THE FORSYTH INSTITUTE

FINANCIAL STATEMENTS

JUNE 30, 2011 and 2010

QRGA, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
The Forsyth Institute

We have audited the accompanying statements of financial position of The Forsyth Institute as of June 30, 2011 and 2010, and the related statements of activities, cash flows and functional expenses, for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

QRGA LLP

QRGA, LLP
Certified Public Accountants
October 13, 2011

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THE FORSYTH INSTITUTE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,582,373	$ 166,051
Marketable securities	766,748	10,332,664
Accounts receivable	2,043,092	2,130,103
Pledges receivable, short-term	55,000	530,124
Prepaid expenses	469,314	710,592
Total current assets	12,916,527	13,869,534
Restricted cash	1,500,000	1,500,000
Marketable securities, restricted	225,000	225,000
Pledges receivable, long-term	7,730	50,968
Property and equipment, net	17,173,492	6,177,109
Beneficial interest in perpetual trusts	60,546,884	67,888,836
Total assets	$ 92,369,633	$ 89,711,447
LIABILITIES & NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,012,508	$ 3,664,945
Deferred income, short-term	1,471,547	1,418,756
Total current liabilities	2,484,055	5,083,701
Deferred rent	6,042,277	1,231,554
Total liabilities	8,526,332	6,315,255
Net Assets		
Unrestricted	21,031,728	13,046,127
Temporarily restricted	62,311,573	69,850,065
Permanently restricted	500,000	500,000
Total net assets	83,843,301	83,396,192
Total liabilities and net assets	$ 92,369,633	$ 89,711,447

See accompanying notes to the financial statements.

THE FORSYTH INSTITUTE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds	Total All Funds
Revenues					
Research grants and contracts	$ 17,156,373	$ -	$ -	$ 17,156,373	$ 15,124,063
Trust income	5,139,466	-	-	5,139,466	5,922,237
Contributions	507,847	269,743	-	777,590	460,808
Net contributions released from restrictions	466,286	(466,286)	-	-	-
Other income	40,038	5	-	40,043	320,664
Distributions from perpetual trusts	-	(4,913,661)	-	(4,913,661)	(4,923,927)
Appreciation on perpetual trusts	-	7,571,707	-	7,571,707	5,152,212
Total Revenues	23,310,010	2,461,508	-	25,771,518	22,056,057
Expenses					
Program services-Research	24,371,933	-	-	24,371,933	21,949,387
Supporting services-Fundraising	1,053,538	-	-	1,053,538	1,340,090
Total Expenses	25,425,471	-	-	25,425,471	23,289,477
Excess/(deficit) of revenues over expenses	(2,115,461)	2,461,508	-	346,047	(1,233,420)
Distribution from perpetual trusts-improvements	10,000,000	(10,000,000)	-	-	-
Proceeds from transition assistance	413,333	-	-	413,333	1,653,333
Depreciation on leasehold improvements	(312,271)	-	-	(312,271)	(1,256,377)
Change in net assets	7,985,601	(7,538,492)	-	447,109	(836,464)
Net assets at beginning of year	13,046,127	69,850,065	500,000	83,396,192	84,232,656
Net assets at end of year	$ 21,031,728	$ 62,311,573	$ 500,000	$ 83,843,301	$ 83,396,192

See accompanying notes to the financial statements.

THE FORSYTH INSTITUTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
Revenues				
Research grants and contracts	$ 15,124,063	$ -	$ -	$ 15,124,063
Trust income	5,922,237	-	-	5,922,237
Contributions	255,676	205,132	-	460,808
Net contributions released from restrictions	705,758	(705,758)	-	-
Other income	320,664	-	-	320,664
Net earnings released from restrictions	9,772	(9,772)	-	-
Distributions from perpetual trusts	-	(4,923,927)	-	(4,923,927)
Depreciation on perpetual trusts	-	5,152,212	-	5,152,212
Total Revenues	22,338,170	(282,113)	-	22,056,057
Expenses				
Program services-Research	21,949,387	-	-	21,949,387
Supporting services-Fundraising	1,340,090	-	-	1,340,090
Total Expenses	23,289,477	-	-	23,289,477
Deficit of revenues over expenses	(951,307)	(282,113)	-	(1,233,420)
Distributions from perpetual trust-improvements	2,000,000	(2,000,000)	-	-
Proceeds from transition assistance	1,653,333	-	-	1,653,333
Reclassification to restricted cash	(1,500,000)	1,500,000	-	-
Depreciation on leasehold improvements	(1,256,377)	-	-	(1,256,377)
Change in net assets	(54,351)	(782,113)	-	(836,464)
Net assets at beginning of year	13,100,478	70,632,178	500,000	84,232,656
Net assets at end of year	$ 13,046,127	$ 69,850,065	$ 500,000	$ 83,396,192

See accompanying notes to the financial statements.

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

	2011	2010
CASH FLOWS FROM CONTINUING OPERATIONS		
Change in net assets	$ 447,109	$ (836,464)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,574,244	1,544,084
(Gain)/loss on disposal of equipment	57,968	(66,732)
Net decrease in beneficial interest of perpetual trusts	7,341,952	1,771,715
Realized and unrealized (appreciation)/depreciation on on marketable securities	-	(15,558)
(Increase)/decrease in assets:		
Accounts receivable	87,011	(395,820)
Pledges receivable	518,362	379,674
Prepaid expenses	241,278	190,509
Restricted cash	-	(1,500,000)
Increase/(decrease) in liabilities:		
Accounts payable and accrued liabilities	(2,652,437)	441,076
Deferred rent	4,810,723	1,231,554
Deferred income	52,791	(2,059,336)
Net cash provided by continuing operations	12,479,001	684,702
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Purchase of marketable securities	(6,067)	(20,063)
Proceeds from sales of marketable securities	9,571,983	2,594,399
Proceeds from sale of equipment	13,000	68,350
Purchase of property and equipment	(12,641,595)	(3,191,818)
Net cash used by investing activities	(3,062,679)	(549,132)
Net increase in cash and cash equivalents	9,416,322	135,570
Cash and cash equivalents at beginning of year	166,051	30,481
Cash and cash equivalents at end of year	$ 9,582,373	$ 166,051

Supplemental Disclosure

	2011	2010
Noncash investing and financing transaction:		
Acquisition of fixed assets:		
Cost of fixed assets	$ 12,641,595	$ 5,567,982
Payable at year-end	-	(2,376,164)
Cash used to purchase fixed assets	$ 12,641,595	$ 3,191,818

See accompanying notes to the financial statements.

THE FORSYTH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Research Program	Supporting Services: Management & General	Supporting Services: Fund Raising	Total
Salaries and wages	$ 7,123,089	$ 2,992,364	$ 149,514	$ 10,264,967
Rent	31,082	3,516,640	-	3,547,722
Employee benefits	2,256,692	975,748	49,489	3,281,929
Occupancy expense	-	2,590,759	-	2,590,759
Depreciation	-	1,261,973	-	1,261,973
Subcontractors	870,892	-	127,136	998,028
Supplies	862,955	128,898	4,763	996,616
Professional services	396,990	256,494	118,177	771,661
Travel	280,395	42,509	35,073	357,977
Outside services	227,598	60,838	19,685	308,121
Dues and subscriptions	80,444	176,727	13,685	270,856
Trust and securities management fees	-	215,346	-	215,346
Liability and other insurance	19,006	116,430	-	135,436
Repairs and maintenance	37,665	64,972	-	102,637
Telecommunications	16,425	63,346	2,346	82,117
Business meetings	15,308	53,251	4,036	72,595
Loss on sale of fixed assets	-	70,968	-	70,968
Miscellaneous	21,569	9,070	5,777	36,416
Research subjects	31,105	-	-	31,105
Postage	16,759	9,839	1,504	28,102
Photocopying	140	-	-	140
	12,288,114	12,606,172	531,185	25,425,471
Allocation of management & general	12,083,819	(12,606,172)	522,353	-
	$ 24,371,933	$ -	$ 1,053,538	$ 25,425,471

See accompanying notes to the financial statements.

THE FORSYTH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Research Program	Supporting Services: Management & General	Supporting Services: Fund Raising	Total
Salaries and wages	$ 6,925,914	$ 3,121,124	$ 175,169	$ 10,222,207
Rent	31,082	4,438,544	-	4,469,626
Employee benefits	2,090,722	984,453	55,704	3,130,879
Supplies	1,014,846	104,874	5,036	1,124,756
Occupancy expense	-	987,897	-	987,897
Subcontractors	651,073	-	159,659	810,732
Professional services	143,646	399,473	257,946	801,065
Outside services	232,316	61,118	4,821	298,255
Depreciation	-	287,707	-	287,707
Dues and subscriptions	80,196	177,820	6,776	264,792
Trust and securities management fees	-	232,749	-	232,749
Travel	107,492	54,678	18,850	181,020
Liability and other insurance	23,606	133,762	-	157,368
Repairs and maintenance	32,907	60,343	379	93,629
Telecommunications	21,023	53,689	2,125	76,837
Business meetings	22,894	50,013	3,079	75,986
Research subjects	23,925	-	-	23,925
Miscellaneous	399	17,069	5,668	23,136
Postage	11,460	8,767	1,822	22,049
Photocopying	3,244	-	-	3,244
Loss on sale of fixed assets	-	1,618	-	1,618
	11,416,745	11,175,698	697,034	23,289,477
Allocation of management & general	10,532,642	(11,175,698)	643,056	-
	$ 21,949,387	$ -	$ 1,340,090	$ 23,289,477

See accompanying notes to the financial statements.

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Forsyth Dental Infirmary for Children d/b/a The Forsyth Institute (Institute) is a charitable organization created by a special act of the Massachusetts Legislature on March 25, 1910. It was the first philanthropic institution in the world devoted to dental service, education and research. The Institute performs governmental and non-governmental research dealing with the cure and prevention of oral and craniofacial disease and provides fellowships for graduate students pursuing studies in dentistry. Government research grants and contracts represent approximately 73% and 77% of total grant and contract revenue for June 30, 2011 and 2010, respectively.

Significant Accounting Policies

The financial statements of the Institute have been prepared on the accrual basis of accounting. The following are the significant accounting policies utilized by the Institute:

Financial statement presentation

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Restrictions may only be imposed by donors; not by the Board of Directors or any other body. Temporary restrictions are those restrictions that lapse through the passage of time or through specific performance. Permanent restrictions, as their name implies, never lapse.

Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, deposits in money market accounts and amounts invested in certificates of deposit with original maturities of 90 days or less.

The Institute has long-term restricted cash of $1,500,000 which serves as collateral on the $1,500,000 letter of credit from Citizens Bank. The letter of credit is a requirement of the Cambridge facility lease further discussed in Note L. The Institute also has restricted cash equivalents of $225,000 that are unavailable for withdrawal without dual approval of the Institute and the Commonwealth of Massachusetts Department of Public Health Radiation Control Program, which has been restricted for decommissioning of the facility. The total of these amounts, $1,725,000, are included as part of temporarily restricted net assets.

Property, equipment and improvements

Property, equipment and improvements are carried at cost and contributed properties at the fair value at the date of gift.

Depreciation and amortization are provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis as follows:

Leasehold improvements	15 years
Furniture, fixtures and equipment	5-10 years
Vehicles and computer software	5 years

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Institute's investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position.

The Institute has adopted ASC 958-205, the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization. This requires comprehensive disclosures regarding both donor-restricted endowments and board-designated endowments funds.

The Institute has adopted ASC 820-10, *Fair Value Measurements and Disclosures*. In accordance with ASC 820-10, fair value is defined as the price that the Institute would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820-10 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 - quoted prices in active markets for identical investments
- Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments speeds, credit risk, etc.)
- Level 3 - significant unobservable inputs (including the Institute's own assumptions in determining the fair value of investments)

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Institute utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011.

Common Stocks: Valued using market quotations or prices obtained from independent pricing sources.

Mutual Funds: Valued at net asset value (NAV) of shares held at year-end.

Private Equity/Hedge Funds: Value determined by the respective partnerships based on various inputs utilized.

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Deferred Rent
The Institute accounts for operating leases under ASC 840-20 *Operating Leases* and recognizes rent expense on a straight-line basis. The difference between rent expense recognized on a straight-line basis and cash paid is included as deferred rent on the accompanying statement of financial position. The lease for scientific, lab and office space is further described in Note L.

Temporarily restricted net assets
Temporarily restricted net assets are comprised of restricted cash, contribution revenue with donor-imposed restrictions, and appreciated value of trust portfolios in excess of the market value at the time of the donation.

Permanently restricted net assets
Permanently restricted net assets represent the market value of the permanently restricted gift at the time of donation.

Contributions
The Institute records the fair value of contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Fair value of financial instruments
The Institute's financial instruments include cash, marketable securities, receivables and payables and beneficial interests in perpetual trusts. The Institute estimates that the fair value of all financial instruments at June 30, 2011 and 2010 does not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying statement of financial position. The estimated fair values of the financial instruments have been determined by the Institute using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimated fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Institute could realize in a current market exchange.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

NOTE A – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated between program and administrative expenses.

Income taxes

The Institute has adopted Topic 740-10, *Income Taxes,* of the FASB Accounting Codification (ASC 740-10) relating to the uncertainty in income taxes. The Institute is a public charity exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. The Institute does not believe it has done anything during the past year that would jeopardize its tax-exempt status at either the federal or state level. The Institute reports its activities to the IRS in an annual information return. These filings are subject to review by the taxing authorities and the federal income tax returns for 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Reclassifications

Certain items have been reclassified in prior years to conform to current year classifications.

NOTE B – PLEDGES RECEIVABLE

At June 30, 2011 and 2010 pledges receivable are scheduled to be received as follows:

	2011	2010
Within one year	$ 55,000	$ 530,124
One to five years	9,297	55,000
	64,297	585,124
Less – discount on pledges receivable	1,567	4,032
Net pledges receivable	$ 62,730	$ 581,092

The discount rate used in determining the net present value of contributions receivable was 5% at June 30, 2011 and 2010.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

	2011	2010
Leasehold improvements	$ 12,771,298	$ 3,747,253
Technical equipment	5,940,487	2,608,492
Furniture and fixtures	715,670	17,302
Vehicles	63,082	63,082
Computer software	125,660	125,660
	19,616,197	6,561,789
Less: Accumulated Depreciation	2,450,928	4,955,366
	17,165,269	1,606,423
Plus: Construction in progress	8,223	4,570,686
	$ 17,173,492	$ 6,177,109

NOTE D – MARKETABLE SECURITIES

The Institute's Board adopted an investment and spending policy for marketable securities that attempts to provide liquidity for the working capital needs of the Institute's programs. The funds are invested in cash and Treasury related mutual funds. Included in these funds are temporarily restricted net assets of $708,959 and $381,178 at June 30, 2011 and 2010, respectively.

The fair value of the Institute's marketable securities is reported within the three investment valuation measurement categories in accordance with ASC 820-10 described in Note A.

The following is a summary of marketable securities classified based on valuation category and includes the $225,000 of restricted cash equivalents as of June 30:

	2011				2010
	Level 1	Level 2	Level 3	Total	Total
Cash & Equivalents	$ 5,318	$ 0	$ 0	$ 5,318	$ 21,396
U.S. Treasuries	5,963	0	0	5,963	10,298,798
Certificates of Deposit	742,702	0	0	742,702	0
Core Bond Fund	237,765	0	0	237,765	237,470
Total	$ 991,748	$ 0	$ 0	$ 991,748	$ 10,557,664

During the fiscal year ended June 30, 2011, the Institute transferred approximately $9,000,000 from U.S Treasuries to a sweep account invested in repurchase agreements (repo's). This amount is included in cash and cash equivalents on the attached statement of financial position.

Board designated investments were for fellowships ($1,363,186 and $1,342,817) and lecture series ($62,956 and $76,392) for the years ended June 30, 2011 and 2010, respectively.

NOTE D – MARKETABLE SECURITIES (continued)

Beneficial Interest in Perpetual Trusts

The Institute's Board adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the permanent funds of the Institute. Such funds include those assets of donor-restricted funds that the Institute must hold in perpetuity or for donor-specified period(s), such as the perpetual trust balances, as well as Board-designated funds. Under this policy, as proposed by the Board and adopted by the Trustee, the assets of the perpetual trusts are invested in a manner that is intended to meet the following objectives:

Risk Objectives: The Fund should experience less risk (volatility and variability of return) than that of a customized index made up of 60% Russell 3000, 35% CME BARCLAYS CAPITAL U.S. AGGREGATE BOND INDEX, and 5% NAREIT Equity Index measured over a 3-5 year period.

Return Objectives: The total return objective (net of fees) for the Fund, measured over a full market cycle, shall be CPI plus 600 basis points.

Performance of the fund is measured, and investment advisors are evaluated on a regular basis against those objectives.

The fair value of the Institute's investments is reported within the three investment valuation measurement categories in accordance with ASC 820-10 described in Note A. The Institute used current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values to value alternative investments.

The following is a summary of perpetual trust investments classified based on valuation category as of June 30:

	2011				2010
	Level 1	Level 2	Level 3	Total	Total
Cash and equivalents	$2,041,499	$ 0	$ 0	$2,041,499	$11,072,058
Equities:					
U.S. Large Cap	10,070,695	0	0	10,070,695	9,505,393
U.S. Mid Cap	1,658,968	0	0	1,658,968	1,542,636
U.S. Small Cap	849,942	0	0	849,942	796,324
International Stocks	3,177,497	0	0	3,177,497	3,005,770
Emerging Markets	1,415,862	0	0	1,415,862	1,328,032
Total Equities	17,172,964	0	0	17,172,964	16,178,155
Fixed Income:					
Investment Grade	11,290,850	0	0	11,290,850	11,882,514
Global High Yield	1,994,919	0	0	1,994,919	1,940,659
Other Fixed Income	1,606,141	0	0	1,606,141	1,469,432
Total Fixed Income	14,891,910	0	0	14,891,910	15,292,605
Real Estate Investments (REIT's)	0	0	0	0	8,503
Commodities	1,983,325	0	0	1,983,325	2,025,207
Hedge Funds	0	0	23,329,047	23,329,047	22,641,511
Private Equity	0	0	1,128,139	1,128,139	670,797
Total Perpetual Trusts	$36,089,698	$ 0	$ 24,457,186	$60,546,884	$ 67,888,836

NOTE D – MARKETABLE SECURITIES (continued)

The following table presents the activity for the fiscal years ended June 30, 2011 and 2010 for investments in the perpetual trusts measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

Level 3 roll forward	Hedge Funds	Private equity	2011 Total
Fair value at July 1, 2010	$ 22,641,511	$ 670,797	$ 23,312,308
Purchase/(Redemptions)	(812,242)	479,591	(332,651)
Unrealized gain/(loss) on investments	1,499,778	(22,249)	1,477,529
Fair value at June 30, 2011	$ 23,329,047	$ 1,128,139	$ 24,457,186

Level 3 roll forward	Hedge Funds	Private equity	2010 Total
Fair value at July 1, 2009	$ 21,059,098	$ 451,206	$ 21,510,304
Acquisitions	0	101,144	101,144
Unrealized gains on investments	1,582,413	118,447	1,700,860
Fair value at June 30, 2010	$ 22,641,511	$ 670,797	$ 23,312,308

NOTE E - ENDOWMENT NET ASSETS

Effective July 1, 2008, the Institute adopted ASC 958-205 for all its endowment net assets, including the perpetual trusts. ASC 958-205 requires that a not-for-profit organization disclose the governing board's interpretation of the law(s) that underlies the organization's net asset classification of donor-restricted endowment funds.

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2010	$ 67,388,836	$ 500,000	$ 67,888,836
Investment income	1,036,317	0	1,036,317
Net appreciation (realized and unrealized)	6,535,392	0	6,535,392
Spending policy	(14,913,661)	0	(14,913,661)
Endowment net assets at June 30, 2011	$ 60,046,884	$ 500,000	$ 60,546,884

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2009	$ 69,160,551	$ 500,000	$69,660,551
Investment income	1,116,815	0	1,116,815
Net appreciation (realized and unrealized)	4,035,397	0	4,035,397
Spending policy	(6,923,927)	0	(6,923,927)
Endowment net assets at June 30, 2010	$67,388,836	$ 500,000	$ 67,888,836

NOTE E - ENDOWMENT NET ASSETS (continued)

Net assets associated with the perpetual trusts, as well as funds not held in trust but designated by the Institute's Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board has interpreted relevant state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowments funds absent explicit donor stipulations to the contrary, and the Trustee has concurred in that interpretation.

As a result of that interpretation, the Institute has classified as permanently restricted net assets (a) the original value of gifts donated to the perpetual trusts, (b) the original value of subsequent gifts to the perpetual trusts and (c) accumulations to the perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation was added to the trust. The remaining portion of the donor-restricted net assets that are not classified as permanently restricted net assets, are classified as temporarily restricted.

From time to time, the fair value of assets associated with individual donor-restricted permanent funds may fall below the market value at the time of donation. Such deficiencies are recorded as reductions in unrestricted net assets. There were no such deficiencies as of June 30, 2011 or 2010.

Endowment net assets of funds were classified as follows at June 30, 2011 and 2010:

June 30, 2011	Temporarily Restricted	Permanently Restricted	Total
Research	$ 31,434	$ 0	$ 31,434
Library	44,241	0	44,241
General	26,991,399	500,000	27,491,399
Real Estate	$ 32,979,810	0	$ 32,979,810
Endowment net assets	$ 60,046,884	$ 500,000	$ 60,546,884

June 30, 2010	Temporarily Restricted	Permanently Restricted	Total
Research	$ 14,109	$ 0	14,109
Library	38,038	0	38,038
General	25,419,268	500,000	25,919,268
Real Estate	$ 41,917,421	0	$ 41,917,421
Endowment net assets	$ 67,388,836	$ 500,000	$ 67,888,836

NOTE F – RESEARCH GRANTS AND CONTRACTS

U.S. government research grants and contracts (73% of total grant and contract revenue for Fiscal 2011) are subject to an audit. In the opinion of management, no significant charges or credits will result from any such audit.

Revenues on all grants and contracts are recognized as costs are incurred. Deferred income and contract revenue represents the excess of nonfederal amounts received to date over the amount of revenue recognized on related nonfederal grants and contracts.

NOTE G – TRUST INCOME

The Institute is the sole income beneficiary of certain perpetual trusts created for its benefit. Included in the perpetual trusts are the John H. Forsyth and Thomas A. Forsyth Trust, the Forsyth Dental Infirmary Real Estate Trust, the John H. Forsyth Memorial Trust, the Mary EWD Forsyth Trust, the Scientific Trust, and the Rebuilding Fund.

The Board of Directors has adopted the "Total Return" policy as permitted by Massachusetts General Law. Under UPMIFA up to 7% of a three-year rolling average of the value of the trust is made available each year for operating expenses of the Institute. The Total Return policy is reviewed by the Board at least every 3 years. The policy was reviewed in June 2009. The Board affirmed that the spending policy has a long- term goal of spending 5% of Trust and Endowment Assets. However, to create economic stability during difficult financial times, the distribution should be no less than the previous year's dollar distribution unless such distribution amount would exceed a 7% spending level. The Institute received between 5% and 7%, depending on the trust, of the three-year average value of the trusts for each of the fiscal years.

Trust income was $5,139,466 and $5,172,237 for the years ended June 30, 2011 and June 30, 2010. During the fiscal year ended June 30, 2010, the Institute recognized $750,000 of lease consideration from the perpetual building trust as disclosed in Note K.

During the fiscal year ended June 30, 2010, the Institute's Board of Directors authorized a $16.8 million construction budget for scientific, lab and office space in the new Cambridge facility, and to purchase scientific equipment and office furniture. As a result, there were additional distributions from the real estate trust for these expenditures of $10,000,000 and $2,000,000 for the years ended June 30, 2011 and 2010, respectively.

NOTE H – RETIREMENT PLAN

The Institute has a qualified defined contribution plan under Section 403(b) of the Internal Revenue Code for eligible employees providing individual annuity contracts with the Teachers' Insurance and Annuity Association. For individual participants under the age of 40 the Institute contributed 8.25% of the participant's salary up to the social security wage base and 12% for amounts over the base to the plan. For individual participants over the age of 40 the Institute contributed 12.25% of the participant's salary up to the social security wage base and 16% for amounts over the base to the plan. Contributions are paid bi-weekly in arrears into the plan. Total contributions to the plan were $1,081,505 and $1,104,970 for the years ended June 30, 2011 and 2010, respectively.

NOTE I – CONCENTRATION OF RISK

The Institute has cash balances at financial institutions that exceed federally insured limits.

During fiscal 2011, the Institute received approximately 73% of its support from the National Institute of Health (NIH) and the Department of Transportation. Government research funding is subject to review and generally requires reapplication on a periodic basis (usually 3-5 years). Revenue earned from contracts and grants range in amount from $1,012 to $698,258. In any given period other contracts, including non-government, may be significant.

NOTE J – RELATED PARTY TRANSACTIONS

An affiliated nonprofit corporation, Forsyth International, Inc., holds a contract with the Ministry of Health, State of Kuwait, to supervise a preventative and curative program of oral health for school students in various Provinces of the State of Kuwait. The Institute provides consultation and limited services to Forsyth International, Inc. for which $450,194 and $395,085 of revenue has been recognized as of June 30, 2011 and 2010, respectively.

The Forsyth Health Foundation, Inc. (Foundation), another affiliated nonprofit corporation, was established during the fiscal year ended June 30, 2004. The Foundation was created to promote and carry out charitable, educational and scientific activities exclusively for the benefit of the Institute. There was no revenue recognized by the Institute from the Foundation as of June 30, 2010 and the Foundation Board of Directors voted to merge the remaining assets and obligations of the Foundation into the Institute as of June 30, 2010. The Foundation had a $2,550 loan balance payable to the Institute which was paid back prior to June 30, 2010.

NOTE K – SALE OF REAL ESTATE

Upon the petition of the Institute's Board, Bank of America, N.A., Trustee of the building entered into a sale agreement with the Institute's abutting neighbor. The terms of the agreement called for a basic sale price of $60,000,000 to the trust, a lease for continued use of facilities for a period not to exceed three years along with direct consideration to the Institute to assist with transition costs.

The lease arrangement was for a period of two years, commencing October 1, 2007, with an option for a third year. The lease had a fair market value of $3,000,000 per year for the first two years. The third year option was for $3,269,000. The lease allowed the Institute to remain in the building for the three year period, which management had determined to be the amount of time needed to find and relocate to a new research facility. The Institute was responsible for all maintenance, utilities, and other such operating costs of the building, during the lease period.

In addition, the purchaser provided transition assistance to Forsyth in the amount of $5,000,000 which was amortized over a 36 month period that coincided with the lease. For the years ended June 30, 2011 and 2010, the amount amortized into income was $413,333 and $1,653,333 respectively.

The net book value of the leasehold improvements was $3,703,496 at June 30, 2008. These costs were also amortized over the 36 month lease period referred to previously. For the years ended June 30, 2011 and 2010, the amount amortized was $312,271 and $1,256,377, respectively.

NOTE L – OPERATING LEASE

The Institute entered into a non-cancelable lease for new scientific, lab and office space in Cambridge, Massachusetts on August 3, 2009. The lease is for fifteen years beginning on January 16, 2010 and expires on January 15, 2025. It has two options to renew for five years each at the current market rate at that time. The Institute is responsible for all operating expenses, real estate taxes and insurance. The lease payments began on July 1, 2010 and the difference between rent expense recognized on a straight-line basis and the payments is included in deferred rent.

Future minimum lease payments under the operating lease are as follows at June 30:

2012	2,672,774
2013	2,746,542
2014	2,820,324
2015	2,894,119
2016	2,967,929
Thereafter	28,370,296
Total	$42,471,984

NOTE M – SUBSEQUENT EVENTS

In accordance with ASC 855, the Institute evaluated subsequent events through October 13, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.