Sanford-Burnham Medical Research Institute

Financial Statements as of and for the Years Ended June 30, 2012 and 2011, Supplemental Combining Information as of and for the Year Ended June 30, 2012, Supplemental Schedules for the Year Ended June 30, 2012, 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

TABLE OF CONTENTS

Deloitte & Touche LLP
Suite 700
655 W Broadway
San Diego, CA 92101-8590
USA
Tel: +1 619 232 6500
Fax: +1 619 237 6802
www.deloitte.com

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"), as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 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*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Institute. Such information has been subjected to the auditing procedures applied in our audit of the basic 2012 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2012 financial statements taken as a whole.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Institute 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 supplementary information 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 information has been subjected to the auditing procedures applied in our audits of the basic 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, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 25, 2012, 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.

Deloitte & Touche LLP

October 25, 2012

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS	$ 9,260,000	$ 9,045,000
RESTRICTED CASH AND CASH EQUIVALENTS	630,000	2,935,000
SHORT-TERM INVESTMENTS	68,828,000	54,719,000
GRANTS RECEIVABLE	18,611,000	16,866,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	10,008,000	11,121,000
USE OF LONG-LIVED ASSETS	3,325,000	3,494,000
DEFERRED FINANCING COSTS — Net	2,276,000	2,447,000
PLEDGES RECEIVABLE — Net	14,310,000	17,580,000
PROPERTY — Net	167,593,000	183,343,000
SECURED LOAN RECEIVABLE	3,958,000	3,958,000
LONG-TERM INVESTMENTS	17,585,000	16,071,000
TOTAL	$ 316,384,000	$ 321,579,000
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable, accrued expenses, and other liabilities	$ 20,849,000	$ 20,655,000
Deferred revenue	11,772,000	12,245,000
Debt	76,538,000	82,188,000
Total liabilities	109,159,000	115,088,000
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	74,518,000	78,809,000
Temporarily restricted	120,683,000	115,688,000
Permanently restricted	12,024,000	11,994,000
Total net assets	207,225,000	206,491,000
TOTAL	$ 316,384,000	$ 321,579,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012, WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Summarized
REVENUES:					
Federal grants and contracts	$ 94,049,000	$ -	$ -	$ 94,049,000	$ 96,704,000
Private and other government grants	18,054,000			18,054,000	13,443,000
Contributions	3,820,000	40,523,000	30,000	44,373,000	49,602,000
Investment returns designated for current operations	1,243,000	384,000		1,627,000	1,358,000
Royalties, rent revenue, and other	4,572,000			4,572,000	2,088,000
Net assets released from restrictions	35,514,000	(35,514,000)		-	-
Total revenues	157,252,000	5,393,000	30,000	162,675,000	163,195,000
EXPENSES:					
Research	133,660,000			133,660,000	133,495,000
General and administrative	23,154,000			23,154,000	23,719,000
Fund-raising	3,336,000			3,336,000	3,476,000
Total expenses	160,150,000	-	-	160,150,000	160,690,000
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(2,898,000)	5,393,000	30,000	2,525,000	2,505,000
INVESTMENT RETURN REDUCED BY THE PORTION OF CUMULATIVE NET APPRECIATION DESIGNATED FOR CURRENT OPERATIONS	(1,393,000)	(398,000)		(1,791,000)	3,918,000
CHANGE IN NET ASSETS	(4,291,000)	4,995,000	30,000	734,000	6,423,000
NET ASSETS — Beginning of year	78,809,000	115,688,000	11,994,000	206,491,000	200,068,000
NET ASSETS — End of year	$ 74,518,000	$ 120,683,000	$ 12,024,000	$ 207,225,000	$ 206,491,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

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

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 734,000	$ 6,423,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss (gain) on interest rate swap	1,773,000	(474,000)
Depreciation and amortization	20,316,000	20,070,000
Amortization of debt premium	(59,000)	(60,000)
Pledges restricted for endowment		(1,049,000)
Contributions restricted for property acquisition	(3,971,000)	(11,160,000)
Gifts in-kind	(38,000)	(3,000)
Interest on restricted cash and cash equivalents		(8,000)
Net realized and unrealized losses (gains) on investments	1,138,000	(4,418,000)
Changes in assets and liabilities:		
Grants receivable	(1,745,000)	(4,250,000)
Prepaid and other assets and receivables	1,124,000	(1,971,000)
Pledges receivable	1,800,000	6,545,000
Accounts payable, accrued expenses, and other liabilities	(525,000)	2,772,000
Deferred revenue	(473,000)	5,553,000
Net cash provided by operating activities	20,074,000	17,970,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(29,037,000)	(29,416,000)
Proceeds from sales of investments	12,276,000	26,459,000
Decrease in cash for restricted cash and cash equivalents	(45,000)	(569,000)
Restricted cash and cash equivalents released to purchase equipment	1,220,000	2,826,000
Purchases of property, plant, and equipment	(5,253,000)	(12,025,000)
Net cash used in investing activities	(20,839,000)	(12,725,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(4,461,000)	(4,768,000)
Cash paid for secured loan receivable		(3,958,000)
Cash received restricted for endowment	1,514,000	(2,000,000)
Cash received restricted for property acquisition	3,927,000	11,924,000
Net cash provided by financing activities	980,000	1,198,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	215,000	6,443,000
CASH AND CASH EQUIVALENTS — Beginning of year	9,045,000	2,602,000
CASH AND CASH EQUIVALENTS — End of year	$ 9,260,000	$ 9,045,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 3,993,000	$ 4,339,000
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Pledged contribution restricted for endowment	$ -	$ 1,049,000
Fixed asset acquisitions included in accounts payable	$ 649,000	$ 1,703,000

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 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 20 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 2012, 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 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 will be recorded as unrestricted revenue as conditions are met and funds become receivable. In 2012, certain conditions were met and $1.7 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 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 $2,934,000 and $2,948,000 as of June 30, 2012 and 2011, 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 4.25%. 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 $1,224,000 and $955,000 as of June 30, 2012 and 2011, respectively. Deferred rent is included in accounts payable, accrued expenses, and other liabilities.

Deferred Revenue — The Institute records advance payments on grants 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 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, *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 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 the 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 was 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 was effective for fiscal years beginning after December 15, 2010. The Institute 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 the 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 25, 2012, 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, 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)	$ -

Fair value measurement information for assets (liabilities) accounted for at fair value on a recurring basis as of June 30, 2011, 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	$ 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	27,834,000	27,834,000	27,834,000		
Total investments	$ 70,790,000	$ 70,790,000	$ 70,790,000	$ -	$ -
Financial liabilities — interest rate swap	$ (2,100,000)	$ (2,100,000)	$ -	$ (2,100,000)	$ -

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 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, 2012 and 2011, are summarized as follows:

	2012	2011
Equity securities — mutual and managed funds	$ 27,156,000	$ 27,834,000
Fixed-income securities:		
Mutual and managed funds	25,654,000	20,757,000
Short-term funds	33,603,000	22,199,000
Investments — short term and long term	$ 86,413,000	$ 70,790,000

Equity securities above include long-term investments of $6,366,000 and $6,922,000 as of June 30, 2012 and 2011, 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 both June 30, 2012 and 2011, the balance of the secured loan was $3,958,000. The loan earns interest of 1.123% annually. Accrued interest as of both June 30, 2012 and 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, 2012 and 2011, is $3,866,000 and $3,864,000, 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, 2012 and 2011, is comprised of the following:

	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 return 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)

	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	(4,000)	(14,000)	(18,000)
Total investment return	4,388,000	888,000	5,276,000
Investment return designated for current operations	1,070,000	288,000	1,358,000
Investment return in excess of amounts designated for current operations	$ 3,318,000	$ 600,000	$ 3,918,000

4. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2012 and 2011, are as follows:

	2012	2011
Gross amounts due in:		
Less than one year	$ 2,600,000	$ 2,943,000
One to five years	12,199,000	15,307,000
More than five years		27,000
Gross pledges receivable	14,799,000	18,277,000
Less present value discount	(389,000)	(597,000)
Less allowance for uncollectible pledges	(100,000)	(100,000)
Total	$ 14,310,000	$ 17,580,000

Discount rates ranged from 1% to 2% for both 2012 and 2011.

Pledges receivable, net of present value discount, include $1,289,000 and $6,152,000 from trustees of the Institute as of June 30, 2012 and 2011, respectively. The Institute received contributions from trustees of $3,071,000 and $2,564,000 for the years ended June 30, 2012 and 2011, 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, 2012, 2011 and 2010, $10,000,000 of this pledge was received by the Institute and was recorded as revenue 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. The remaining $20,000,000 is scheduled to be received in annual $10,000,000 increments in fiscal years 2013 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, 2012 and 2011, are as follows:

	2012	2011
Land	$ 25,793,000	$ 25,793,000
Buildings and building improvements	162,127,000	161,636,000
Furniture and equipment	95,771,000	93,706,000
Construction in progress	41,000	978,000
Total	283,732,000	282,113,000
Less accumulated depreciation	116,139,000	98,770,000
Property — net	$167,593,000	$183,343,000

Depreciation expense was $19,987,000 and $19,736,000 for the years ended June 30, 2012 and 2011, respectively.

6. DEFERRED REVENUE

Deferred revenue of $11,772,000 and $12,245,000 as of June 30, 2012 and 2011, respectively, includes $754,000 and $2,459,000, respectively, 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, 2012 and 2011, consisted of the following:

	2012	2011
Conditional contribution	$ 754,000	$ 2,459,000
Deferred revenue	3,175,000	3,371,000
Deferred grant revenue	7,843,000	6,415,000
Total	$11,772,000	$12,245,000

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 2014, at which time the Institute is required to renew the letter of credit with the issuing bank or obtain a credit facility from another provider. The Certificates will be refinanced in November 2012, as disclosed in Note 12.

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 2012 and 2011 averaged approximately 3.43%. The principal balance outstanding on the Certificates as of June 30, 2012 and 2011 was $19,550,000 and $20,180,000, 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 as of June 30, 2012 and 2011, was $53,020,000 and $54,190,000, 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, 2012 and 2011, the unamortized premium was $777,000 and $835,000, respectively.

The fair value of the COPs, calculated using market observable interest rates (Level 2 inputs) as of June 30, 2012 and 2011, was $54,318,000 and $47,471,000, 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. Final payment is due in 2013. The principal balance outstanding as of June 30, 2012 and 2011, was $3,191,000 and $6,982,000, respectively. There were no unspent proceeds at June 30, 2012.

Total interest expense incurred for the years ended June 30, 2012 and 2011, is $4,031,000 and $4,317,000, respectively.

Scheduled principal repayments on debt as of June 30, 2012, are as follows:

Years Ending June 30	
2013	$ 4,649,000
2014	2,502,000
2015	2,145,000
2016	2,260,000
2017	2,370,000
Thereafter	61,835,000
Total	$ 75,761,000

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 the British Bankers' Association London Interbank Offered Rate (LIBOR) 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, *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 $3,873,000 and $2,100,000 as of June 30, 2012 and 2011, 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 declined by $1,773,000 during the year ended June 30, 2012 and increased by $474,000 during the year ended June 30, 2011. 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, 2012 and 2011, include net assets restricted for use in future periods, campus-specific use, or for designated research purposes as follows:

	2012	2011
Restricted for future periods	$ 13,093,000	$ 14,851,000
Restricted for Sanford-Burnham Medical Research Institute at Lake Nona	98,817,000	94,071,000
Restricted for research purposes	8,773,000	6,766,000
Total	$ 120,683,000	$ 115,688,000

Permanently restricted net assets of $12,024,000 and $11,994,000 as of June 30, 2012 and 2011, 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, 2012 and 2011, is as follows:

2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
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
2011				
Donor-restricted endowment funds	$2,176,000	$511,000	$11,994,000	$14,681,000
Board-designated endowment funds	6,922,000			6,922,000
Total funds	$9,098,000	$511,000	$11,994,000	$21,603,000

The changes in endowment net assets for the years ended June 30, 2012 and 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2010	$ 8,381,000	$ 26,000	$ 10,945,000	$ 19,352,000
Investment return:				
Investment income	116,000	70,000		186,000
Unrealized gain	947,000	517,000		1,464,000
Realized gain	7,000	1,000		8,000
Total investment return	1,070,000	588,000	-	1,658,000
Contributions			1,049,000	1,049,000
Appropriation of endowment assets for expenditure	(353,000)	(103,000)		(456,000)
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

The description of the amounts classified as permanently restricted net assets as of June 30, 2012 and 2011, is as follows:

	2012	2011
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	$12,024,000	$11,994,000
Total endowment funds classified as permanently restricted net assets	$12,024,000	$11,994,000
Temporarily restricted net assets — the portion of perpetual endowment funds subject to a time restriction under SPMIFA — without purpose restrictions	$ 233,000	$ 511,000
Total endowment funds classified as temporarily restricted net assets	$ 233,000	$ 511,000

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 $53,000 and $0 as of June 30, 2012 and 2011, 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, 2012, are as follows:

Years Ending June 30	
2013	$ 4,121,000
2014	4,077,000
2015	3,737,000
2016	3,841,000
2017	3,948,000
Thereafter	15,579,000
Total	$ 35,303,000

Rent expense totaled $4,635,000 and $4,197,000 for the years ended June 30, 2012 and 2011, 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 2012 and 2011 was $4,247,000 and $3,637,000, 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 2012 and 2011. 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 in the accompanying statements of financial position and totaled $1,457,000 and $1,284,000 as of June 30, 2012 and 2011, respectively. These plan assets are included as Level 1 investments in Note 2.

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 $650,000 for each of fiscal years 2012 and 2011.

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, 2012 and 2011.

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, 2012 and 2011.

11. OTHER RELATED-PARTY DISCLOSURES

For the years ended June 30, 2012 and 2011, the Institute made payments of $2,592,000 and $1,245,000, respectively, to vendors of goods, services, and equipment at which officers or trustees of the Institute served as directors.

12. SUBSEQUENT EVENTS

On September 5, 2012, the Institute's Board of Trustees approved a direct purchase tax-exempt loan (the "Loan"), the proceeds of which will be used to refinance the outstanding balance of the Certificates as of the closing date, which will be $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 LIBOR plus 0.95%. The principal of the loan will amortize at the same level as the Certificates. The debt covenants under the Loan will remain unchanged from the debt covenants under the Certificates. Under the new agreement, the interest rate swap will remain in place and will not be impacted by this refinancing. The refinancing is expected to close in November 2012.

* * * * * *

SUPPLEMENTAL COMBINING INFORMATION

Deloitte.

Deloitte & Touche LLP
Suite 700
655 W Broadway
San Diego, CA 92101-8590
USA

Tel: +1 619 232 6500
Fax: +1 619 237 6802
www.deloitte.com

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"), for the year ended June 30, 2012, and our report thereon appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic 2012 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 2012 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.

Deloitte & Touche LLP

October 25, 2012

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION AS OF JUNE 30, 2012

	Florida	California	Total
ASSETS			
CASH AND CASH EQUIVALENTS	$ 7,215,000	$ 2,045,000	$ 9,260,000
RESTRICTED CASH AND CASH EQUIVALENTS		630,000	630,000
SHORT-TERM INVESTMENTS	33,320,000	35,508,000	68,828,000
GRANTS RECEIVABLE	1,333,000	17,278,000	18,611,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	3,790,000	6,218,000	10,008,000
USE OF LONG-LIVED ASSETS	3,325,000		3,325,000
DEFERRED FINANCING COSTS — Net		2,276,000	2,276,000
PLEDGES RECEIVABLE — Net	725,000	13,585,000	14,310,000
PROPERTY — Net	98,019,000	69,574,000	167,593,000
SECURED LOAN RECEIVABLE		3,958,000	3,958,000
LONG-TERM INVESTMENTS		17,585,000	17,585,000
TOTAL	$ 147,727,000	$ 168,657,000	$ 316,384,000
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable, accrued expenses, and other liabilities	$ 2,181,000	$ 18,668,000	$ 20,849,000
Intercompany (receivable) payable — net	(7,610,000)	7,610,000	-
Deferred revenue	2,290,000	9,482,000	11,772,000
Debt		76,538,000	76,538,000
Total liabilities	(3,139,000)	112,298,000	109,159,000
NET ASSETS:			
Unrestricted	51,350,000	23,168,000	74,518,000
Temporarily restricted	99,516,000	21,167,000	120,683,000
Permanently restricted		12,024,000	12,024,000
Total net assets	150,866,000	56,359,000	207,225,000
TOTAL	$ 147,727,000	$ 168,657,000	$ 316,384,000

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL COMBINING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

	Florida				California				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2012 Total
REVENUES:									
Federal grants and contracts	$ 9,806,000	$ -	$ -	$ 9,806,000	$ 84,243,000	$ -	$ -	$ 84,243,000	$ 94,049,000
Private and other government grants	2,163,000			2,163,000	15,891,000			15,891,000	18,054,000
Contributions	1,872,000	25,342,000		27,214,000	1,948,000	15,181,000	30,000	17,159,000	44,373,000
Investment returns designated for current operations	11,000	147,000		158,000	1,232,000	237,000		1,469,000	1,627,000
Royalties, rent revenue, and other	444,000			444,000	4,128,000			4,128,000	4,572,000
Net assets released from restrictions	21,198,000	(21,198,000)		-	14,316,000	(14,316,000)		-	-
Total revenues	35,494,000	4,291,000	-	39,785,000	121,758,000	1,102,000	30,000	122,890,000	162,675,000
EXPENSES:									
Research	32,498,000			32,498,000	101,162,000			101,162,000	133,660,000
General and administrative	6,798,000			6,798,000	16,356,000			16,356,000	23,154,000
Fund-raising	851,000			851,000	2,485,000			2,485,000	3,336,000
Total expenses	40,147,000	-	-	40,147,000	120,003,000	-	-	120,003,000	160,150,000
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(4,653,000)	4,291,000	-	(362,000)	1,755,000	1,102,000	30,000	2,887,000	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)	(1,791,000)
CHANGE IN NET ASSETS	(4,653,000)	4,291,000	-	(362,000)	362,000	704,000	30,000	1,096,000	734,000
NET ASSETS — Beginning of year	56,003,000	95,225,000		151,228,000	22,806,000	20,463,000	11,994,000	55,263,000	206,491,000
NET ASSETS — End 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

SUPPLEMENTAL SCHEDULES

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Research	General and Administrative	Fund-Raising	Total Expenses
Salaries and wages	$ 53,381,000	$ 9,608,000	$ 1,697,000	$ 64,686,000
Depreciation	17,406,000	2,397,000	184,000	19,987,000
Fringe benefits	13,843,000	3,317,000	402,000	17,562,000
Operations and maintenance	12,493,000	1,478,000	142,000	14,113,000
Research supplies and services	12,685,000			12,685,000
Equipment and minor equipment	6,353,000	87,000	4,000	6,444,000
Consortiums	6,325,000			6,325,000
Professional fees and services	1,609,000	2,529,000	331,000	4,469,000
Interest	3,660,000	333,000	38,000	4,031,000
Other supplies and services	2,668,000	613,000	65,000	3,346,000
Unrealized loss on interest rate swap		1,773,000		1,773,000
Conferences and meetings	1,059,000	363,000	57,000	1,479,000
Printing and publications	973,000	176,000	12,000	1,161,000
Travel	736,000	110,000	28,000	874,000
Miscellaneous	127,000	301,000	249,000	677,000
Recruitment and relocation	181,000	54,000	114,000	349,000
Postage and shipping	161,000	15,000	13,000	189,000
TOTAL	$ 133,660,000	$ 23,154,000	$ 3,336,000	$ 160,150,000

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2012

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 ($5,632,051 passed through to other organizations)	93.RD		$ 73,701,526
Passed through other organizations:			
California Institute of Technology	93.RD	U54 GM094610	118,544
Chemregen	93.RD	R41 HL107088	31,183
Chemregen	93.RD	R41 HL108714	48,000
Children's Hospital Los Angeles	93.RD	R25 DK078385	810
Dana-Farber Cancer Institute	93.RD	R01 AI085524	230,917
Dana-Farber Cancer Institute	93.RD	U01 AI074518	342,977
Ernest Gallo Clinic & Research	93.RD	R21 DA029966	272,597
Florida State University	93.RD	P01 AI074805	366,166
Innovative Biologics, Inc.	93.RD	R44 AI052894	40,000
Loma Linda University	93.RD	R01 NS059770	87,648
Massachusetts Institute of Technology	93.RD	R01 CA124427	10,484
Mount Sinai School of Medicine	93.RD	U01 AI074539	567,001
Oregon Health & Science University	93.RD	U54 AI081680	509,513
Prediction Sciences LLC	93.RD	R44 CA117001	(70,207)
Prognosys Biosciences	93.RD	R44 GM084537	71,926
Rutgers, The State University of New Jersey	93.RD	R21 AA019609	16,290
San Diego State University Research Foundation	93.RD	R01 GM032433	11,976
Stanford University	93.RD	R01 HL086879	75,758
The Broad Institute	93.RD	U54 HG005032	67,266
The Salk Institute for Biological Studies	93.RD	P01 AI090935	1,447,815
The Salk Institute for Biological Studies	93.RD	R01 AI072645	48,437
The Scripps Research Institute	93.RD	U54 GM062116	99,192
The Scripps Research Institute	93.RD	U54 GM094586	755,211
Torrey Pines Pharmaceuticals	93.RD	R43 HL095251	1,719
Translational Genomics Research	93.RD	U01 CA168397	48,611
University of California, Davis	93.RD	R01 GM079383	13,974
University of California, Los Angeles	93.RD	R01 GM077190	46,518
University of California, San Diego	93.RD	P01 CA55164	3,779
University of California, San Diego	93.RD	P01 HL057345	424,759
University of California, San Diego	93.RD	P01 HL098053	694,205
University of California, San Diego	93.RD	P30 AR061303	112,568
University of California, San Diego	93.RD	P30 MH062512	18,000
University of California, San Diego	93.RD	P50 AG005131	39,481
University of California, San Diego	93.RD	P50 DA026306	208,196
University of California, San Diego	93.RD	P50 GM085764	273,731
University of California, San Diego	93.RD	R01 CA107263	32,964
University of California, San Diego	93.RD	R01 GM077402	32,107
University of California, San Diego	93.RD	R01 MH087989	238,030
University of California, San Diego	93.RD	R01 NS073653	19,518
University of California, San Diego	93.RD	U01 NS058030	39,791
University of California, San Diego	93.RD	UL1 RR031980	21,268
University of California, Santa Barbara	93.RD	R01 GM097114	32,522
University of Massachusetts	93.RD	P01 GM066524	428,784
University of Massachusetts	93.RD	P01 AI046530	620,883
University of Massachusetts	93.RD	U19 MH081836	(2,205)

(Continued)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2012

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT (CONT.)			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONT.)			
University of Miami	93.RD	U19 MH081836	$ 409,265
University of Michigan	93.RD	P01 HL057346	80,749
University of Texas	93.RD	P01 CA55164	277,888
University of Texas, Health Science Center	93.RD	R01 GM052419	45,236
University of Virginia	93.RD	R01 GM095847	120,603
University of Virginia	93.RD	U54 GM64346	(151,071)
University of Washington	93.RD	R01 ES017462	84,494
Vala Sciences, Inc.	93.RD	R42 HL112521	21,214
Vascular Biosciences	93.RD	R41 GM099174	59,609
Wayne State University	93.RD	R01 CA109370	20,000
Yale University	93.RD	P01 GM066311	988,715
Total passed through other organizations			10,455,409
Total National Institutes of Health — excluding ARRA funds			84,156,935
National Institutes of Health — American Recovery and Reinvestment Act of 2009 (ARRA):			
Direct program ($297,527 passed through to other organizations)	93.RD		2,274,415
Passed through other organizations:			
Beckman Research Institute of City of Hope	93.RD	P01 CA043904	53,390
Boston University	93.RD	RC2 GM092602	(269)
Duke University	93.RD	RC2 GM092729	42,554
Massachusetts Institute of Technology	93.RD	R01 CA124427	5,634
University of California, San Diego	93.RD	U54 CA119335	758
Total passed through other organizations			102,067
Total National Institutes of Health — ARRA			2,376,482
Total U.S. Department of Health and Human Services			86,533,417
FEDERAL CONTRACTS —			
Passed through other organizations:			
Arsenal Medical, Inc	12.RD	W911NF-10-C-0089	251,532
Battelle, Pacific North West	81.RD	DE-AC05-76RL01830	153,980
Northwestern University	93.RD	HHSN272200700058C	93,894
SAIC-Frederick, Inc.	93.RD	29XS123	1,539,267
University of California, San Francisco	12.RD	HR0011-11-C-0094	254,229
Vala Sciences, Inc.	93.RD	HHSN268201100013C	118,341
Vala Sciences, Inc.	93.RD	HHSN261201000088C	50,671
Total Federal Contracts			2,461,914

(Continued)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2012

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT (CONT.)			
NATIONAL SCIENCE FOUNDATION:			
Direct Program	47.RD		$ 213,976
ARRA	47.RD		169,416
Passed through other organizations — Hope College	47.RD	DBI-0850546	35,310
Total National Science Foundation			418,702
DEPARTMENT OF ENERGY:			
Direct program	81.RD		230,322
Passed through other organizations — University of California, San Diego	81.RD	DEFG02-08-ER64686	16,390
Total Department of Energy			246,712
U.S. DEPARTMENT OF DEFENSE:			
U.S. Army Medical Research Acquisition Activity Direct program	12.RD		4,385,029
Passed through other organizations — Henry M Jackson Foundation	12.RD	W81XWH-09-2-0075	3,675
Total U.S. Department of Defense			4,388,704
Total Research and Development			94,049,449
EXPENDITURES OF STATE FINANCIAL ASSISTANCE —			
Department of Economic Opportunities (formerly, Office of Tourism, Trade, and Economic Development Innovation Incentive Program)	31.054	OT07-030	13,197,647
FLORIDA DEPARTMENT OF HEALTH:			
James and Esther King Biomedical Research Program	64.041	1KD10	58,738
Bankhead-Coley Cancer Research Program	64.078	1BD11	55,945
Total Florida Department of Health			114,683
Total Expenditures of State Financial Assistance			13,312,330
TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			$ 107,361,779

(Concluded)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2012

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 2012.

Deloitte.

Deloitte & Touche LLP
Suite 700
655 W Broadway
San Diego, CA 92101-8590
USA

Tel: +1 619 232 6500
Fax: +1 619 237 6802
www.deloitte.com

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, 2012, and have issued our report thereon dated October 25, 2012. 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*.

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 25, 2012

Deloitte.

Deloitte & Touche LLP
Suite 700
655 W Broadway
San Diego, CA 92101-8590
USA

Tel: +1 619 232 6500
Fax: +1 619 237 6802
www.deloitte.com

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 the Institute's major federal program and state financial assistance project for the year ended June 30, 2012. 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, 2012.

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 25, 2012

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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:	$2,821,483
Dollar threshold used to distinguish Type A and Type B state projects:	$399,370
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 and no questioned costs in 2012.

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 Chapter 10.650, *Rules of the Auditor General*.

******