Sanford-Burnham Medical Research Institute

Financial Statements as of and for the Years Ended June 30, 2013 and 2012, Supplemental Combining Information as of and for the Year Ended June 30, 2013, Supplemental Schedules for the Year Ended June 30, 2013, Reports on Compliance with Office of Management and Budget Circular A-133 and State of Florida Rules of the Auditor General Chapter 10.650, and Independent Auditors' Reports

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Sanford-Burnham Medical Research Institute:

Report on the Financial Statements

We have audited the accompanying financial statements of Sanford-Burnham Medical Research Institute (the "Institute"), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of June 30, 2013 and 2012, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State of Florida Rules of the Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 2013 financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the 2013 financial statements as a whole. The Schedule of Functional Expenses is presented for the purpose of additional analysis and is not a required part of the financial statements. This Schedule is the responsibility of the Institute's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 2013 information has been subjected to the auditing procedures applied in our audits of the 2013 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such 2013 information is fairly stated in all material respects in relation to the 2013 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Institute'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 the Institute's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 21, 2013

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	$ 18,237,000	$ 9,260,000
RESTRICTED CASH AND CASH EQUIVALENTS	670,000	630,000
SHORT-TERM INVESTMENTS	73,898,000	68,828,000
GRANTS RECEIVABLE	9,800,000	18,611,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	10,364,000	10,008,000
USE OF LONG-LIVED ASSETS	3,156,000	3,325,000
DEFERRED FINANCING COSTS — Net	2,342,000	2,276,000
PLEDGES RECEIVABLE — Net	19,142,000	14,310,000
PROPERTY — Net	155,094,000	167,593,000
SECURED LOAN RECEIVABLE	3,958,000	3,958,000
LONG-TERM INVESTMENTS	18,593,000	17,585,000
TOTAL	$315,254,000	$316,384,000
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable, accrued expenses, and other liabilities	$ 17,868,000	$ 20,849,000
Deferred revenue	10,516,000	11,772,000
Debt	71,831,000	76,538,000
Total liabilities	100,215,000	109,159,000
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	77,370,000	74,518,000
Temporarily restricted	125,636,000	120,683,000
Permanently restricted	12,033,000	12,024,000
Total net assets	215,039,000	207,225,000
TOTAL	$315,254,000	$316,384,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013, WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Summarized
REVENUES:					
Federal grants and contracts	$ 84,737,000	$	$	$ 84,737,000	$ 94,049,000
Private and other government grants	18,952,000			18,952,000	18,054,000
Contributions	4,628,000	38,626,000	9,000	43,263,000	44,373,000
Investment returns designated for current operations	942,000	352,000		1,294,000	1,627,000
Royalties, rent revenue, and other	4,685,000			4,685,000	4,572,000
Net assets released from restrictions	34,676,000	(34,676,000)			-
Total revenues	148,620,000	4,302,000	9,000	152,931,000	162,675,000
EXPENSES:					
Research	129,077,000			129,077,000	133,660,000
General and administrative	16,115,000			16,115,000	23,154,000
Fund-raising	2,466,000			2,466,000	3,336,000
Total expenses	147,658,000			147,658,000	160,150,000
EXCESS OF REVENUES OVER EXPENSES	962,000	4,302,000	9,000	5,273,000	2,525,000
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS	1,890,000	651,000		2,541,000	(1,791,000)
CHANGE IN NET ASSETS	2,852,000	4,953,000	9,000	7,814,000	734,000
NET ASSETS — Beginning of year	74,518,000	120,683,000	12,024,000	207,225,000	206,491,000
NET ASSETS — End of year	$ 77,370,000	$125,636,000	$12,033,000	$215,039,000	$207,225,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Federal grants and contracts	$ 94,049,000	$ -	$ -	$ 94,049,000
Private and other government grants	18,054,000			18,054,000
Contributions	3,820,000	40,523,000	30,000	44,373,000
Investment returns designated for current operations	1,243,000	384,000		1,627,000
Royalties, rent revenue, and other	4,572,000			4,572,000
Net assets released from restrictions	35,514,000	(35,514,000)		-
Total revenues	157,252,000	5,393,000	30,000	162,675,000
EXPENSES:				
Research	133,660,000			133,660,000
General and administrative	23,154,000			23,154,000
Fund-raising	3,336,000			3,336,000
Total expenses	160,150,000	-	-	160,150,000
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(2,898,000)	5,393,000	30,000	2,525,000
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS	(1,393,000)	(398,000)		(1,791,000)
CHANGE IN NET ASSETS	(4,291,000)	4,995,000	30,000	734,000
NET ASSETS — Beginning of year	78,809,000	115,688,000	11,994,000	206,491,000
NET ASSETS — End of year	$ 74,518,000	$120,683,000	$12,024,000	$207,225,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 7,814,000	$ 734,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on interest rate swap	(1,306,000)	1,773,000
Depreciation and amortization	19,428,000	20,316,000
Amortization of debt premium	(58,000)	(59,000)
Contributions restricted for property acquisition	(3,446,000)	(3,971,000)
Gifts in-kind	(4,000)	(38,000)
Net realized and unrealized (gains) losses on investments	(2,884,000)	1,138,000
Changes in assets and liabilities:		
Grants receivable	8,811,000	(1,745,000)
Prepaid and other assets and receivables	(345,000)	1,124,000
Pledges receivable	(4,275,000)	1,800,000
Accounts payable, accrued expenses, and other liabilities	(1,678,000)	(525,000)
Deferred revenue	(1,256,000)	(473,000)
Net cash provided by operating activities	20,801,000	20,074,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(13,197,000)	(29,037,000)
Proceeds from sales of investments	10,003,000	12,276,000
Decrease in cash for restricted cash and cash equivalents	(40,000)	(45,000)
Restricted cash and cash equivalents released to purchase equipment		1,220,000
Purchases of property, plant, and equipment	(6,560,000)	(5,253,000)
Net cash used in investing activities	(9,794,000)	(20,839,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(23,534,000)	(4,461,000)
Proceeds from issuance of debt	18,885,000	
Payment of debt issuance costs	(270,000)	
Cash received restricted for endowment	1,008,000	1,514,000
Cash received restricted for property acquisition	1,881,000	3,927,000
Net cash (used in) provided by financing activities	(2,030,000)	980,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,977,000	215,000
CASH AND CASH EQUIVALENTS — Beginning of year	9,260,000	9,045,000
CASH AND CASH EQUIVALENTS — End of year	$ 18,237,000	$ 9,260,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 3,794,000	$ 3,993,000
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Fixed asset acquisitions included in accounts payable	$ 652,000	$ 649,000

See notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

General — Sanford-Burnham Medical Research Institute (the "Institute") conducts basic biomedical research funded primarily by grants from agencies of the U.S. government. The Institute is a California not-for-profit public benefit corporation, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Funding — Grant applications are submitted to various federal and nonfederal agencies. Those applications funded are typically awarded for a four-year period, with the amount awarded negotiated in advance. Grant revenue is recognized as unrestricted revenue when the research costs are incurred. Unspent grant funds received in advance of the related expenditure are reported as deferred revenue.

The Institute established an operating division in Orlando, Florida, Sanford-Burnham Medical Research Institute at Lake Nona, in 2007. Funding is provided by a $155 million grant, plus interest, from the state of Florida to be disbursed in varying amounts ranging from $4.4 million to $45.4 million per year over a 10-year period commencing in March 2007, conditioned on compliance with certain covenants and conditions. This grant is accounted for as a contribution under accounting principles generally accepted in the United States of America (GAAP). Expended grant funds from the state of Florida are reported as temporarily restricted revenue with a corresponding release from restriction. Unspent grant funds from the state of Florida are reflected as temporarily restricted net assets until spent.

Certain local governments and private entities (the "Funding Parties") agreed to provide temporary space, land, and up to $81 million in funding for the development of the Institute's temporary and permanent facilities, including future improvements, located in the Lake Nona area of the City of Orlando. During fiscal year 2009, $76.8 million was recognized as temporarily restricted revenue related to the permanent facilities and is being recognized as unrestricted revenue ratably over the remaining life of the 25-year land lease, which is 19 years.

The grant for the use of the land for the permanent site was reflected as use of long-lived assets and deferred revenue (until resolution of uncertainties about the project were resolved), which are amortized, ratably, over the life of the 25-year lease and reflected as unrestricted expense and revenue. The Funding Parties hold a joint leasehold mortgage in the permanent site, ground lease, and permanent facility. During fiscal year 2009, with the occupancy of the building, deferred revenue of $3,874,000 was recognized as temporarily restricted revenue and is being recognized as unrestricted revenue ratably over the remaining life of the lease.

The Institute has received two conditional contributions to fund joint scientific faculty and research and equipment totaling $37 million. Receipts under these agreements have been recorded as deferred revenue and will be recognized as conditions are met. In 2013 and 2012, certain conditions were met and $0.75 million and $1.7 million, respectively, was recognized as temporarily restricted revenue and released from restriction. During fiscal year 2009, one agreement totaling $27 million was amended to revise the payment terms and allow the Institute greater flexibility related to use of the funds. The remaining funds of $25.7 million are being paid to the Institute starting in fiscal year 2010 and will continue through 2022 with $1.75 million being paid each year except for the last year when $1.25 million will be paid. Receipts under this revised agreement are recorded as unrestricted revenue as conditions are met and funds become receivable. In 2013 and 2012, certain conditions were met and $1.75 million was received and recognized as revenue in each year.

Contributions — Contributions are recorded as revenue at their present value when unconditionally pledged or when received, whichever is earlier. The discounted values of recorded pledges are accreted to their full values, using a risk-free interest rate, during the period beginning when the pledge is made until the time it is expected to be paid.

Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period, are reported as temporarily restricted contributions with a corresponding release from restrictions.

The Institute reports gifts of equipment 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 restricted support. Absent explicit donor stipulations about how long those 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.

Cash and Cash Equivalents — Cash and cash equivalents are defined as cash on hand and in banks, plus short-term investments with a maturity, at the date of purchase, of three months or less.

Restricted Cash and Cash Equivalents — Restricted cash and cash equivalents represent a required bank deposit of half of the annual principal payment on the 2006 debt issuance (see Note 7).

Prepaid and Other Assets and Receivables — Included in prepaid and other assets and receivables is $2,952,000 and $2,934,000 as of June 30, 2013 and 2012, respectively, for loans to employees for housing relocation. These loans are secured by deeds of trust and incur interest at rates ranging from 0% to 3%. For each loan with a below-market interest rate, the Institute uses an imputed interest rate and records employee benefit expense and interest revenue over the life of the loan.

Use of Long-Lived Assets — Use of long-lived assets relates to the fair value of land provided to the Institute for its permanent facility to use to conduct research at its operating division in Florida. Use of the land is amortized over the term of the agreement of 25 years.

Pledges Receivable — The Institute records pledges receivable, net of allowances for uncollectible amounts, when there is sufficient evidence in the form of verifiable documentation that an unconditional promise was made. The Institute discounts pledges that are expected to be collected after one year, using the risk-free rate of return at the time of the pledge. The discount is recognized as contribution income in future years, as the discount is amortized using an effective yield over the duration of the pledges. The provision for uncollectible amounts, if any, is calculated based on specific identification of uncollectible accounts.

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value based on quoted market prices. Long-term investments include securities related to permanently restricted net assets, funds designated by the Institute's Board of Trustees (the "Board") to function as endowments, unrestricted investments held long term, and the debt service reserve account of the Institute's certificates of participation (COPs) (see Note 7). All other investments are reported as short term.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of volatility associated with certain investment securities, it is

probable that changes in the values of investment securities will occur from time to time and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Property and Depreciation — Purchased property is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	7–50
Furniture and equipment	3–5

Deferred Financing Costs — Deferred financing costs relate to the Institute's COPs and are amortized utilizing the effective interest method over the life of the related certificates.

Deferred Rent — The Institute has various lease agreements in place, which have resulted in a deferred rent balance related to a free rent period of $1,487,000 and $1,224,000 as of June 30, 2013 and 2012, respectively. Deferred rent is included in accounts payable, accrued expenses, and other liabilities.

Deferred Revenue — The Institute records advance payments on grants and contracts to be spent in the following year as deferred revenue.

Spending-Rate Policy — The Institute utilizes a spending-rate policy and formula under which the Board designates a predetermined portion of the Institute's long-term investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. Under the Institute's spending policy, 5% of the average of the market value as of December 31 of the previous three years is appropriated. In fiscal year 2012, upon Board approval, 6.5% of the average market value as of December 31 was utilized in the appropriation formula. Accordingly, the Institute has presented its investment return separated between the amount designated for current operations and the amount in excess of (or less than) the amount designated for current operations. Management believes that this presentation better presents the Institute's change in net assets and results of operations, as permitted by Accounting Standards Codification (ASC) 958-320, *Not-for-Profit Entities — Investments,* and emphasizes the Institute's use of a prudent approach to determining the portion of cumulative investment returns that can be used to support operations.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements — In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends ASC 820. ASU No. 2011-04 also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The new guidance was effective for reporting periods beginning after December 15, 2011. The Institute adopted ASU No. 2011-04 for the year ended June 30, 2013, which did not have a material impact on the financial statements.

In October 2012, the FASB issued ASU No. 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows – a consensus of the FASB Emerging Issues Task Force*. ASU No. 2012-05 addresses how cash receipts arising from the sale of certain donated financial assets should be classified in the statement of cash flows of not-for-profit entities. Cash receipts from the sale of donated financial assets should be classified consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that were nearly immediately converted into cash. ASU No. 2012-05 is effective prospectively for accounting periods beginning after June 15, 2013. Management of the Institute does not expect the adoption of ASU No. 2012-05 to have a material impact on the financial statements.

In February 2013, the FASB issued ASU No. 2013-03, *Financial Instruments*, which clarified the scope of ASU No. 2011-04. ASU No. 2013-03 clarifies that the requirement to disclose the level of fair value hierarchy within which the fair value measurements are classified does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. ASU No. 2013-03 was effective upon issuance, and did not have a material impact to the financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities*. ASU No. 2013-06 addresses which guidance not-for-profit entities should apply for recognizing and measuring personnel services received from an affiliate. ASU No. 2013-06 is effective for accounting periods beginning after June 15, 2014. Management of the Institute does not expect the adoption of ASU No. 2013-06 to have a material impact on the financial statements.

Subsequent Events — In accordance with ASC No. 855, *Subsequent Events*, the Institute evaluated subsequent events through October 21, 2013, the date of the release of these financial statements.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain of the Institute's assets and liabilities are reported at fair value in the accompanying statements of financial position. Fair value measurement information for assets (liabilities) accounted for at fair value on a recurring basis as of June 30, 2013, is as follows:

			Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:					
Fixed-income securities:					
Mutual and managed funds	$ 16,570,000	$ 16,570,000	$ 16,570,000	$	$
Short-term funds	44,388,000	44,388,000	44,388,000		
Equity securities:					
Mutual and managed funds	31,401,000	31,401,000	31,401,000		
Individual securities	132,000	132,000	132,000		
Total investments	$ 92,491,000	$ 92,491,000	$ 92,491,000	$	$
Financial liabilities — interest rate swap	$ (2,567,000)	$ (2,567,000)	$	$ (2,567,000)	$

Fair value measurement information for assets (liabilities) accounted for at fair value on a recurring basis as of June 30, 2012, is as follows:

			Fair Value Measurements Using		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:					
Fixed-income securities:					
Mutual and managed funds	$ 25,654,000	$ 25,654,000	$ 25,654,000	$ -	$ -
Short-term funds	33,603,000	33,603,000	33,603,000		
Equity securities — mutual and managed funds	27,156,000	27,156,000	27,156,000		
Total investments	$ 86,413,000	$ 86,413,000	$ 86,413,000	$ -	$ -
Financial liabilities — interest rate swap	$ (3,873,000)	$ (3,873,000)	$ -	$ (3,873,000)	$ -

The Institute's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

ASC 820 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. The ASC also clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value.

ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data as of the reporting date.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Each of the mutual and managed funds are invested in a diverse portfolio of underlying investments, including U.S. securities, global securities, commercial paper, U.S. treasuries and U.S. government securities. The valuation methodologies used for financial assets measured at fair value for fixed-income and equity securities (including both mutual and managed funds) are based on Level 1 inputs determined by quoted prices in active markets.

The method and inputs used to determine the fair value of the interest rate swap are discussed in Note 7.

There were no transfers between Levels during the periods presented.

The estimated fair value of receivables, accounts payable, accrued expenses, and other liabilities approximates their individual carrying amounts due to the short-term nature of these instruments.

3. INVESTMENTS AND SECURED LOAN RECEIVABLE

Investments as of June 30, 2013 and 2012, are summarized as follows:

	2013	2012
Equity securities:		
Mutual and managed funds	$31,401,000	$27,156,000
Individual securities	132,000	
Fixed-income securities:		
Mutual and managed funds	16,570,000	25,654,000
Short-term funds	44,388,000	33,603,000
Investments — short term and long term	$92,491,000	$86,413,000

Equity securities above include long-term investments of $6,824,000 and $6,366,000 as of June 30, 2013 and 2012, respectively, that the Board of the Institute designated as quasi-endowment.

In August 2010, the Institute entered into a tri-party repurchase agreement, in which the Institute loaned cash from the 2006 COP reserve fund of $3,958,000 to a financial institution. The loan is secured by collateral in specified financial assets, which are held by a third-party custodian. This transaction did not meet the criteria to be accounted for as a sale under ASC 860, *Transfers and Servicing*, and therefore, it was recorded as a secured loan. As of June 30, 2013 and 2012, the balance of the secured loan was $3,958,000. The loan earns interest of 1.123% annually. Accrued interest as of June 30, 2013 and 2012, was $15,000, and is included in prepaid and other assets and receivables in the statements of financial position. The loan will mature in September 2015 or earlier based on the terms of the repurchase agreement. The fair value of the loan as of June 30, 2013 and 2012, is $3,880,000 and $3,866,000, respectively.

State law allows the Board to appropriate so much of the net appreciation as is prudent considering the Institute's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Under the Institute's endowment spending policy, effective fiscal year 2010, 5% of the average of the fair value at December 31 of the previous three years is appropriated to support current operations. In fiscal year 2012, upon Board approval, 6.5% of the average fair value at December 31 was utilized in the appropriation formula. The following schedule summarizes the investment return and its classification in the statements of activities.

Investment return for the years ended June 30, 2013 and 2012, is comprised of the following:

	2013		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 669,000	$ 294,000	$ 963,000
Net realized and unrealized gains	2,164,000	720,000	2,884,000
Management fees	(1,000)	(11,000)	(12,000)
Total investment return	2,832,000	1,003,000	3,835,000
Investment returns designated for current operations	942,000	352,000	1,294,000
Investment return reduced by the portion of cumulative net appreciation designated for current operations	$ 1,890,000	$ 651,000	$ 2,541,000

	2012		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 720,000	$ 269,000	$ 989,000
Net realized and unrealized losses	(869,000)	(269,000)	(1,138,000)
Management fees	(1,000)	(14,000)	(15,000)
Total investment return	(150,000)	(14,000)	(164,000)
Investment returns designated for current operations	1,243,000	384,000	1,627,000
Investment return reduced by the portion of cumulative net appreciation designated for current operations	$(1,393,000)	$(398,000)	$(1,791,000)

4. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2013 and 2012, are as follows:

	2013	2012
Gross amounts due in:		
Less than one year	$10,276,000	$ 2,600,000
One to five years	9,831,000	12,199,000
More than five years	4,000	
Gross pledges receivable	20,111,000	14,799,000
Less present value discount	(869,000)	(389,000)
Less allowance for uncollectible pledges	(100,000)	(100,000)
Total	$19,142,000	$14,310,000

Discount rates ranged from 1% to 2% for 2013 and 2012.

Pledges receivable, net of present value discount, include $500,000 and $1,289,000 from trustees of the Institute as of June 30, 2013 and 2012, respectively. The Institute received contributions from trustees of $1,208,000 and $3,071,000 for the years ended June 30, 2013 and 2012, respectively.

The Institute received a pledge of $16,000,000 during the year ended June 30, 2008, which is restricted for pediatric medicine research. This pledge is conditional upon the Institute meeting certain requirements related to pediatric medicine research and was not recorded in the pledges receivable balance as of June 30, 2008. During each of the years ended June 30, 2012, 2011, 2010, and 2009, $4,000,000 of this pledge was received by the Institute and was recorded as revenue because the conditions on this portion of the contribution were met.

The Institute also received a $50,000,000 pledge during the year ended June 30, 2010, that is restricted for various uses and is contingent upon the Institute meeting certain leadership requirements to be evaluated by the donor and the Board. Due to the conditional nature of this pledge, it was not recorded as contribution revenue or a receivable. During each of the years ended June 30, 2013, 2012, 2011, and 2010, $10,000,000 of this pledge was received by the Institute and was recorded as revenue. $7,000,000 and $10,000,000 of the revenue was released from restriction as of June 30, 2013 and 2012, respectively, because it was used for the purposes intended by the donor during the year, and the conditions on this portion of the pledge were met. As of June 30, 2013, $3,000,000 remained in temporarily restricted net assets. The remaining $10,000,000 is scheduled to be received in fiscal year 2014.

The Institute is named as the beneficiary in various revocable trusts and wills. The contribution revenue will be recognized when the agreements become irrevocable or when the assets are distributed to the Institute for its unconditional use, whichever occurs first.

5. PROPERTY

The carrying value and related accumulated depreciation of property as of June 30, 2013 and 2012, are as follows:

	2013	2012
Land	$ 25,793,000	$ 25,793,000
Buildings and building improvements	162,682,000	162,127,000
Furniture and equipment	99,269,000	95,771,000
Construction in progress	549,000	41,000
Total	288,293,000	283,732,000
Less accumulated depreciation	133,199,000	116,139,000
Property — net	$155,094,000	$167,593,000

Depreciation expense was $19,066,000 and $19,987,000 for the years ended June 30, 2013 and 2012, respectively.

6. DEFERRED REVENUE

Deferred revenue as of June 30, 2013 and 2012, consisted of the following:

	2013	2012
Deferred grant revenue	$ 7,824,000	$ 7,843,000
Deferred revenue	2,692,000	3,175,000
Conditional contribution		754,000
Total	$10,516,000	$11,772,000

Deferred revenue as of June 30, 2012 includes $754,000 that the Institute received related to its Florida operations, which has been deferred to future periods due to uncertainties and/or conditions placed on the use of the assets. The revenue was recognized in the year ended June 30, 2013, when the uncertainties were resolved and the conditions were met.

7. DEBT

In 2009, the Institute entered into an asset acquisition transaction with another not-for-profit organization. The Institute acquired certain property and equipment out of the other organization's bankruptcy and assumed the other organization's Variable Rate Demand Revenue Certificates of Participation (the "Certificates") issued through the County of San Diego in the aggregate outstanding principal amount of $21,360,000 at the date of the transaction.

The interest rate paid by the Institute on the Certificates for fiscal year 2013 and 2012 averaged approximately 3.43%. The principal balance outstanding on the Certificates as of June 30, 2012, was $19,550,000.

In November 2012, the Institute borrowed $18,885,000 through the issuance of a direct purchase tax-exempt loan (the "Loan"). Proceeds from the issuance of the Loan were used to refinance the

outstanding balance of the Certificates of $18,885,000. The Loan will mature in 2017, will include an option to renew for a three-year period, and interest will accrue at a rate equal to the British Bankers' Association London Interbank Offered Rate (LIBOR), plus 0.95%.

The interest rate paid by the Institute on the Loan for fiscal year 2013 averaged approximately 3.43%. The principal balance outstanding on the Loan as of June 30, 2013, was $18,885,000. The fair value of the Loan approximates its carrying amount due to the variable interest rate feature of the Loan.

The Institute is subject to compliance with certain debt covenants under the Loan, including restrictions on additional indebtedness. In the event of default, the bank may declare the unpaid principal amount of all outstanding obligations, and any accrued interest thereon, immediately due and payable.

During the year ended June 30, 2006, the Institute borrowed $59,405,000 through the issuance of tax-exempt serial and term COPs sponsored by the County of San Diego. Proceeds from the issuance of the COPs were used to defease the 1999 COPs sponsored by the County of San Diego and to finance certain new capital improvements and equipment purchases. The COPs are collateralized by a pledge of the Institute's revenues and include certain covenants, including restrictions on the issuance of parity debt. Principal is due in varying annual installments through 2034. Interest is payable on a semiannual basis at 5%. The principal balance outstanding on the COPs as of June 30, 2013 and 2012, was $51,760,000 and $53,020,000, respectively. The COPs were sold at a premium of $1,168,000, which is being amortized over the life of the COPs. As of June 30, 2013 and 2012, the unamortized premium was $719,000 and $777,000, respectively.

The fair value of the COPs, calculated using market observable interest rates (Level 2 inputs) as of June 30, 2013 and 2012, was $52,935,000 and $54,318,000, respectively.

During 2009, the Institute entered into an equipment financing arrangement through California Statewide Communities Development Authority totaling $15,075,000 for the purchase of scientific equipment. This financing is secured by the equipment acquired and bears interest at 4.85%. The principal and interest are payable in monthly installments totaling $235,000. The principal balance outstanding as of June 30, 2013 and 2012, was $467,000 and $3,191,000, respectively. Final payment was made in August 2013.

Total interest expense incurred for the years ended June 30, 2013 and 2012, is $3,710,000 and $4,031,000, respectively.

Scheduled principal repayments on debt as of June 30, 2013, are as follows:

Years Ending June 30	
2014	$ 2,502,000
2015	2,145,000
2016	2,260,000
2017	2,370,000
2018	2,475,000
Thereafter	59,360,000
Total	$ 71,112,000

Interest Rate Swap Agreement — In connection with the assumption of the Certificates, the Institute assumed an interest rate swap agreement covering the outstanding principal amount of the Certificates

through November 2030. Under this agreement, the Institute receives payments from the counterparty based on LIBOR and the Institute pays the counterparty a fixed rate of interest of 3.43%. Under the Loan agreement entered into in November 2012, the interest rate swap will remain in place and will not be affected by the refinancing. Interest expense on the Certificates was recorded in general and administrative expenses in the accompanying statements of activities based on the fixed interest rate paid by the Institute under the swap agreement, plus the variable interest rate established by the weekly remarketing, less the variable rate received by the Institute under the swap agreement. Interest expense on the Loan is recorded in general and administrative expenses in the accompanying statements of activities based on the fixed interest rate paid by the Institute under the swap agreement, plus the Loan variable interest rate of LIBOR, plus 0.95%, (3.11% at June 30, 2013) less the variable rate received by the Institute under the swap agreement.

No other cash payments will be made under the swap agreement, unless the agreement is terminated prior to maturity, if the Loan is paid off, or if the Loan is refinanced with a different lender, in which case the amount to be received or paid by the Institute in settlement is established upon termination and generally represents the net present value of the difference between the obligation under the contracted rate of interest and that of the then-current rate for a similar contract.

In accordance with ASC 815, *Derivatives and Hedging*, the Institute's interest rate swap agreement is reported at fair value in the statements of financial position. The fair value of the swap agreement will fluctuate generally based on changes in market rates of interest. Any unrealized gains or losses resulting from changes in fair value are reported in the statements of activities. The Institute's interest rate swap agreement was in a liability position, based on market prices of similar financial instruments, of approximately $2,567,000 and $3,873,000 as of June 30, 2013 and 2012, respectively, resulting primarily from a decrease in market interest rates subsequent to the assumption of the swap agreement, which is reported in accounts payable, accrued expenses, and other liabilities. The fair value of the interest rate swap agreement increased by $1,306,000 during the year ended June 30, 2013, and declined by $1,773,000 during the year ended June 30, 2012. The unrealized gain or loss on the fair value of the interest rate swap agreement is included in general and administrative expenses in the accompanying statements of activities. Management of the Institute intends to keep the swap agreement in place until maturity in November 2030. Accordingly, although the fair value of the swap agreement is required under GAAP to be reported as an asset or liability, as described above, management of the Institute does not expect to realize any gain or loss, or receive or pay any amount, from termination of the swap agreement.

8. NET ASSETS

Temporarily restricted net assets as of June 30, 2013 and 2012, include net assets restricted for use in future periods, campus-specific use, or for designated research purposes as follows:

	2013	2012
Restricted for future periods	$ 18,462,000	$ 13,093,000
Restricted for Sanford-Burnham Medical Research Institute at Lake Nona	96,097,000	98,817,000
Restricted for research purposes	11,077,000	8,773,000
Total	$125,636,000	$120,683,000

Permanently restricted net assets of $12,033,000 and $12,024,000 as of June 30, 2013 and 2012, respectively, represent investments to be held in perpetuity either as a result of explicit donor stipulation or by the State Prudent Management of Institutional Funds Act (SPMIFA). The income from the

investments is expendable to support research or the Institute's operations in accordance with the donors' wishes.

Endowment — The Institute's endowment consists of 12 individual funds established for various purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

The endowment net assets composition by type of fund as of June 30, 2013 and 2012, is as follows:

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$3,115,000	$835,000	$12,033,000	$15,983,000
Board-designated endowment funds	6,824,000			6,824,000
Total funds	$9,939,000	$835,000	$12,033,000	$22,807,000
2012				
Donor-restricted endowment funds	$2,579,000	$233,000	$12,024,000	$14,836,000
Board-designated endowment funds	6,366,000			6,366,000
Total funds	$8,945,000	$233,000	$12,024,000	$21,202,000

Unrestricted endowment funds of $3,115,000 and $2,579,000 as of June 30, 2013 and 2012, respectively, relate to earnings on donor-restricted endowments in excess of the Institute's spending-rate policy.

The changes in endowment net assets for the years ended June 30, 2013 and 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2011	$ 9,098,000	$ 511,000	$11,994,000	$21,603,000
Investment return:				
Investment income	457,000	140,000		597,000
Unrealized gain (loss)	536,000	(184,000)		352,000
Realized gain	9,000	3,000		12,000
Total investment return	1,002,000	(41,000)	-	961,000
Contributions			30,000	30,000
Appropriation of endowment assets for expenditure	(1,155,000)	(237,000)		(1,392,000)
Endowment net assets — June 30, 2012	8,945,000	233,000	12,024,000	21,202,000
Investment return:				
Investment income	287,000	154,000		441,000
Unrealized gain	1,392,000	684,000		2,076,000
Realized gain				
Total investment return	1,679,000	838,000		2,517,000
Contributions			9,000	9,000
Appropriation of endowment assets for expenditure	(685,000)	(236,000)		(921,000)
Endowment net assets — June 30, 2013	$ 9,939,000	$ 835,000	$12,033,000	$22,807,000

The description of the amounts classified as permanently restricted net assets as of June 30, 2013 and 2012, is as follows:

	2013	2012
Permanently restricted net assets — the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	$12,033,000	$12,024,000
Total endowment funds classified as permanently restricted net assets	$12,033,000	$12,024,000
Temporarily restricted net assets — the portion of perpetual endowment funds subject to a time restriction under SPMIFA — without purpose restrictions	$ 835,000	$ 233,000
Total endowment funds classified as temporarily restricted net assets	$ 835,000	$ 233,000

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 SPMIFA 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 $0 and $53,000 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board.

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 organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of certain appropriate indices while assuming commensurate risk. Based upon its investment approach and asset allocation strategy, the Institute expects its endowment funds, over time, to generate returns that will support a spending rate of 5% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation to achieve its long-term rate of return objectives within prudent risk constraints, with a target allocation of 60% equities and 40% fixed income. As of June 30, 2013, the Institute's actual allocation was consistent with the target allocation.

9. COMMITMENTS

Operating Leases — The Institute has entered into operating leases for equipment and facilities space. The lease agreements expire on various dates through January 2021. Future minimum payments due under the noncancelable operating leases with remaining terms in excess of one year as of June 30, 2013, are as follows:

Years Ending June 30	
2014	$ 4,304,000
2015	4,496,000
2016	4,475,000
2017	4,035,000
2018	4,146,000
Thereafter	11,828,000
Total	$33,284,000

Rent expense totaled $4,627,000 and $4,635,000 for the years ended June 30, 2013 and 2012, respectively.

Pension Plan — The Institute has a defined contribution pension plan. For eligible employees, the Institute matches an employee's contribution after one year of continuous service to a maximum of 10% of the employee's annual salary if the employee's contributions are at least 5% of annual salary. The Institute's contributions expense related to this plan for fiscal year 2013 and 2012 was $4,367,000 and $4,247,000, respectively.

Deferred Compensation Plan — The Institute has a deferred compensation plan under which eligible employees may elect salary deferrals to be made to the plan up to the maximum amount permitted by law. The Institute may make elective contributions and/or matching contributions at the sole discretion of the Board. No elective contributions were made in 2013 and 2012. Plan assets and the related liabilities to participants are included in prepaid, other assets and receivables, and in accounts payable, accrued expenses, and other liabilities, respectively, in the accompanying statements of financial position and totaled $1,780,000 and $1,457,000 as of June 30, 2013 and 2012, respectively.

Additionally, the Institute has an unfunded, nonqualified deferred compensation plan for certain employees. The amount of the employer contribution, if any, is determined by the Board. The Institute's contributions expense related to this plan was $300,000 and $650,000 for fiscal years 2013 and 2012, respectively.

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

Guarantees and Indemnities — From time to time, the Institute enters into certain types of contracts that contingently require the Institute to indemnify parties against third-party claims. These contracts primarily relate to (i) certain technology transfer/license agreements, under which the Institute may be required to indemnify licensees; (ii) certain real estate leases, under which the Institute may be required to indemnify property owners for environmental or other liabilities and other claims arising from the Institute's use of the premises; and (iii) certain agreements with the Institute's officers, directors, and

employees, under which the Institute may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, no liabilities have been recorded for these obligations in the Institute's statements of financial position for any of the periods presented.

10. INCOME TAXES

The Institute has no material deferred tax assets or deferred tax liabilities recorded as of June 30, 2013 and 2012.

The Institute did not recognize a change in liability for unrecognized tax benefits (the difference between a tax position taken, or expected to be taken, in a tax return and the benefit recognized and measured in the financial statements). There were no liabilities for unrecognized tax benefits at June 30, 2013 and 2012.

11. OTHER RELATED-PARTY DISCLOSURES

For the years ended June 30, 2013 and 2012, the Institute made payments of $1,246,000 and $2,592,000, respectively, to vendors of goods, services, and equipment at which officers or trustees of the Institute served as directors.

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SUPPLEMENTAL COMBINING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL COMBINING INFORMATION

To the Board of Trustees of
Sanford-Burnham Medical Research Institute:

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental combining information for 2013 listed in the table of contents is presented for the purpose of additional analysis of the financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual divisions of the Institute, and is not a required part of the financial statements. This supplemental combining information is the responsibility of Sanford-Burnham Medical Research Institute's management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 financial statements or to the 2013 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such information is fairly stated in all material respects in relation to the 2013 financial statements as a whole.

Deloitte & Touche LLP

October 21, 2013

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2013

	Florida	California	Eliminations	Total
ASSETS				
CASH AND CASH EQUIVALENTS	$ 16,529,000	$ 1,708,000		$ 18,237,000
RESTRICTED CASH AND CASH EQUIVALENTS		670,000		670,000
SHORT-TERM INVESTMENTS	27,749,000	46,149,000		73,898,000
GRANTS RECEIVABLE	1,682,000	8,118,000		9,800,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	3,623,000	6,741,000		10,364,000
USE OF LONG-LIVED ASSETS	3,156,000			3,156,000
DEFERRED FINANCING COSTS — Net		2,342,000		2,342,000
PLEDGES RECEIVABLE — Net	2,119,000	17,023,000		19,142,000
INTERCOMPANY RECEIVABLE — Net	6,230,000		(6,230,000)	
PROPERTY — Net	89,976,000	65,118,000		155,094,000
SECURED LOAN RECEIVABLE		3,958,000		3,958,000
LONG-TERM INVESTMENTS		18,593,000		18,593,000
TOTAL	$151,064,000	$170,420,000	$ (6,230,000)	$ 315,254,000
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable, accrued expenses, and other liabilities	$ 2,188,000	$ 15,680,000		$ 17,868,000
Intercompany payable — net		6,230,000	(6,230,000)	-
Deferred revenue	2,089,000	8,427,000		10,516,000
Debt		71,831,000		71,831,000
Total liabilities	4,277,000	102,168,000	(6,230,000)	100,215,000
NET ASSETS:				
Unrestricted	48,624,000	28,746,000		77,370,000
Temporarily restricted	98,163,000	27,473,000		125,636,000
Permanently restricted		12,033,000		12,033,000
Total net assets	146,787,000	68,252,000		215,039,000
TOTAL	$151,064,000	$170,420,000	$ (6,230,000)	$ 315,254,000

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

	Florida				California				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES:									
Federal grants and contracts	$ 7,401,000	$	$	$ 7,401,000	$ 77,336,000	$	$	$ 77,336,000	$ 84,737,000
Private and other government grants	5,081,000			5,081,000	13,871,000			13,871,000	18,952,000
Contributions	1,774,000	21,573,000		23,347,000	2,854,000	17,053,000	9,000	19,916,000	43,263,000
Investment returns designated for current operations	16,000	116,000		132,000	926,000	236,000		1,162,000	1,294,000
Royalties, rent revenue, and other	1,031,000			1,031,000	3,654,000			3,654,000	4,685,000
Net assets released from restrictions	23,042,000	(23,042,000)			11,634,000	(11,634,000)			
Total revenues	38,345,000	(1,353,000)		36,992,000	110,275,000	5,655,000	9,000	115,939,000	152,931,000
EXPENSES:									
Research	33,768,000			33,768,000	95,309,000			95,309,000	129,077,000
General and administrative	6,705,000			6,705,000	9,410,000			9,410,000	16,115,000
Fund-raising	598,000			598,000	1,868,000			1,868,000	2,466,000
Total expenses	41,071,000			41,071,000	106,587,000			106,587,000	147,658,000
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(2,726,000)	(1,353,000)		(4,079,000)	3,688,000	5,655,000	9,000	9,352,000	5,273,000
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS					1,890,000	651,000		2,541,000	2,541,000
CHANGE IN NET ASSETS	(2,726,000)	(1,353,000)		(4,079,000)	5,578,000	6,306,000	9,000	11,893,000	7,814,000
NET ASSETS — Beginning of year	51,350,000	99,516,000		150,866,000	23,168,000	21,167,000	12,024,000	56,359,000	207,225,000
NET ASSETS — End of year	$48,624,000	$ 98,163,000	$	$146,787,000	$ 28,746,000	$ 27,473,000	$12,033,000	$ 68,252,000	$215,039,000

SUPPLEMENTAL SCHEDULES

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Research	General and Administrative	Fund-Raising	Total Expenses
Salaries and wages	$ 52,964,000	$ 8,989,000	$1,435,000	$ 63,388,000
Depreciation	16,654,000	2,263,000	149,000	19,066,000
Fringe benefits	13,844,000	1,769,000	342,000	15,955,000
Operations and maintenance	11,993,000	1,483,000	125,000	13,601,000
Research supplies and services	10,480,000			10,480,000
Consortiums	6,617,000			6,617,000
Equipment and minor equipment	5,775,000	91,000	6,000	5,872,000
Interest	3,367,000	308,000	35,000	3,710,000
Other supplies and services	2,570,000	409,000	59,000	3,038,000
Professional fees and services	1,740,000	1,234,000	50,000	3,024,000
Conferences and meetings	844,000	319,000	31,000	1,194,000
Printing and publications	969,000	183,000	17,000	1,169,000
Travel	678,000	86,000	22,000	786,000
Miscellaneous	120,000	242,000	157,000	519,000
Recruitment and relocation	330,000	31,000	25,000	386,000
Postage and shipping	132,000	14,000	13,000	159,000
Unrealized gain on interest rate swap		(1,306,000)		(1,306,000)
TOTAL	$129,077,000	$16,115,000	$2,466,000	$147,658,000

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2013

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
National Institutes of Health:			
Direct Program ($6,086,576 passed through to other organizations)	93.RD		$ 67,228,721
Passed through from other organizations:			
Buck Research Institute for Research on Aging	93.RD	R21 AG041456	71,791
California Institute of Technology	93.RD	U54 GM094610	121,646
Dana-Farber Cancer Institute	93.RD	R01 AI085524	423,787
Ernest Gallo Clinic & Research Center	93.RD	R21 DA029966	(11,793)
Florida State University	93.RD	P01 AI074805	364,400
Loma Linda University	93.RD	R01 NS059770	68,624
Mount Sinai School of Medicine	93.RD	U01 AI074539	5,133
Northwestern University	93.RD	R01 DA033773	58,901
Oregon Health & Science University	93.RD	U54 AI081680	402,353
Oregon Health & Science University	93.RD	K01 AR062655	11,310
Prognosys Biosciences	93.RD	R44 GM084537	9,747
Salgomed Inc.	93.RD	R41 CA174059	35,664
Salk Institute for Biological Studies	93.RD	P01 AI090935	1,106,306
San Diego State University Research Foundation	93.RD	R01 GM032433	10,024
The Broad Institute	93.RD	U54 HG005032	132,270
The Research Foundation for the State University of New York	93.RD	R24 HD050837	664
The Scripps Research Institute	93.RD	U54 GM094586	700,105
The Scripps Research Institute	93.RD	UM1 AI100663	759,637
Torrey Pines Pharmaceuticals	93.RD	R43 HL095251	18,132
Torrey Pines Pharmaceuticals	93.RD	R43 AG040935	17,702
Translational Genomics Research	93.RD	U01 CA168397	430,513
University of California, Los Angeles	93.RD	R01 GM077190	19,411
University of California, San Diego	93.RD	P01 CA81534	193,696
University of California, San Diego	93.RD	P01 HL057345	70,456
University of California, San Diego	93.RD	P50 DA026306	187,511
University of California, San Diego	93.RD	R01 MH087989	391,879
University of California, San Diego	93.RD	P01 HL098053	624,798
University of California, San Diego	93.RD	P50 GM085764	265,292
University of California, San Diego	93.RD	R01 GM077402	38,953
University of California, San Diego	93.RD	P50 AG005131	50,516
University of California, San Diego	93.RD	P30 AR061303	189,270
University of California, San Diego	93.RD	U01 NS058030	7,959
University of California, San Diego	93.RD	R01 NS073653	51,106
University of California, San Diego	93.RD	R01 CA107263	40,873
University of California, San Diego	93.RD	R01 DE022757	421,711
University of California, San Diego	93.RD	UL1 TR000100	7,040
University of California, Santa Barbara	93.RD	R01 GM097114	140,566
University of Massachusetts	93.RD	P01 GM066524	29,809
University of Massachusetts	93.RD	P01 AI046530	583,399
University of Miami	93.RD	U19 MH081836	412,536
University of Michigan	93.RD	P01 HL057346	396,412
University of Texas, Health Science Center	93.RD	R01 GM052419	41,378
University of Texas MD Anderson Cancer Center	93.RD	P01 CA055164	10,092
University of Texas MD Anderson Cancer Center	93.RD	R01 CA172670	23,739
University of Virginia	93.RD	R01 GM095847	207,991

(Continued)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2013

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT (continued)			
Passed through from other organizations (continued):			
University of Washington	93.RD	R01 ES017462	$ 197,425
Vala Sciences, Inc.	93.RD	R42 HL112521	55,583
Vascular Biosciences	93.RD	R41 GM099174	53,935
Vivo Laboratory, Inc.	93.RD	R41 CA119785	1,433
Washington University	93.RD	R01 AI104972	112,408
Yale University	93.RD	P01 GM066311	698,067
Yale University	93.RD	R01 CA155196	21,562
Total passed through other organizations			10,283,722
Total National Institutes of Health — excluding ARRA funds			77,512,443
National Institutes of Health — American Recovery and Reinvestment Act of 2009 (ARRA):			
Direct program ($25,714 passed through to other organizations)	93.RD		249,180
Total National Institutes of Health — ARRA			249,180
Total U.S. Department of Health and Human Services			77,761,623
FEDERAL CONTRACTS —			
Passed through from other organizations:			
Battelle, Pacific North West	81.RD	DE-AC05-76RL01830	250,230
Northwestern University	93.RD	HHSN272200700058C	54,445
Northwestern University	93.RD	HHSN272201200026C	196,129
SAIC-Frederick, Inc.	93.RD	29XS123	1,683,009
University of California, San Diego	12.RD	HR0011-13-2-0017	27,780
University of California, San Francisco	12.RD	HR0011-11-C-0094	157,389
Vala Sciences, Inc.	93.RD	HHSN268201100013C	46,604
Vala Sciences, Inc.	93.RD	HHSN261201000088C	231,807
Total Federal Contracts			2,647,393
NATIONAL SCIENCE FOUNDATION:			
Direct Program	47.RD		201,208
ARRA	47.RD		106,621
Total National Science Foundation			307,829
DEPARTMENT OF ENERGY:			
Direct program	81.RD		208,909
Total Department of Energy			208,909

(Continued)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2013

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT (continued)			
U.S. DEPARTMENT OF DEFENSE:			
U.S. Army Medical Research Acquisition Activity Direct program	12.RD		$ 3,804,497
Passed through from other organizations:			
Henry M Jackson Foundation	12.RD	W81XWH-09-2-0075	(575)
Michigan State University	12.RD	W81XWH-12-1-0233	7,603
Total passed through from other organizations			7,028
Total U.S. Department of Defense			3,811,525
Total Research and Development			84,737,279
EXPENDITURES OF STATE FINANCIAL ASSISTANCE —	CSFA Number		
Department of Economic Opportunities	31.054	OT07-030	18,226,820
FLORIDA DEPARTMENT OF HEALTH:			
Bankhead-Coley Cancer Research Program	64.078	1BD11	42,048
Florida Biomedical Research Program	64	11SB1	2,061,573
James and Esther King Biomedical Research Program	64.041	1KD10	56,550
James and Esther King Biomedical Research Program	64.041	2KF04	100,000
Total Florida Department of Health			2,260,171
Total Expenditures of State Financial Assistance			20,486,991
TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			$105,224,270

(Concluded)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") has been prepared from the Institute's accounting records and is presented on the accrual basis of accounting.

The information in this Schedule is presented in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Florida Rules of the Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented or used in the preparation of the Institute's financial statements. Additionally, the Schedule presents only a selected portion of the activities of the Institute, it is not intended to, and does not, present either the financial position or changes in net assets of the Institute. The Schedule includes only State of Florida financial assistance projects that are required to be reported.

2. CREDIT BALANCES

The credit balances in the accompanying Schedule relate to funds that were expended in prior years and reversed in fiscal year 2013.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Sanford-Burnham Medical Research Institute:

We have audited, in accordance with the 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, the financial statements of Sanford-Burnham Medical Research Institute (the "Institute"), which comprise the statements of financial position as of June 30, 2013, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 21, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND STATE OF FLORIDA RULES OF THE AUDITOR GENERAL CHAPTER 10.650

To the Board of Trustees
Sanford-Burnham Medical Research Institute:

Report on Compliance for Major Federal Program and State Financial Assistance Project

We have audited Sanford-Burnham Medical Research Institute's (the "Institute") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the *Florida Single Audit Act Executive Office of the Governor's State Projects Compliance Supplement* that could have a direct and material effect on the Institute's major federal program and state financial assistance project for the year ended June 30, 2013. The Institute's major federal program and state financial assistance project are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program and state financial assistance project.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Institute's major federal program and state financial assistance project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and State of Florida Rules of Auditor General Chapter 10.650, *Florida Single Audit Act Audits of Non-Profit and For-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program and state financial assistance project. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Major Federal Program and State Financial Assistance Project

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program and state financial assistance project for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program or state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

October 21, 2013

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards and State Financial Assistance

Internal control over major program and project:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for the major program and project:	Unqualified opinion
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a)) and Chapter 10.654(1)(h)4?	No
Major federal program:	Research and Development
Major state project:	Department of Economic Opportunities
Dollar threshold used to distinguish Type A and Type B federal programs:	$2,542,118
Dollar threshold used to distinguish Type A and Type B state projects:	$614,610
Auditee qualified as a low-risk auditee?	No

2. FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings that are required to be reported.

3. FEDERAL AWARD AND STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

The audit disclosed no federal award or state project findings or questioned costs in 2013.

4. OTHER MATTERS

A management letter was not issued as there were no findings required to be reported in a management letter in accordance with State of Florida Rules of the Auditor General Chapter 10.650, *Rules of the Florida Auditor General*.

* * * * * *