

Sanford-Burnham Medical Research Institute

Financial Statements as of and for the Years
Ended June 30, 2011 and 2010, Supplemental
Combining Information as of and for the Year
Ended June 30, 2011, Supplemental Schedules
for the Year Ended June 30, 2011, 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

Board of Trustees
Sanford-Burnham Medical Research Institute:

We have audited the accompanying statements of financial position of Sanford-Burnham Medical Research Institute (the "Institute"), formerly Burnham Institute for Medical Research, as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Institute. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Institute, taken as a whole. The supplemental schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards and State Financial Assistance, which is required by the U.S. 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*, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the management of the Institute. Such information has been subjected to the auditing procedures applied in our audit of the basic 2011 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2011 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of the Institute's internal control over financial reporting and 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.

As discussed in Note 1 to the financial statements, the Institute changed its method of reporting temporarily restricted contributions received and for which the restrictions have been fulfilled by the Institute in the same reporting period.

Deloitte & Touche LLP

October 26, 2011

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 9,045,000	\$ 2,602,000
RESTRICTED CASH AND CASH EQUIVALENTS	2,935,000	5,184,000
SHORT-TERM INVESTMENTS	54,719,000	45,479,000
GRANTS RECEIVABLE	16,866,000	12,616,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	11,121,000	9,139,000
USE OF LONG-LIVED ASSETS	3,494,000	3,663,000
DEFERRED FINANCING COSTS — Net	2,447,000	2,623,000
PLEDGES RECEIVABLE — Net	17,580,000	21,092,000
PROPERTY — Net	183,343,000	191,218,000
SECURED LOAN RECEIVABLE	3,958,000	
LONG-TERM INVESTMENTS	<u>16,071,000</u>	<u>17,936,000</u>
TOTAL	<u>\$ 321,579,000</u>	<u>\$ 311,552,000</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable, accrued expenses, and other liabilities	\$ 20,655,000	\$ 18,524,000
Deferred revenue	12,245,000	5,944,000
Debt	<u>82,188,000</u>	<u>87,016,000</u>
Total liabilities	<u>115,088,000</u>	<u>111,484,000</u>
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	78,809,000	74,634,000
Temporarily restricted	115,688,000	114,489,000
Permanently restricted	<u>11,994,000</u>	<u>10,945,000</u>
Total net assets	<u>206,491,000</u>	<u>200,068,000</u>
TOTAL	<u>\$ 321,579,000</u>	<u>\$ 311,552,000</u>

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011, WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Summarized
REVENUES:					
Federal grants and contracts	\$ 96,704,000	\$ -	\$ -	\$ 96,704,000	\$ 93,856,000
Private and other government grants	13,443,000			13,443,000	11,270,000
Contributions	4,243,000	44,310,000	1,049,000	49,602,000	45,235,000
Investment returns designated for current operations	1,070,000	288,000		1,358,000	1,193,000
Royalties, rent revenue, and other	2,088,000			2,088,000	955,000
Net assets released from restrictions	43,999,000	(43,999,000)		-	
Total revenues	161,547,000	599,000	1,049,000	163,195,000	152,509,000
EXPENSES:					
Research	133,495,000			133,495,000	126,839,000
General and administrative	23,719,000			23,719,000	21,925,000
Fund-raising	3,476,000			3,476,000	2,930,000
Total expenses	160,690,000	-	-	160,690,000	151,694,000
EXCESS OF REVENUES OVER EXPENSES	857,000	599,000	1,049,000	2,505,000	815,000
INVESTMENT RETURN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS	3,318,000	600,000		3,918,000	2,302,000
CHANGE IN NET ASSETS	4,175,000	1,199,000	1,049,000	6,423,000	3,117,000
NET ASSETS — Beginning of year	74,634,000	114,489,000	10,945,000	200,068,000	196,951,000
NET ASSETS — End of year	\$ 78,809,000	\$ 115,688,000	\$ 11,994,000	\$ 206,491,000	\$ 200,068,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Federal grants and contracts	\$ 93,856,000	\$ -	\$ -	\$ 93,856,000
Private and other government grants	11,270,000			11,270,000
Contributions	3,732,000	38,520,000	2,983,000	45,235,000
Investment returns designated for current operations	1,112,000	81,000		1,193,000
Royalties, rent revenue, and other	955,000			955,000
Net assets released from restrictions	<u>49,326,000</u>	<u>(49,326,000)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>160,251,000</u>	<u>(10,725,000)</u>	<u>2,983,000</u>	<u>152,509,000</u>
EXPENSES:				
Research	126,839,000			126,839,000
General and administrative	21,925,000			21,925,000
Fund-raising	<u>2,930,000</u>	<u>-</u>	<u>-</u>	<u>2,930,000</u>
Total expenses	<u>151,694,000</u>	<u>-</u>	<u>-</u>	<u>151,694,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	8,557,000	(10,725,000)	2,983,000	815,000
INVESTMENT RETURN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS	<u>1,916,000</u>	<u>386,000</u>	<u>-</u>	<u>2,302,000</u>
CHANGE IN NET ASSETS	10,473,000	(10,339,000)	2,983,000	3,117,000
NET ASSETS — Beginning of year	<u>64,161,000</u>	<u>124,828,000</u>	<u>7,962,000</u>	<u>196,951,000</u>
NET ASSETS — End of year	<u>\$ 74,634,000</u>	<u>\$ 114,489,000</u>	<u>\$ 10,945,000</u>	<u>\$ 200,068,000</u>

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 6,423,000	\$ 3,117,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on interest rate swap	(474,000)	793,000
Depreciation and amortization	20,070,000	17,766,000
Amortization of debt premium	(60,000)	(61,000)
Pledges restricted for endowment	(1,049,000)	(2,983,000)
Contributions restricted for property acquisition	(11,160,000)	(11,056,000)
Gifts in-kind	(3,000)	(469,000)
Interest on restricted cash and cash equivalents	(8,000)	(24,000)
Net realized and unrealized gains on investments	(4,418,000)	(2,752,000)
Changes in assets and liabilities:		
Grants receivable	(4,250,000)	2,662,000
Prepaid and other assets and receivables	(1,971,000)	(2,304,000)
Pledges receivable	6,545,000	6,751,000
Accounts payable, accrued expenses, and other liabilities	2,772,000	1,513,000
Deferred revenue	<u>5,553,000</u>	<u>(5,996,000)</u>
Net cash provided by operating activities	<u>17,970,000</u>	<u>6,957,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(29,416,000)	(26,225,000)
Proceeds from sales of investments	26,459,000	21,540,000
Decrease in restricted cash and cash equivalents	(569,000)	
Restricted cash and cash equivalents used to purchase equipment	2,826,000	5,745,000
Purchases of property, plant, and equipment	<u>(12,025,000)</u>	<u>(23,490,000)</u>
Net cash used in investing activities	<u>(12,725,000)</u>	<u>(22,430,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(4,768,000)	(7,489,000)
Cash paid for secured loan receivable	(3,958,000)	
Cash received restricted for endowment	(2,000,000)	
Cash received restricted for property acquisition	<u>11,924,000</u>	<u>14,868,000</u>
Net cash provided by financing activities	<u>1,198,000</u>	<u>7,379,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,443,000	(8,094,000)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>2,602,000</u>	<u>10,696,000</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 9,045,000</u>	<u>\$ 2,602,000</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 4,339,000</u>	<u>\$ 4,667,000</u>
Fixed asset acquisitions included in accounts payable	<u>\$ 1,703,000</u>	<u>\$ 1,536,000</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Pledged contribution restricted for endowment	<u>\$ 1,049,000</u>	<u>\$ 2,983,000</u>

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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 May 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 ten-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 reflected as unrestricted revenue. 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 21 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 2011, certain conditions were met and \$1.7 million 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. Receipts under this

revised agreement will be recorded as unrestricted revenue as conditions are met and funds become receivable. In 2011, certain conditions were met and \$1.75 million was received and recognized as revenue.

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 debt proceeds whose use is limited to the purchase of equipment (see Note 7).

Prepaid and Other Assets and Receivables — Included in prepaid and other assets and receivables is \$2,948,000 and \$2,077,000 at June 30, 2011 and 2010, 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 2%. 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 entered into two new lease agreements during fiscal year 2009. This resulted in a deferred rent balance related to a free rent period of \$955,000 and \$639,000 as of June 30, 2011 and 2010, respectively, which is included in accounts payable, accrued expenses and other liabilities.

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 October 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*. ASU No. 2009-13 eliminates the residual method of allocation and the requirement to use the relative selling price method when allocating revenue in a multiple-deliverable arrangement and instead requires use of vendor-specific objective evidence of selling prices. The Institute adopted this pronouncement for its year ended June 30, 2011, which did not have a material impact on the financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures*, which amends Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements, and clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The Institute has included the prescribed disclosure requirements in Note 2.

In April 2010, the FASB issued FASB ASU No. 2010-17, *Revenue Recognition – Milestone Method*. The amendments in this update provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The Institute adopted this pronouncement for its year ended June 30, 2011, which did not have a material impact on the financial statements.

In May 2011, the FASB issued 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 is effective for reporting periods beginning after December 15, 2011. Management of the Institute does not expect the adoption of ASU No. 2011-04 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 26, 2011, the date of the release of these financial statements.

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 at December 31 of the previous three years is appropriated. Accordingly, the Institute has presented its investment return separated between the amount designated for current operations and the amount in excess of 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 ASC 958-320, 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.

Change in Presentation of Statements of Activities — In fiscal 2011, the Institute changed its method of accounting for contributions for which the restriction was met in the year that the contribution was received. Previously, these contributions were presented as unrestricted contributions. In the 2011 statement of activities, these contributions are presented as temporarily restricted contributions with a corresponding increase in net assets released from restriction. The 2010 statement of activities has been revised to conform to this change in presentation, which resulted in a decrease in unrestricted contributions and corresponding increases in temporarily restricted contributions and net assets released from restrictions of \$35.8 million.

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, 2011, is as follows:

	Carrying Amount	Fair Value	Fair Value Measurements Using		
			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	\$ 20,757,000	\$ 20,757,000	\$ 20,757,000	\$ -	\$ -
Short-term funds	22,199,000	22,199,000	22,199,000		
Equity securities - mutual and managed funds	<u>27,834,000</u>	<u>27,834,000</u>	<u>27,834,000</u>		
Total investments	<u>\$ 70,790,000</u>	<u>\$ 70,790,000</u>	<u>\$ 70,790,000</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities — interest rate swap	<u>\$ (2,100,000)</u>	<u>\$ (2,100,000)</u>	<u>\$ -</u>	<u>\$ (2,100,000)</u>	<u>\$ -</u>

Fair value measurement information for assets (liabilities) accounted for at fair value on a recurring basis as of June 30, 2010, is as follows:

	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:					
Fixed-income securities	\$ 40,979,000	\$ 40,979,000	\$ 40,979,000	\$ -	\$ -
Equity securities	<u>22,436,000</u>	<u>22,436,000</u>	<u>22,436,000</u>		
Total investments	<u>\$ 63,415,000</u>	<u>\$ 63,415,000</u>	<u>\$ 63,415,000</u>	<u>\$ -</u>	<u>\$ -</u>
Financial liabilities — interest rate swap	<u>\$ (2,574,000)</u>	<u>\$ (2,574,000)</u>	<u>\$ -</u>	<u>\$ (2,574,000)</u>	<u>\$ -</u>

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.

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.

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.

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

There were no transfers into or out of Levels 1 or 2 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, 2011 and 2010, are summarized as follows:

	2011	2010
Equity securities:		
Mutual and managed funds	\$ 27,834,000	\$ 22,436,000
Fixed-income securities:		
U.S. government		3,861,000
Mutual and managed funds	20,757,000	20,939,000
Short-term funds	<u>22,199,000</u>	<u>16,179,000</u>
Investments — short term and long term	<u>\$ 70,790,000</u>	<u>\$ 63,415,000</u>

Included in long-term investments is \$6,922,000 and \$5,856,000 at June 30, 2011 and 2010, respectively, that the Board of the Institute designated as quasi-endowment.

On June 30, 2011, the Institute received \$500,000 from a donor related to a permanently restricted pledge. This amount was awaiting transfer to the investment account at June 30, 2011, and has been included in long-term investments in the statements of financial position.

Long-term investments with a fair value of \$3,861,000 as of June 30, 2010, represent a minimum required balance that is a restricted debt service reserve supporting the Institute's tax-exempt COPs debt issue. 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. The loan earns interest of 1.123% annually. Accrued

interest at June 30, 2011 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, 2011 is \$3,864,000.

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. The following schedule summarizes the investment return and its classification in the statements of activities.

Investment return for the years ended June 30, 2011 and 2010, is comprised of the following:

	2011		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 600,000	\$ 276,000	\$ 876,000
Net realized and unrealized gains	3,792,000	626,000	4,418,000
Management fees	<u>(4,000)</u>	<u>(14,000)</u>	<u>(18,000)</u>
Total investment return	4,388,000	888,000	5,276,000
Investment return designated for current operations	<u>1,070,000</u>	<u>288,000</u>	<u>1,358,000</u>
Investment return in excess of amounts designated for current operations	<u>\$ 3,318,000</u>	<u>\$ 600,000</u>	<u>\$ 3,918,000</u>
	2010		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 511,000	\$ 250,000	\$ 761,000
Net realized and unrealized gains	2,535,000	217,000	2,752,000
Management fees	<u>(18,000)</u>	<u> </u>	<u>(18,000)</u>
Total investment return	3,028,000	467,000	3,495,000
Investment return designated for current operations	<u>1,112,000</u>	<u>81,000</u>	<u>1,193,000</u>
Investment return in excess of amounts designated for current operations	<u>\$ 1,916,000</u>	<u>\$ 386,000</u>	<u>\$ 2,302,000</u>

4. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2011 and 2010, are as follows:

	2011	2010
Gross amounts due in:		
Less than one year	\$ 2,943,000	\$ 4,907,000
One to five years	15,307,000	16,689,000
More than five years	<u>27,000</u>	<u>2,766,000</u>
 Gross pledges receivable	 18,277,000	 24,362,000
 Less present value discount	 (597,000)	 (3,170,000)
Less allowance for uncollectible pledges	<u>(100,000)</u>	<u>(100,000)</u>
 Total	 <u>\$ 17,580,000</u>	 <u>\$ 21,092,000</u>

Pledges receivable, net of present value discount, include \$6,152,000 and \$7,451,000 from trustees of the Institute at June 30, 2011 and 2010, respectively. The Institute received contributions from trustees of \$2,564,000 and \$721,000 for the years ended June 30, 2011 and 2010, 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 at June 30, 2008. During each of the years ended June 30, 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 remaining \$4,000,000 is scheduled to be received during fiscal year 2012 when the conditions for receipt are expected to be 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, 2011 and 2010, \$10,000,000 of this pledge was received by the Institute, recorded as temporarily restricted revenue in the accompanying statements of activities, used for the purposes intended by the donor during the year, and was released from restrictions. The remaining \$30,000,000 is scheduled to be received in annual \$10,000,000 increments between fiscal years 2012 and 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, 2011 and 2010, are as follows:

	2011	2010
Land	\$ 25,793,000	\$ 25,793,000
Buildings and building improvements	161,636,000	160,203,000
Furniture and equipment	93,706,000	85,542,000
Construction in progress	<u>978,000</u>	<u>152,000</u>
Total	282,113,000	271,690,000
Less accumulated depreciation	<u>98,770,000</u>	<u>80,472,000</u>
Property — net	<u>\$ 183,343,000</u>	<u>\$ 191,218,000</u>

Depreciation expense was \$19,736,000 and \$17,934,000 for the years ended June 30, 2011 and 2010, respectively.

6. DEFERRED REVENUE

Deferred revenue of \$12,245,000 and \$5,944,000 as of June 30, 2011 and 2010, respectively, includes \$2,459,000 and \$4,187,000 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. Revenue will be recognized in the periods these uncertainties have been resolved and conditions have been met.

Deferred revenue as of June 30, 2011 and 2010, consisted of the following:

	2011	2010
Conditional contribution	\$ 2,459,000	\$4,187,000
Deferred revenue	3,371,000	
Deferred grant revenue	<u>6,415,000</u>	<u>1,757,000</u>
Total	<u>\$ 12,245,000</u>	<u>\$ 5,944,000</u>

7. DEBT

In June 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 Certificates mature in 2030 and are supported by an irrevocable direct-pay letter of credit issued by a bank, which was extended to expire in December 2011, at which time the Institute is required to renew the letter of credit with the issuing bank or obtain another credit facility provider. While management of

the Institute believes that the Institute will renew the existing letter of credit or obtain a letter of credit from another financial institution, in the event that the Institute is unable to do so the Institute would pay off the debt using a combination of short-term and long-term investments.

The Institute is required to repay amounts drawn and any associated interest on the letter of credit within 30 days of such draw, or upon expiration of the letter of credit, whichever is earlier. The obligations of the Institute are secured by a deed of trust encumbering the property and by a security interest in the gross revenues of the Institute. Under the terms of the trust agreement and related agreements, the interest rate on the Certificates is reset weekly and the holders of the Certificates have the option to tender their Certificates at that time. Under a remarketing agreement entered into at the time of original issuance of the Certificates, the remarketing agent for the Certificates is responsible to use its best efforts to resell tendered Certificates. The interest rate paid by the Institute on the Certificates for fiscal years 2011 and 2010 averaged approximately 3.43%. The principal balance outstanding on the Certificates at June 30, 2011 and 2010 was \$20,180,000 and \$20,785,000, respectively. The fair value of the Certificates approximates their carrying amount due to the variable interest rate feature of the Certificates.

The Institute is subject to compliance with certain debt covenants under the Certificates, including restrictions on additional indebtedness. In the event of default, or in the event the direct-pay letter of credit is not renewed, 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 at June 30, 2011 and 2010, was \$54,190,000 and \$55,370,000, respectively. The COPs were sold at a premium of \$1,168,000, which is being amortized over the life of the COPs. At June 30, 2011 and 2010, the unamortized premium was \$835,000 and \$895,000, respectively.

The fair value of the COPs at June 30, 2011 and 2010, was \$47,471,000 and \$49,431,000, 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 \$213,449. Final payment is due in 2013. The principal balance outstanding at June 30, 2011 and 2010 was \$6,982,000 and \$9,966,000, respectively. The unspent proceeds at June 30, 2011, were \$2,350,000, of which approximately \$1,220,000 will be drawn and spent in fiscal 2012.

Total interest expense incurred for the years ended June 30, 2011 and 2010, is \$4,317,000 and \$4,702,000, respectively.

Scheduled principal repayments on debt as of June 30, 2011, are as follows:

Years Ending June 30	
2012	\$ 5,591,000
2013	4,649,000
2014	2,502,000
2015	2,145,000
2016	2,260,000
Thereafter	<u>64,206,000</u>
Total	<u>\$81,353,000</u>

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 the British Bankers' Association London Interbank Offered Rate (USD) and the Institute pays the counterparty a fixed rate of interest of 3.43%. Interest expense on the Certificates 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 variable interest rate established by the weekly remarketing, 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 or if the Certificates are paid off, 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, 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 \$2,100,000 and \$2,574,000 as of June 30, 2011 and 2010, 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 \$474,000 during the year ended June 30, 2011, and declined by \$793,000 during the year ended June 30, 2010. 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, 2011 and 2010, include net assets restricted for use in future periods, campus-specific use, or for designated research purposes as follows.

	2011	2010
Restricted for future periods	\$ 14,851,000	\$ 17,384,000
Restricted for Sanford-Burnham Medical Research Institute at Lake Nona	94,071,000	91,568,000
Restricted for research purpose	<u>6,766,000</u>	<u>5,537,000</u>
Total	<u>\$ 115,688,000</u>	<u>\$ 114,489,000</u>

Permanently restricted net assets of \$11,994,000 and \$10,945,000 at June 30, 2011 and 2010, 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 approximately 11 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, 2011 and 2010, is as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 2,176,000	\$ 511,000	\$ 11,994,000	\$ 14,681,000
Board-designated endowment funds	<u>6,922,000</u>	<u> </u>	<u> </u>	<u>6,922,000</u>
Total funds	<u>\$ 9,098,000</u>	<u>\$ 511,000</u>	<u>\$ 11,994,000</u>	<u>\$ 21,603,000</u>
2010				
Donor-restricted endowment funds	\$ 2,525,000	\$ 26,000	\$ 10,945,000	\$ 13,496,000
Board-designated endowment funds	<u>5,856,000</u>	<u> </u>	<u> </u>	<u>5,856,000</u>
Total funds	<u>\$ 8,381,000</u>	<u>\$ 26,000</u>	<u>\$ 10,945,000</u>	<u>\$ 19,352,000</u>

The changes in endowment net assets for the years ended June 30, 2011 and 2010, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2009	<u>\$ 7,197,000</u>	<u>\$ -</u>	<u>\$ 7,962,000</u>	<u>\$ 15,159,000</u>
Investment return:				
Investment income	221,000	44,000		265,000
Unrealized gain	<u>1,606,000</u>	<u>63,000</u>	<u> </u>	<u>1,669,000</u>
Total investment return	<u>1,827,000</u>	<u>107,000</u>	<u>-</u>	<u>1,934,000</u>
Contributions	<u> </u>	<u> </u>	<u>2,983,000</u>	<u>2,983,000</u>
Appropriation of endowment assets for expenditure	<u>(643,000)</u>	<u>(81,000)</u>	<u> </u>	<u>(724,000)</u>
Endowment net assets — June 30, 2010	<u>8,381,000</u>	<u>26,000</u>	<u>10,945,000</u>	<u>19,352,000</u>
Investment return:				
Investment income	116,000	70,000		186,000
Unrealized gain	947,000	517,000		1,464,000
Realized gain	<u>7,000</u>	<u>1,000</u>	<u> </u>	<u>8,000</u>
Total investment return	<u>1,070,000</u>	<u>588,000</u>	<u>-</u>	<u>1,658,000</u>
Contributions	<u> </u>	<u> </u>	<u>1,049,000</u>	<u>1,049,000</u>
Appropriation of endowment assets for expenditure	<u>(353,000)</u>	<u>(103,000)</u>	<u> </u>	<u>(456,000)</u>
Endowment net assets — June 30, 2011	<u>\$ 9,098,000</u>	<u>\$ 511,000</u>	<u>\$ 11,994,000</u>	<u>\$ 21,603,000</u>

The description of the amounts classified as permanently restricted net assets as of June 30, 2011 and 2010, is as follows:

	2011	2010
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	<u>\$ 11,994,000</u>	<u>\$ 10,945,000</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 11,994,000</u>	<u>\$ 10,945,000</u>
Temporarily restricted net assets — the portion of perpetual endowment funds subject to a time restriction under SPMIFA — without purpose restrictions	<u>\$ 511,000</u>	<u>\$ 26,000</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 511,000</u>	<u>\$ 26,000</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or 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 \$48,000 as of June 30, 2011 and 2010, 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.

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, 2011, are as follows:

Years Ending June 30	
2012	\$ 2,898,000
2013	2,992,000
2014	3,089,000
2015	3,189,000
2016	3,293,000
Thereafter	<u>16,515,000</u>
Total	<u>\$31,976,000</u>

Rent expense totaled \$4,197,000 and \$4,348,000 for the years ended June 30, 2011 and 2010, 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 2011 and 2010 was \$3,637,000 and \$3,023,000, 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 2011 and 2010. Plan assets and the related liabilities to participants are included in prepaids, other assets and receivables, and in accounts payable, accrued expenses, and other liabilities in the accompanying statements of financial position and totaled \$1,284,000 and \$903,000 at June 30, 2011 and 2010, respectively.

Additionally, effective in fiscal year 2010, 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 \$650,000 and \$775,000 for fiscal years 2011 and 2010, 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, 2011 and 2010.

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). The Institute's liability for unrecognized tax benefits was \$0 at June 30, 2011 and 2010.

11. OTHER RELATED-PARTY DISCLOSURES

During the years ended June 30, 2011 and 2010, the Institute received \$7,000 and \$521,000, respectively, from sponsored research or royalty agreements with companies at which officers or trustees of the Institute served as directors. For the years ended June 30, 2011 and 2010, the Institute made payments of \$1,245,000 and \$1,190,000, respectively, to vendors of goods, services, and equipment at which officers or trustees of the Institute served as directors.

During 2010, the Institute reached a revised agreement for a land contribution with a company at which a trustee is a director. The result was a decrease in contribution revenue of \$440,000.

* * * * *

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:

We have audited the financial statements of Sanford-Burnham Medical Research Institute (the "Institute"), formerly Burnham Institute for Medical Research, for the year ended June 30, 2011, and our report thereon appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic 2011 financial statements taken as a whole. The supplemental combining information listed in the table of contents is presented for the purpose of additional analysis, rather than to present the financial position and changes in net assets of the individual divisions of the Institute, and is not a required part of the basic financial statements. This supplemental combining information is the responsibility of the Institute's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2011 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

October 26, 2011

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION AS OF JUNE 30, 2011

	Florida	California	Total
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 6,201,000	\$ 2,844,000	\$ 9,045,000
RESTRICTED CASH AND CASH EQUIVALENTS		2,935,000	2,935,000
SHORT-TERM INVESTMENTS	26,889,000	27,830,000	54,719,000
GRANTS RECEIVABLE	1,323,000	15,543,000	16,866,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	4,009,000	7,112,000	11,121,000
USE OF LONG-LIVED ASSETS	3,494,000		3,494,000
DEFERRED FINANCING COSTS — Net		2,447,000	2,447,000
PLEDGES RECEIVABLE — Net	1,169,000	16,411,000	17,580,000
PROPERTY — Net	108,014,000	75,329,000	183,343,000
SECURED LOAN RECEIVABLE		3,958,000	3,958,000
LONG-TERM INVESTMENTS		<u>16,071,000</u>	<u>16,071,000</u>
TOTAL	<u>\$ 151,099,000</u>	<u>\$ 170,480,000</u>	<u>\$ 321,579,000</u>
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable, accrued expenses, and other liabilities	\$ 3,242,000	\$ 17,413,000	\$ 20,655,000
Intercompany (receivable) payable — net	(6,931,000)	6,931,000	
Deferred revenue	3,560,000	8,685,000	12,245,000
Debt		<u>82,188,000</u>	<u>82,188,000</u>
Total liabilities	<u>(129,000)</u>	<u>115,217,000</u>	<u>115,088,000</u>
NET ASSETS:			
Unrestricted	56,003,000	22,806,000	78,809,000
Temporarily restricted	95,225,000	20,463,000	115,688,000
Permanently restricted		<u>11,994,000</u>	<u>11,994,000</u>
Total net assets	<u>151,228,000</u>	<u>55,263,000</u>	<u>206,491,000</u>
TOTAL	<u>\$ 151,099,000</u>	<u>\$ 170,480,000</u>	<u>\$ 321,579,000</u>

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF ACTIVITIES INFORMATION FOR THE YEAR ENDED JUNE 30, 2011

	Florida				California				2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUES:									
Federal grants and contracts	\$10,285,000	\$ -	\$ -	\$ 10,285,000	\$ 86,419,000	\$ -	\$ -	\$ 86,419,000	\$ 96,704,000
Private and other government grants	980,000			980,000	12,463,000			12,463,000	13,443,000
Contributions	2,090,000	28,059,000		30,149,000	2,153,000	16,251,000	1,049,000	19,453,000	49,602,000
Investment returns designated for current operations	10,000	185,000		195,000	1,060,000	103,000		1,163,000	1,358,000
Royalties, rent revenue, and other	263,000			263,000	1,825,000			1,825,000	2,088,000
Net assets released from restrictions	<u>27,225,000</u>	<u>(27,225,000)</u>		<u>-</u>	<u>16,774,000</u>	<u>(16,774,000)</u>		<u>-</u>	<u>-</u>
Total revenues	<u>40,853,000</u>	<u>1,019,000</u>	<u>-</u>	<u>41,872,000</u>	<u>120,694,000</u>	<u>(420,000)</u>	<u>1,049,000</u>	<u>121,323,000</u>	<u>163,195,000</u>
EXPENSES:									
Research	33,198,000			33,198,000	100,297,000			100,297,000	133,495,000
General and administrative	6,897,000			6,897,000	16,822,000			16,822,000	23,719,000
Fund-raising	<u>876,000</u>			<u>876,000</u>	<u>2,600,000</u>			<u>2,600,000</u>	<u>3,476,000</u>
Total expenses	<u>40,971,000</u>	<u>-</u>	<u>-</u>	<u>40,971,000</u>	<u>119,719,000</u>	<u>-</u>	<u>-</u>	<u>119,719,000</u>	<u>160,690,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>(118,000)</u>	<u>1,019,000</u>	<u>-</u>	<u>901,000</u>	<u>975,000</u>	<u>(420,000)</u>	<u>1,049,000</u>	<u>1,604,000</u>	<u>2,505,000</u>
INVESTMENT RETURN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS				<u>-</u>	<u>3,318,000</u>	<u>600,000</u>		<u>3,918,000</u>	<u>3,918,000</u>
CHANGE IN NET ASSETS	<u>(118,000)</u>	<u>1,019,000</u>	<u>-</u>	<u>901,000</u>	<u>4,293,000</u>	<u>180,000</u>	<u>1,049,000</u>	<u>5,522,000</u>	<u>6,423,000</u>
NET ASSETS — Beginning of year	<u>56,121,000</u>	<u>94,206,000</u>		<u>150,327,000</u>	<u>18,513,000</u>	<u>20,283,000</u>	<u>10,945,000</u>	<u>49,741,000</u>	<u>200,068,000</u>
NET ASSETS — End of year	<u>\$56,003,000</u>	<u>\$ 95,225,000</u>	<u>\$ -</u>	<u>\$151,228,000</u>	<u>\$ 22,806,000</u>	<u>\$20,463,000</u>	<u>\$11,994,000</u>	<u>\$ 55,263,000</u>	<u>\$206,491,000</u>

SUPPLEMENTAL SCHEDULES

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2011

	Research	General and Administrative	Fund-Raising	Total Expenses
Salaries and wages	\$ 53,145,000	\$ 10,383,000	\$ 1,762,000	\$ 65,290,000
Depreciation	17,140,000	2,406,000	190,000	19,736,000
Fringe benefits	13,020,000	3,572,000	427,000	17,019,000
Operations and maintenance	12,265,000	1,487,000	145,000	13,897,000
Research supplies and services	12,680,000			12,680,000
Equipment and minor equipment	6,353,000	156,000	11,000	6,520,000
Consortiums	6,426,000			6,426,000
Professional fees and services	2,436,000	3,694,000	246,000	6,376,000
Interest	3,913,000	363,000	41,000	4,317,000
Other supplies and services	2,424,000	546,000	143,000	3,113,000
Conferences and meetings	1,029,000	465,000	103,000	1,597,000
Miscellaneous	162,000	736,000	292,000	1,190,000
Printing and publications	924,000	153,000	35,000	1,112,000
Travel	690,000	138,000	35,000	863,000
Recruitment and relocation	724,000	74,000	27,000	825,000
Postage and shipping	164,000	20,000	19,000	203,000
Unrealized gain on interest rate swap		(474,000)		(474,000)
TOTAL	<u>\$ 133,495,000</u>	<u>\$ 23,719,000</u>	<u>\$ 3,476,000</u>	<u>\$ 160,690,000</u>

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2011

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 (\$5,382,876 passed on to other organizations)	93.RD		<u>\$ 69,068,964</u>
Passed through other organizations:			
California Institute of Technology	93.RD	U54 GM094610	75,338
Chemregen	93.RD	R41 HL107088	13,817
Dana-Farber Cancer Institute	93.RD	R01 AI085524	317,065
Dana-Farber Cancer Institute	93.RD	U01 AI074518	281,046
Ernest Gallo Clinic & Research	93.RD	R21 DA029966	215,595
Florida State University	93.RD	P01 AI074805	467,014
Loma Linda University	93.RD	R01 NS059770	45,345
Mandala Biosciences, LLC	93.RD	R43 GM088984	60,629
Mandala Biosciences, LLC	93.RD	R43 HD061145	17,648
Massachusetts Institute of Technology	93.RD	R01 CA124427	284,592
Massachusetts Institute of Technology	93.RD	U54 CA119349	11,686
Mount Sinai School of Medicine	93.RD	U01 AI074539	444,285
Oregon Health & Science University	93.RD	U54 AI051680	6,714
Prognosys Biosciences, Inc	93.RD	R44 GM084537	109,328
Rutgers, The State University of New Jersey	93.RD	R21 AA019609	52,626
Seattle Children's Research Institute	93.RD	R01 AR049762	61,073
Stanford University	93.RD	R01 HL086879	136,703
The Salk Institute for Biological Studies	93.RD	P01 AI090935	960,060
The Salk Institute for Biological Studies	93.RD	R01 AI072645	82,163
The Scripps Research Institute	93.RD	U54 GM062116	836,017
The Scripps Research Institute	93.RD	U54 GM094586	548,809
Torrey Pines Institute for Molecular Studies	93.RD	P41 GM081261	31,328
Trudeau Institute, Inc	93.RD	P01 AI046530	78,596
University of California, Davis	93.RD	R01 GM079383	130,675
University of California, Irvine	93.RD	U01 CA114810	(9,050)
University of California, Los Angeles	93.RD	R01 CA121258	80,858
University of California, San Diego	93.RD	P01 CA081534	215,841
University of California, San Diego	93.RD	P01 CA104898	19,817
University of California, San Diego	93.RD	P01 HL057345	594,004
University of California, San Diego	93.RD	P01 HL078784	10,001
University of California, San Diego	93.RD	P01 HL098053	635,119
University of California, San Diego	93.RD	P50 DA026306	248,084
University of California, San Diego	93.RD	P50 GM085764	213,800
University of California, San Diego	93.RD	R01 CA107263	62,871
University of California, San Diego	93.RD	R01 GM077402	21,180
University of California, San Diego	93.RD	R01 MH087989	245,137
University of California, San Diego	93.RD	U54 CA119335	32,520
University of California, San Diego	93.RD	UL1 RR031980	3,732
University of California, San Francisco	93.RD	R01 CA119414	7,982
University of Massachussettes	93.RD	P01 AI046530	529,777
University of Massachussettes	93.RD	P01 GM066524	423,549
University of Massachussettes	93.RD	U19 MH081836	480,915
University of Texas	93.RD	P01 CA55164	279,063
University of Texas, Health Science Center	93.RD	R01 GM052419	48,228
University of Virginia	93.RD	U54 GM64346	264,073
Vala Sciences, Inc	93.RD	R43 HL105061	68,798
Yale University	93.RD	P01 GM066311	<u>692,788</u>
Total passed through other organizations			<u>10,437,239</u>
Total National Institutes of Health — excluding ARRA funds			<u>79,506,203</u>

(Continued)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2011

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT			
National Institutes of Health — American Recovery and Reinvestment Act of 2009 (ARRA):			
Direct program (\$718,896 passed on to other organizations)	93.RD		<u>\$ 10,310,524</u>
Passed through other organizations:			
Beckman Research Institute of City of Hope	93.RD	P01 CA043904	50,248
Boston University	93.RD	RC2 GM092602	19,369
Duke University	93.RD	RC2 GM092729	71,446
Massachusetts Institute of Technology	93.RD	R01 CA124427	157,634
University of California, San Diego	93.RD	U54 CA119335	<u>14,046</u>
Total passed through other organizations			<u>312,743</u>
Total National Institutes of Health — ARRA			<u>10,623,267</u>
Total U.S. Department of Health and Human Services			<u>90,129,470</u>
FEDERAL CONTRACTS —			
Passed through other organizations:			
Arsenal Medical, Inc	12.RD	W911NF-10-C-0089	295,796
Battelle, Pacific North West	81.RD	DE-AC05-76RL01830	198,991
Northwestern University	93.RD	HHSN272200700058C	122,705
SAIC-Frederick, Inc.	93.RD	29XS123	1,159,848
SAIC	93.RD	NCI-CBC 29XS123	32,696
Vala Sciences, Inc.	93.RD	HHSN268201100013C	126,238
Vala Sciences, Inc.	93.RD	HHSN261201000088C	<u>57,283</u>
Total Federal Contracts			<u>1,993,557</u>
NATIONAL SCIENCE FOUNDATION:			
Direct Program	47.RD		144,453
ARRA	47.RD		221,035
Passed through other organizations — Hope College	47.RD	DBI-0850546	<u>97,124</u>
Total National Science Foundation			<u>462,612</u>
DEPARTMENT OF ENERGY:			
Direct program	81.RD		155,813
Passed through other organizations — University of California, San Diego	81.RD	DEFG02-08-ER64686	<u>179,883</u>
Total Department of Energy			<u>335,696</u>
U.S. DEPARTMENT OF DEFENSE:			
U.S. Army Medical Research Acquisition Activity Direct program	12.RD		3,736,988
Passed through other organizations:			
Henry M Jackson Foundation	12.RD	W81XWH-09-2-0075	80,948
Veterans Medical Research Foundation	12.RD	W81XWH-08-2-0067	<u>(35,593)</u>
Total U.S. Department of Defense			<u>3,782,343</u>
Total Research and Development Federal Awards expended			<u>96,703,678</u>
EXPENDITURES OF STATE FINANCIAL ASSISTANCE —			
Office of Tourism, Trade, and Economic Development — Innovation Incentive Program	31.054	OT07-030	<u>20,871,642</u>
FLORIDA DEPARTMENT OF HEALTH:			
James and Esther King Biomedical Research Program	64.041	1KD10	52,251
Bankhead-Coley Cancer Research Program	64.078	1BD11	<u>49,427</u>
Total Florida Department of Health			<u>101,678</u>
Total Expenditures of State Financial Assistance			<u>20,973,320</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			<u>\$117,676,998</u>

(Concluded)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2011

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 of expenditures of federal awards and state financial assistance 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 of expenditures of federal awards and state financial assistance relate to funds that were expended in prior years and reversed in fiscal 2011.



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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**

Board of Trustees
Sanford-Burnham Medical Research Institute:

We have audited the financial statements of Sanford-Burnham Medical Research Institute (the "Institute") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Institute's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Institute's financial statements will not be prevented, or detected and corrected on a timely basis.

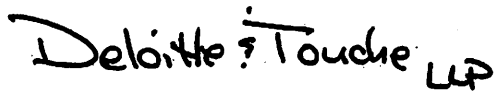
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of 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*.

We noted certain matters that we reported to management of the Institute in a separate letter dated October 26, 2011.

This report is intended solely for the information and use of the Board of Trustees, management, federal and state awarding agencies, pass-through entities and the State of Florida Office of the Auditor General, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte Touche LLP". The signature is written in a cursive, slightly slanted style.

October 26, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR FEDERAL AWARD PROGRAM AND STATE
FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND STATE OF FLORIDA RULES OF THE AUDITOR GENERAL
CHAPTER 10.650**

Board of Trustees
Sanford-Burnham Medical Research Institute:

Compliance

We have audited Sanford-Burnham Medical Research Institute's (the "Institute") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that could have a direct and material effect on each of the Institute's major federal program and state financial assistance project for the year ended June 30, 2011. The Institute's major federal program and state financial assistance project are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program and state financial assistance project is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

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; 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. Our audit does not provide a legal determination of the Institute's compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the 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, 2011.

Internal Control over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program and state financial assistance project. In planning and performing our audit, we considered the Institute's internal control over compliance with the requirements that could have a direct and material effect on its major federal program or state financial assistance project, to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, federal and state awarding agencies, pass-through entities, and the State of Florida Office of the Auditor General and is not intended to be, and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 26, 2011

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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: Office of Tourism, Trade and Economic Development

Dollar threshold used to distinguish Type A and Type B federal programs and state projects: \$3,530,310

Auditee qualified as a low-risk auditee? No

2. FINANCIAL STATEMENT FINDINGS

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



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October 26, 2011

The Management of
Sanford-Burnham Medical Research Institute
10901 North Torrey Pines Road
La Jolla, CA 92037

Dear Members of Management:

In planning and performing our audit of the financial statements of Sanford-Burnham Medical Research Institute (the "Institute") as of and for the year ended June 30, 2011 (on which we have issued our report dated October 26, 2011), in accordance with auditing standards generally accepted in the United States of America, we considered the Institute's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix, other matters as of June 30, 2011, that we wish to bring to your attention.

This report is intended solely for the information and use of management, the Audit Committee, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

cc: Members of the Audit Committee

APPENDIX

SECTION I — OTHER MATTERS

Our observations concerning other matters involving internal control over financial reporting that we wish to bring to your attention are as follows:

As a result of the Institute's internal control surrounding timecard reporting, the Institute identified an instance of potential time overreporting by a part-time lab assistant in their research department. The lab assistant's time was reported on both a federal grant and a nonfederal grant. This matter was investigated by the Institute and the Institute identified the maximum amount of time that may have been overreported. As a result of this investigation, the Institute has taken measures to reverse the charges from the grants and to reimburse the granting agencies.

* * * * *

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

The audit disclosed no federal award or state project findings and no questioned costs in either 2011 or 2010.

4. OTHER MATTERS

Certain matters were reported to management in accordance with Chapter 10.650, *Rules of the Auditor General*.