continued

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, and
7. The investment policies of the Institute.

Endowment net asset composition by type of fund:

	December 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 4,963,510	\$ -	\$ 5,086,314	\$ 10,049,824
Board-designated endowment fund	14,798,196	-	-	14,798,196
	\$ 19,761,706	\$ -	\$ 5,086,314	\$ 24,848,020
	December 31, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 6,551,073	\$ -	\$ 5,268,388	\$ 11,819,461
Board-designated endowment fund	12,309,589	-	-	12,309,589
	\$ 18,860,662	\$ -	\$ 5,268,388	\$ 24,129,050

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 9 - ENDOWMENT - Continued

Interpretation of Relevant Law - Continued

Changes in endowment net assets:

	December 31, 2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 18,860,662	\$ -	\$ 5,268,388	\$ 24,129,050
Investment return				
Investment income	520,829	-	-	520,829
Net appreciation (depreciation) (realized and unrealized)	4,630,215	-	(182,074)	4,448,141
Total investment return	5,151,044	-	(182,074)	4,968,970
Contributions	-	-	-	-
Appropriation for endowment assets for expenditure	(4,250,000)	-	-	(4,250,000)
Endowment net assets, end of year	\$ 19,761,706	\$ -	\$ 5,086,314	\$ 24,848,020
	December 31, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 33,161,901	\$ -	\$ 5,176,177	\$ 38,338,078
Investment return				
Investment income	576,080	-	-	576,080
Net appreciation (depreciation) (realized and unrealized)	(9,401,259)	-	91,211	(9,310,048)
Total investment return	(8,825,179)	-	91,211	(8,733,968)
Contributions	3,311,060	-	1,000	3,312,060
Appropriation for endowment assets for expenditure	(8,787,120)	-	-	(8,787,120)
Endowment net assets, end of year	\$ 18,860,662	\$ -	\$ 5,268,388	\$ 24,129,050
			December 31,	
			2009	2008
Permanently restricted net assets				
The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation			\$ 5,086,314	\$ 5,268,388

TRUDEAU INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 9 - ENDOWMENT - Continued

Interpretation of Relevant Law - Continued

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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,193,150 and \$2,539,819 as of December 31, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

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 8% percent 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 8% percent 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.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Institute determines the fair value of financial instruments based on the fair value hierarchy described in GAAP which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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.

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

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Investments, at fair value	\$ 20,793,392	\$ -	\$ 4,054,628	\$ 24,848,020
Interest rate swaps	\$ -	\$ 101,463	\$ -	\$ 101,463
	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Investments, at fair value	\$ 19,384,595	\$ -	\$ 4,744,455	\$ 24,129,050
Interest rate swaps	\$ -	\$ 253,316	\$ -	\$ 253,316

The following represents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using unobservable Level 3 inputs during 2009 and 2008. These instruments were valued using pricing models and discounted cash flow methodologies incorporating assumptions that, in management's judgment, reflect the assumptions a market participant would use at December 31, 2009 and 2008:

	Investments, at fair value	
	December 31, 2009	2008
Balance, beginning of year	\$ 4,744,445	\$ 4,500,743
Net gains losses		
Realized	5,900	87,825
Unrealized	335,998	(847,259)
Purchases, net of settlements	(1,031,715)	1,003,136
Balance, end of year	\$ 4,054,628	\$ 4,744,445

TRUDEAU INSTITUTE, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 11 - COMMITMENTS AND CONTINGENCIES

a. Concentration of Credit Risk

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.

b. Institute Expansion

The Institute has entered into several agreements for professional engineering, architectural, and construction management services for programming, planning, designing, and building a new 10,377 square foot building and third floor (3,197 square feet) renovations of Building 2. The agreements are summarized as follows:

	December 31, 2009		
	Contract Amount	Amount Incurred	Balance Committed
Engineering and architectural services			
Professional services	\$ 776,968	\$ 651,590	\$ 125,378
Construction services	9,786,895	9,713,508	73,387
	\$ 10,563,863	\$ 10,365,098	\$ 198,765
Commissioning services	\$ 92,000	\$ -	\$ 92,000

c. Employment Contracts

The Institute has entered into long-term employment contracts with certain employees. The future payments required by the agreements are summarized as follows:

For the year ending December 31,	2010	\$ 297,052
	2011	305,964
	2012	315,142
		\$ 918,158

d. Term Loan

Simultaneous to the signing of its line-of-credit with HSBC, the Institute obtained a \$3,000,000 term loan to finance a portion of the Institute's expansion. Effective February 22, 2010, the line-of-credit was closed and the term loan opened. The term loan has a maturity of five years and a maximum amortization of fifteen years. Interest under the term loan is at a fixed rate of 4%.

e. Other 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.

TRUDEAU INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE 12 - SUBSEQUENT EVENT

Letters of Credit

As of March 18, 2010, a substitute Credit Facility will be issued by HSBC USA, National Association, to replace the existing Irrevocable Direct Pay Letters of Credit securing the bond issues by Fleet National Bank, predecessor-in-interest to Bank of America, N.A. issues on November 6, 1998 and June 30, 2000. The HSBC Substitute Credit Facility shall be effective on March 18, 2010 and shall expire on May 1, 2019 and December 1, 2020, respectively. The substitution of letters of credit have yielded an upgrade of the bonds from the prior rating of "A+/A-1" to a new rating of "AA/A-1+."