Sanford-Burnham Medical Research Institute

(Formerly, Burnham Institute for Medical Research)

Financial Statements as of and for the Years Ended
June 30, 2010 and 2009, Supplemental Schedules
for the Year Ended June 30, 2010, 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 (FORMERLY, BURNHAM INSTITUTE FOR MEDICAL RESEARCH)

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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, 2010 and 2009, 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, 2010 and 2009, 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 2010 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2010 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010, 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 27, 2010

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	$ 2,602,000	$ 10,696,000
RESTRICTED CASH AND CASH EQUIVALENTS	5,184,000	10,905,000
SHORT-TERM INVESTMENTS	45,479,000	38,542,000
GRANTS RECEIVABLE	12,616,000	15,278,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	9,139,000	6,846,000
USE OF LONG-LIVED ASSETS	3,663,000	3,832,000
DEFERRED FINANCING COSTS — Net	2,623,000	2,275,000
PLEDGES RECEIVABLE — Net	21,092,000	24,096,000
PROPERTY — Net	191,218,000	191,761,000
LONG-TERM INVESTMENTS	17,936,000	17,436,000
TOTAL	$ 311,552,000	$ 321,667,000
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable, accrued expenses and other liabilities	$ 18,524,000	$ 22,786,000
Deferred revenue	5,944,000	7,364,000
Debt	87,016,000	94,566,000
Total liabilities	111,484,000	124,716,000
COMMITMENTS (Note 9)		
NET ASSETS:		
Unrestricted	74,634,000	64,161,000
Temporarily restricted	114,489,000	124,828,000
Permanently restricted	10,945,000	7,962,000
Total net assets	200,068,000	196,951,000
TOTAL	$ 311,552,000	$ 321,667,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

(Formerly, Burnham Institute for Medical Research)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010, WITH COMPARATIVE TOTALS FOR 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Summarized
REVENUES:					
Federal grants and contracts	$ 93,856,000	$ -	$ -	$ 93,856,000	$ 84,086,000
Private and other government grants	11,270,000			11,270,000	12,406,000
Contributions	39,555,000	2,697,000	2,983,000	45,235,000	117,801,000
Investment loss					(2,944,000)
Investment returns designated for current operations	1,112,000	81,000		1,193,000	
Royalties, rent revenue, and other	955,000			955,000	834,000
Net assets released from restrictions	13,503,000	(13,503,000)		-	
Total revenues	160,251,000	(10,725,000)	2,983,000	152,509,000	212,183,000
EXPENSES:					
Research	126,839,000	-	-	126,839,000	103,489,000
General and administrative	21,925,000			21,925,000	16,233,000
Fund-raising	2,930,000			2,930,000	3,234,000
Total expenses	151,694,000	-	-	151,694,000	122,956,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	8,557,000	(10,725,000)	2,983,000	815,000	89,227,000
INVESTMENT RETURN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS	1,916,000	386,000		2,302,000	
CHANGE IN NET ASSETS	10,473,000	(10,339,000)	2,983,000	3,117,000	89,227,000
NET ASSETS — Beginning of year	64,161,000	124,828,000	7,962,000	196,951,000	107,724,000
NET ASSETS — End of year	$ 74,634,000	$ 114,489,000	$ 10,945,000	$ 200,068,000	$ 196,951,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Federal grants and contracts	$ 84,086,000	$ -	$ -	$ 84,086,000
Private and other government grants	12,406,000			12,406,000
Contributions	12,784,000	104,962,000	55,000	117,801,000
Investment (loss) return	(3,404,000)	460,000		(2,944,000)
Royalties, rent revenue, and other	834,000			834,000
Net assets released from restrictions	27,285,000	(27,285,000)		-
Total revenues	133,991,000	78,137,000	55,000	212,183,000
EXPENSES:				
Research	103,489,000			103,489,000
General and administrative	16,233,000			16,233,000
Fund-raising	3,234,000			3,234,000
Total expenses	122,956,000	-	-	122,956,000
EXCESS OF REVENUES OVER EXPENSES	11,035,000	78,137,000	55,000	89,227,000
INVESTMENT RETURN (LOSS) IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS				
CHANGE IN NET ASSETS	11,035,000	78,137,000	55,000	89,227,000
NET ASSETS — Beginning of year	53,126,000	46,691,000	7,907,000	107,724,000
NET ASSETS — End of year	$ 64,161,000	$ 124,828,000	$ 7,962,000	$ 196,951,000

See notes to financial statements.

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 3,117,000	$ 89,227,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on interest rate swap	793,000	227,000
Depreciation and amortization	17,766,000	14,017,000
Amortization of debt premium	(61,000)	(62,000)
Pledges restricted for endowment	(2,983,000)	
Contributions restricted for property acquisition	(11,056,000)	(81,800,000)
Gifts in-kind	(469,000)	(4,567,000)
Interest on restricted cash and cash equivalents	(24,000)	(192,000)
Net realized and unrealized (gains) losses on investments	(2,752,000)	4,392,000
Changes in assets and liabilities:		
Grants receivable	2,662,000	(2,435,000)
Prepaid and other assets and receivables	(2,304,000)	1,491,000
Pledges receivable	6,751,000	(10,127,000)
Accounts payable, accrued expenses and other liabilities	1,513,000	(1,538,000)
Deferred revenue	(5,996,000)	(6,467,000)
Net cash provided by operating activities	6,957,000	2,166,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(26,225,000)	(1,714,000)
Proceeds from sales of investments	21,540,000	16,218,000
Increase in restricted cash and cash equivalents		(15,075,000)
Restricted cash and cash equivalents used to purchase equipment	5,745,000	5,259,000
Purchases of property, plant, and equipment	(23,490,000)	(66,906,000)
Net cash used in investing activities	(22,430,000)	(62,218,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(7,489,000)	(4,741,000)
Proceeds from debt		16,775,000
Cash received in conjunction with debt assumed to acquire land, building, and equipment		772,000
Cash received restricted for property acquisition	14,868,000	41,057,000
Net cash provided by financing activities	7,379,000	53,863,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,094,000)	(6,189,000)
CASH AND CASH EQUIVALENTS — Beginning of year	10,696,000	16,885,000
CASH AND CASH EQUIVALENTS — End of year	$ 2,602,000	$ 10,696,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 4,667,000	$ 3,496,000
Fixed asset acquisitions included in accounts payable	$ 1,536,000	$ 8,104,000
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Pledged contribution restricted for endowment	$ 2,983,000	$ -
Acquisition of land, building, and equipment by assumption of debt and related interest rate swap	$ -	$ 22,914,000

See notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

General — Sanford-Burnham Medical Research Institute (the "Institute"), formerly Burnham Institute for Medical Research, 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 (formerly, Burnham Institute for Medical Research 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 generally accepted accounting principles. 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. The estimated fair rental value of the use of temporary facilities applicable to future periods was reported as use of long-lived assets and an increase in temporarily restricted net assets and was amortized ratably into unrestricted revenue and expense during occupancy, which ended in May 2009. The grant for the construction of permanent facilities was recorded as construction in process (or property, upon completion) and deferred revenue as costs were incurred. Depreciation commenced upon occupancy. Construction was completed and the building was occupied in March 2009. 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.

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. 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.

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 unrestricted contributions.

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 $2,077,000 and $1,324,000 at June 30, 2010 and 2009, 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 5.5%. 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 and temporary facilities provided to the Institute to use to conduct research at its operating division in Florida. The assets are amortized over the term of the agreements of 2 years for the use of temporary facilities and 25 years for the use of land for the permanent facility.

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.

Fair Value of Financial Instruments — The Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements*, as of July 1, 2008, which did not have a material impact on its financial statements.

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. Equity securities whose fair value is not readily determinable are carried at the lower of cost or market. 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 and terminated one agreement during fiscal year 2009. This resulted in a deferred rent balance related to a free rent period of $639,000 and $290,000 as of June 30, 2010 and 2009, respectively, which is included in accounts payable, accrued expenses and other liabilities.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 FASB issued FASB Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force.* FASB 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. This update will be effective for the Institute for its year ending June 30, 2011.

Management does not believe that the adoption of this pronouncement will 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 ASC 820, *Fair Value Measurements and Disclosures* (originally issued as FASB Statement No. 157, *Fair Value Measurements*), 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 will comply with the prescribed disclosure requirements in its future financial statements.

In January 2010, FASB issued ASU No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions,* to improve the relevance, representational faithfulness, and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. This statement also improves the relevance, representational faithfulness, and comparability of the information a not-for-profit entity provides about goodwill and other intangible assets after an acquisition by amending FASB ASC No. 350 (formerly FASB Statement No. 142, *Goodwill and Other Intangible Assets)*, to make it fully applicable to not-for-profit entities. This statement is effective for mergers and acquisitions after December 15, 2009. If the Institute enters into a future merger or acquisition transaction, it will be required to apply this ASU.

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. This update will be effective for the Institute for its year ending June 30, 2011. Management does not believe that the adoption of this pronouncement will have a material impact on the financial statements.

Subsequent Events — In accordance with FASB ASC No. 855, *Subsequent Events,* the Institute evaluated subsequent events through October 27, 2010, the date of the release of these financial statements.

Adoption of Spending-Rate Policy — In fiscal 2010, the Board adopted 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 percent 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 Statement of Activities — In 2010, the Institute changed the presentation of its statement of activities to a columnar format. In prior years, the statement of activities was presented in a layered format. This change affects only the format of the statement of activities. The accompanying statement of activities for the year ended June 30, 2009, has been reformatted to conform to the 2010 presentation.

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, 2010, 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	$40,979,000	$40,979,000	$40,979,000	$ -	$ -
Equity securities	22,436,000	22,436,000	22,436,000		
Total investments at fair value	$63,415,000	$63,415,000	$63,415,000	$ -	$ -
Financial liabilities — interest rate swap	$ (2,574,000)	$ (2,574,000)	$ -	$ (2,574,000)	$ -

Fair value measurement information for assets (liabilities) accounted for at fair value on a recurring basis as of June 30, 2009, 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	$34,157,000	$34,157,000	$34,157,000	$ -	$ -
Equity securities	21,821,000	21,821,000	21,821,000		
Total investments at fair value	$55,978,000	$55,978,000	$55,978,000	$ -	$ -
Financial liabilities — interest rate swap	$ (1,781,000)	$ (1,781,000)	$ -	$ (1,781,000)	$ -

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.

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 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

Investments as of June 30, 2010 and 2009, are summarized as follows:

	2010	**2009**
Equity securities:		
Mutual and managed funds	$ 22,436,000	$ 21,819,000
Common stock		2,000
Fixed-income securities:		
U.S. government	3,861,000	4,859,000
Mutual and managed funds	20,939,000	22,729,000
Short-term funds	16,179,000	6,569,000
Investments — short and long term	$ 63,415,000	$ 55,978,000

Long-term investments with a fair value of $3,861,000 as of June 30, 2010 and 2009, represent a minimum required balance that is a restricted debt service reserve supporting the Institute's tax-exempt COPs debt issue.

Also included in long-term investments is $5,856,000 and $5,461,000 at June 30, 2010 and 2009, respectively, that the Board of the Institute designated as quasi-endowment during 2007.

State law allows the Board to appropriate so much of the net appreciation as is prudent considering the Institute's long- 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 percent of the average of the fair value at December 31 of the previous 3 years is appropriated to support current operations. The following schedule summarizes the investment return and its classification in the statement of activities.

Investment return for the years ended June 30, 2010 and 2009, is comprised of the following:

	2010			
	Unrestricted	Temporarily Restricted	Total	2009
Interest and dividends	$ 511,000	$ 250,000	$ 761,000	$ 1,473,000
Net realized and unrealized gains (losses)	2,535,000	217,000	2,752,000	(4,392,000)
Management fees	(18,000)		(18,000)	(25,000)
Investment return (loss)	3,028,000	467,000	3,495,000	$ (2,944,000)
Investment return designated for current operations	1,112,000	81,000	1,193,000	
Investment return in excess of amounts designated for current operations	$ 1,916,000	$ 386,000	$ 2,302,000	

4. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2010 and 2009, are as follows:

	2010	2009
Gross amounts due in:		
Less than one year	$ 4,907,000	$ 10,951,000
One to five years	16,689,000	10,601,000
More than five years	2,766,000	6,151,000
	24,362,000	27,703,000
Less present value discount	(3,170,000)	(3,462,000)
Less allowance for uncollectible pledges	(100,000)	(145,000)
Total	$ 21,092,000	$ 24,096,000

Pledges receivable, net of present value discount, include $7,451,000 and $4,673,000 from trustees of the Institute at June 30, 2010 and 2009, respectively. The Institute received contributions from trustees of $721,000 and $1,544,000 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, $4,000,000 of this pledge was received by the Institute and was recorded as revenue. The remaining $8,000,000 is scheduled to be received in $4,000,000 increments during fiscal years 2011 and 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 in the pledges receivable balance at June 30, 2010. During the year ended June 30, 2010, $10,000,000 of this pledge was received by the Institute, used for the restricted purposes intended by the donor, and recorded as unrestricted revenue in the accompanying statements of activities. The remaining $40,000,000 is scheduled to be received in annual $10,000,000 increments between fiscal years 2011 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, 2010 and 2009, are as follows:

	2010	2009
Land	$ 25,793,000	$ 26,143,000
Buildings and building improvements	160,203,000	158,538,000
Furniture and equipment	85,542,000	72,107,000
Construction in progress	152,000	115,000
Total	271,690,000	256,903,000
Less accumulated depreciation	80,472,000	65,142,000
Property — net	$ 191,218,000	$ 191,761,000

Depreciation expense was $17,934,000 and $13,395,000 for the years ended June 30, 2010 and 2009, respectively.

6. DEFERRED REVENUE

Deferred revenue of $5,944,000 and $7,364,000 as of June 30, 2010 and 2009, respectively, includes $4,187,000 and $4,605,000 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. Upon the completion of the Institute's permanent facility in Florida in March 2009, all previously deferred revenue related to the facility was recognized as temporarily restricted revenue.

Deferred revenue as of June 30, 2010 and 2009, consisted of the following:

	2010	2009
Conditional contribution	$ 4,187,000	$ 4,605,000
Deferred grant revenue	1,757,000	2,759,000
Total	$ 5,944,000	$ 7,364,000

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 expires in August 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- 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 2010 and 2009 averaged approximately 3.43%. 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, 2010 and 2009, was $55,370,000 and $56,455,000, 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, 2010 and 2009, the unamortized premium was $895,000 and $956,000, respectively.

The fair value of the COPs at June 30, 2010 and 2009, was $49,431,000 and $44,866,000, 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 unspent proceeds at June 30, 2010, were $5,184,000, of which approximately $5,000,000 will be drawn and spent in fiscal 2011.

During 2005, the Institute entered into an equipment financing arrangement through ABAG Finance Authority for Nonprofit Corporations totaling $6,300,000 (the “lease line”) for the purchase of equipment during 2005 and 2006.The lease line carried interest at 4.22% and matured during fiscal year 2010. The outstanding lease line balance at June 30, 2009 was $1,258,000.

Total interest expense incurred for the years ended June 30, 2010 and 2009, is $4,702,000 and $3,664,000, respectively.

Scheduled principal repayments on debt as of June 30, 2010, are as follows:

Years Ending June 30	
2011	$ 4,769,000
2012	4,932,000
2013	5,212,000
2014	2,598,000
2015	2,145,000
Thereafter	66,465,000
Total	$ 86,121,000

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 (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 (formerly FASB Statement No. 133), 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 $2,574,000 and $1,781,000 as of June 30, 2010 and 2009, 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 $793,000 during the year ended June 30, 2010, and by $227,000 from the date that it was assumed to June 30, 2009. The unrealized 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, 2010 and 2009, include net assets restricted for use in future periods, campus-specific use, or for designated research purposes as follows.

	2010	2009
Restricted for future periods	$ 17,384,000	$ 5,733,000
Restricted for Sanford-Burnham Medical Research Institute at Lake Nona	91,568,000	101,329,000
Restricted for research purpose	5,537,000	17,766,000
Total	$ 114,489,000	$ 124,828,000

Permanently restricted net assets of $10,945,000 and $7,962,000 at June 30, 2010 and 2009, 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 donor's wishes.

Endowment — The Institute's endowment consists of approximately nine 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, 2010 and 2009, is as follows:

2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 2,525,000	$ 26,000	$ 10,945,000	$ 13,496,000
Board-designated endowment funds	5,856,000			5,856,000
Total funds	$ 8,381,000	$ 26,000	$ 10,945,000	$ 19,352,000
2009				
Donor-restricted endowment funds	$ 1,758,000	$ -	$ 7,962,000	$ 9,720,000
Board-designated endowment funds	5,461,000			5,461,000
Total funds	$ 7,219,000	$ -	$ 7,962,000	$ 15,181,000

The changes in endowment net assets for the years ended June 30, 2010 and 2009, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — July 1, 2008	$ 9,482,000	$ 96,000	$ 7,907,000	$ 17,485,000
Investment return:				
Investment income	213,000	33,000		246,000
Unrealized loss	(2,498,000)	(129,000)		(2,627,000)
Total investment return	(2,285,000)	(96,000)	-	(2,381,000)
Contributions			55,000	55,000
Endowment net assets — June 30, 2009	7,197,000	-	7,962,000	15,159,000
Investment return:				
Investment income	221,000	44,000		265,000
Unrealized gain	1,606,000	63,000		1,669,000
Total investment return	1,827,000	107,000	-	1,934,000
Contributions			2,983,000	2,983,000
Appropriation of endowment assets for expenditure	(643,000)	(81,000)		(724,000)
Endowment net assets — June 30, 2010	$ 8,381,000	$ 26,000	$ 10,945,000	$ 19,352,000

The description of the amounts classified as permanently restricted net assets as of June 30, 2010 and 2009, is as follows:

	2010	2009
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	$ 10,945,000	$ 7,962,000
Total endowment funds classified as permanently restricted net assets	$ 10,945,000	$ 7,962,000
Temporarily restricted net assets — the portion of perpetual endowment funds subject to a time restriction under SPMIFA — without purpose restrictions	$ 26,000	$ -
Total endowment funds classified as temporarily restricted net assets	$ 26,000	$ -

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 $48,000 and $238,000 as of June 30, 2010 and 2009, 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 that places a greater emphasis on fixed income-based investments to achieve its long-term rate-of-return objectives within prudent risk constraints.

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 2016. Future minimum payments due under the noncancelable operating leases with remaining terms in excess of one year as of June 30, 2010, are as follows:

Years Ending June 30	
2011	$ 3,360,000
2012	3,199,000
2013	3,303,000
2014	3,410,000
2015	3,521,000
Thereafter	2,096,000
Total	$ 18,889,000

Rent expense totaled $4,348,000 and $3,189,000 for the years ended June 30, 2010 and 2009, 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 2010 and 2009 was $3,023,000 and $2,696,000, 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 2010 and 2009. 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 $903,000 and $660,000 at June 30, 2010 and 2009, 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 $775,000 for fiscal year 2010.

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, 2010 and 2009.

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, 2010 and 2009.

11. OTHER RELATED-PARTY DISCLOSURES

During the years ended June 30, 2010 and 2009, the Institute received $521,000 and $985,000, 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, 2010 and 2009, the Institute made payments of $1,190,000 and $2,074,000, 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, 2010, and our report thereon appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic 2010 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 2010 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 27, 2010

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2010

	Florida	California	Total
ASSETS			
CASH AND CASH EQUIVALENTS	$ 1,593,000	$ 1,009,000	$ 2,602,000
RESTRICTED CASH AND CASH EQUIVALENTS	-	5,184,000	5,184,000
SHORT-TERM INVESTMENTS	27,077,000	18,402,000	45,479,000
GRANTS RECEIVABLE	912,000	11,704,000	12,616,000
PREPAID AND OTHER ASSETS AND RECEIVABLES — Net	3,641,000	5,498,000	9,139,000
USE OF LONG-LIVED ASSETS	3,663,000	-	3,663,000
DEFERRED FINANCING COSTS — Net	-	2,623,000	2,623,000
PLEDGES RECEIVABLE — Net	2,688,000	18,404,000	21,092,000
PROPERTY — Net	112,737,000	78,481,000	191,218,000
LONG-TERM INVESTMENTS	-	17,936,000	17,936,000
TOTAL	$ 152,311,000	$ 159,241,000	$ 311,552,000
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts payable, accrued expenses and other liabilities	$ 2,072,000	$ 16,452,000	$ 18,524,000
Intercompany (receivable) payable — net	(4,320,000)	4,320,000	-
Deferred revenue	4,232,000	1,712,000	5,944,000
Debt	-	87,016,000	87,016,000
Total liabilities	1,984,000	109,500,000	111,484,000
NET ASSETS:			
Unrestricted	56,121,000	18,513,000	74,634,000
Temporarily restricted	94,206,000	20,283,000	114,489,000
Permanently restricted	-	10,945,000	10,945,000
Total net assets	150,327,000	49,741,000	200,068,000
TOTAL	$ 152,311,000	$ 159,241,000	$ 311,552,000

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

SUPPLEMENTAL COMBINING STATEMENT OF ACTIVITIES INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

	Florida				California				2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUES:									
Federal grants and contracts	$ 7,179,000	$ -	$ -	$ 7,179,000	$ 86,677,000	$ -	$ -	$ 86,677,000	$ 93,856,000
Private and other government grants	746,000			746,000	10,524,000			10,524,000	11,270,000
Contributions	24,547,000	1,500,000		26,047,000	15,008,000	1,197,000	2,983,000	19,188,000	45,235,000
Investment returns designated for current operations					1,112,000	81,000		1,193,000	1,193,000
Royalties, rent revenue, and other	110,000			110,000	845,000			845,000	955,000
Net assets released from restrictions	11,316,000	(11,316,000)			2,187,000	(2,187,000)			
Total revenues	43,898,000	(9,816,000)	-	34,082,000	116,353,000	(909,000)	2,983,000	118,427,000	152,509,000
EXPENSES:									
Research	26,229,000	-	-	26,229,000	100,610,000	-	-	100,610,000	126,839,000
General and administrative	6,254,000			6,254,000	15,671,000			15,671,000	21,925,000
Fund-raising	846,000			846,000	2,084,000			2,084,000	2,930,000
Total expenses	33,329,000	-	-	33,329,000	118,365,000	-	-	118,365,000	151,694,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	10,569,000	(9,816,000)	-	753,000	(2,012,000)	(909,000)	2,983,000	62,000	815,000
INVESTMENT RETURN IN EXCESS OF AMOUNT DESIGNATED FOR CURRENT OPERATIONS	91,000	360,000		451,000	1,825,000	26,000		1,851,000	2,302,000
NET ASSET TRANSFER	(5,442,000)	(3,400,000)	-	(8,842,000)	5,442,000	3,400,000	-	8,842,000	-
CHANGE IN NET ASSETS	5,218,000	(12,856,000)	-	(7,638,000)	5,255,000	2,517,000	2,983,000	10,755,000	3,117,000
NET ASSETS — Beginning of year	50,903,000	107,062,000	-	157,965,000	13,258,000	17,766,000	7,962,000	38,986,000	196,951,000
NET ASSETS — End of year	$ 56,121,000	$ 94,206,000	$ 0	$ 150,327,000	$ 18,513,000	$ 20,283,000	$ 10,945,000	$ 49,741,000	$ 200,068,000

**SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2010,
AND REPORTS ON COMPLIANCE WITH
OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133
AND THE STATE OF FLORIDA RULES OF THE
AUDITOR GENERAL CHAPTER 10.650**

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE

(Formerly, Burnham Institute for Medical Research)

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Research	General and Administrative	Fund-raising	Total Expenses
Salaries and Wages	$ 48,496,000	$ 8,626,000	$ 1,565,000	$ 58,687,000
Depreciation	15,391,000	2,380,000	163,000	17,934,000
Fringe Benefits	11,693,000	3,103,000	370,000	15,166,000
Operations and Maintenance	12,288,000	1,627,000	125,000	14,040,000
Research Supplies and Services	13,187,000			13,187,000
Consortiums	7,770,000			7,770,000
Equipment and Minor Equipment	6,112,000	136,000	22,000	6,270,000
Professional Fees and Services	1,971,000	3,364,000	116,000	5,451,000
Interest	4,265,000	399,000	38,000	4,702,000
Other Supplies and Services	2,183,000	449,000	143,000	2,775,000
Conferences and Meetings	1,064,000	420,000	91,000	1,575,000
Printing and Publications	841,000	170,000	16,000	1,027,000
Travel	746,000	109,000	41,000	896,000
Unrealized loss on interest rate swap		793,000		793,000
Recruitment and Relocation	590,000	59,000	3,000	652,000
Miscellaneous	94,000	265,000	219,000	578,000
Postage and Shipping	148,000	25,000	18,000	191,000
TOTAL	$ 126,839,000	$ 21,925,000	$ 2,930,000	$ 151,694,000

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2010

Program Title/Federal Grantor/Pass-Through Grantor	CFDA Number	Pass-Through Grant or Contract Number	Expenditures
RESEARCH AND DEVELOPMENT			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
National Institutes of Health —			
Direct program ($6,987,608 passed on to other organizations)	93.RD		$ 71,046,536
Passed through other organizations:			
Boston College	93.RD	R01 NS055195	25,707
Dana-Farber Cancer Institute	93.RD	U01 AI074518	451,795
Emory University	93.RD	R01 DK059904	33,766
Florida State University	93.RD	P01 AI074805	374,184
Loma Linda University	93.RD	R01 NS059770	88,573
Mandala Biosciences, LLC	93.RD	R43 GM088984	4,370
Mandala Biosciences, LLC	93.RD	R43 HD061145	64,577
Massachusetts Institute of Technology	93.RD	R01 CA124427	273,979
Massachusetts Institute of Technology	93.RD	U54 CA119349	44,802
Mount Sinai School of Medicine	93.RD	U01 AI074539	576,166
Novomedix, Inc.	93.RD	R43 DK077285	(21,331)
Rutgers, The State University of New Jersey	93.RD	R21 AA019609	7,484
Seattle Children's Research Institute	93.RD	R01 AR049762	1,934
Sidney Kimmel Cancer Center	93.RD	P01 CA104898	256,097
The Salk Institute for Biological Studies	93.RD	R01 AI072645	103,830
The Scripps Research Institute	93.RD	U54 GM062116	600,123
The Scripps Research Institute	93.RD	U54 GM074898	784,630
The Scripps Research Institute	93.RD	UL1 RR025774	95,500
Torrey Pines Institute for Molecular Studies	93.RD	P41 GM081261	108,075
Torrey Pines Institute for Molecular Studies	93.RD	P41 GM079590	23,875
Trudeau Institute, Inc.	93.RD	P01 AI046530	268,739
University of California, Davis	93.RD	R01 GM079383	121,438
University of California, Irvine	93.RD	U01 CA114810	39,786
University of California, Los Angeles	93.RD	R01 CA121258	76,505
University of California, Los Angeles	93.RD	R01 NS052563	18,986
University of California, San Diego	93.RD	P01 CA081534	283,182
University of California, San Diego	93.RD	P01 HL057345	556,516
University of California, San Diego	93.RD	P50 DA026306	156,066
University of California, San Diego	93.RD	R01 DK080147	15,280
University of California, San Diego	93.RD	U54 CA119335	278,517
University of California, San Francisco	93.RD	R01 CA119414	222,637
University of Massachusetts	93.RD	P01 GM066524	441,619
University of Massachusetts	93.RD	U19 MH081836	328,415
University of Texas	93.RD	P01 CA055164	271,830
University of Texas, Health Science Center	93.RD	R01 GM052419	56,159
University of Texas, M. D. Anderson Cancer Center	93.RD	U19 CA052995	313,079
University of Vermont	93.RD	R01 AR053975	(20,768)
University of Vermont	93.RD	R01 GM078095	9,452
University of Virginia	93.RD	U54 GM064346	796,956
Vala Sciences, Inc.	93.RD	R42 HL086076	(29,832)
Vascular BioSciences	93.RD	R41 HL887710	12,356
Wayne State University	93.RD	R01 CA109370	55,587
Wayne State University	93.RD	R01 CA131990	9,550
Yale University	93.RD	P01 GM066311	1,219,296
Total passed through other organizations			9,399,487
Total National Institutes of Health — excluding ARRA funds			80,446,023

(Continued)

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(Formerly, Burnham Institute for Medical Research)

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2010

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 2009 (ARRA):			
Direct program ($504,189 passed on to other organizations)	93.RD		$ 8,057,059
Passed through other organizations:			
Massachusetts Institute of Technology	93.RD	R01 CA124427	121,258
University of California, San Diego	93.RD	U54 CA119335	50,196
Total passed through other organizations			171,454
Total National Institutes of Health — ARRA			8,228,513
Total Department of Health and Human Services			88,674,536
FEDERAL CONTRACTS:			
Passed through other organizations:			
Vala Sciences, Inc.	93.RD	HHSN268200900044CC	54,895
Battelle, Pacific North West (PNNL)	81.RD	DE-AC05-76RL01830	119,200
SAIC	93.RD	NCI-CBC 29XS123	49,654
SAIC-Frederick, Inc.	93.RD	29XS12	240,898
Total Federal Contracts			464,647
NATIONAL SCIENCE FOUNDATION:			
Direct program	47.RD		158,572
ARRA	47.RD	MCB-0920229	162,927
Passed through other organizations — Hope College	47.RD	DBI-0850546	167,718
Total National Science Foundation			489,217
DEPARTMENT OF ENERGY:			
Direct program	81.RD		119,284
Passed through other organizations — University of California, San Diego	81.RD	DEFG02-08-ER64686	175,849
Total Department of Energy			295,133
U.S. DEPARTMENT OF DEFENSE:			
U.S. Army Medical Research Acquisition Activity			
Direct program	12.RD		3,656,863
Passed through other organizations:			
Henry M Jackson Foundation	12.RD	W81XWH-09-2-0075	87,735
Veterans Medical Research Foundation	12.RD	W81XWH-08-2-0067	188,225
Total U.S. Department of Defense			3,932,823
Total Research and Development Federal Awards expended			93,856,356
EXPENDITURES OF STATE FINANCIAL ASSISTANCE —			
Office of Tourism, Trade, and Economic Development — Innovation Incentive Program	31.054	OT07-030	29,204,119
FLORIDA DEPARTMENT OF HEALTH:			
James and Ester King Biomedical Research Program	64.041	06NIR	55,318
Bankhead-Coley Cancer Research Program	64.078	09BE	317,345
Total Florida Department of Health			372,663
Total Expenditures of State Financial Assistance			29,576,782
TOTAL EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			$ 123,433,138

(Concluded)

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 2010.

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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"), formerly Burnham Institute for Medical Research, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 27, 2010. 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

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 27, 2010

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE 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"), formerly Burnham Institute for Medical Research, 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, 2010. 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 each of 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 requirements referred to above that are applicable to its major federal program and state financial assistance project for the year ended June 30, 2010.

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, 2010.

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 27, 2010

SANFORD-BURNHAM MEDICAL RESEARCH INSTITUTE
(FORMERLY, BURNHAM INSTITUTE FOR MEDICAL RESEARCH)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

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:	$3,702,994
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.

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*.