2012

THE FORSYTH INSTITUTE

FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

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 (a nonprofit organization) as of June 30, 2012 and 2011, 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 audits.

We conducted our audits 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 audits provide 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, 2012 and 2011, 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 26, 2012

1410 Providence Highway • Norwood, MA 02062 • (781) 551-0040

THE FORSYTH INSTITUTE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	$ 3,884,567	$ 9,582,373
Marketable securities	5,853,880	766,748
Accounts receivable	4,160,318	2,043,092
Pledges receivable, short-term	292,684	55,000
Prepaid expenses	591,176	469,314
Total current assets	14,782,625	12,916,527
Restricted cash	1,500,000	1,500,000
Marketable securities, restricted	225,000	225,000
Pledges receivable, long-term	512,399	7,730
Property and equipment, net	17,503,067	17,173,492
Beneficial interest in perpetual trusts	55,901,265	60,546,884
Total ASSETS	$ 90,424,356	$ 92,369,633
LIABILITIES & NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,278,639	$ 1,012,508
Deferred income, short-term	1,965,826	1,471,547
Total current liabilities	5,244,465	2,484,055
Deferred rent	6,062,132	6,042,277
Total liabilities	11,306,597	8,526,332
Net assets		
Unrestricted net assets	20,537,234	21,031,728
Temporarily restricted net assets	58,080,525	62,311,573
Permanently restricted net assets	500,000	500,000
Total LIABILITIES & NET ASSETS	$ 90,424,356	$ 92,369,633

See accompanying notes to the financial statements.

THE FORSYTH INSTITUTE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds	Total All Funds
Revenues					
Research grants and contracts	$ 22,400,634	$ -	$ -	$ 22,400,634	$ 17,156,373
Trust income	4,574,957	-	-	4,574,957	5,139,466
Contributions	219,947	836,957	-	1,056,904	777,590
Net contributions released from restrictions	421,596	(421,596)	-	-	-
Other income	116,622	-	-	116,622	40,043
Net earnings released from restrictions	790	(790)	-	-	-
Distributions from perpetual trusts	-	(4,177,958)	-	(4,177,958)	(4,913,661)
Appreciation/(depreciation) on perpetual trusts	-	(482,585)	-	(482,585)	7,571,707
Total Revenues	27,734,546	(4,245,972)	-	23,488,574	25,771,518
Expenses					
Program services-Research	27,764,963	-	-	27,764,963	24,371,933
Supporting services-Fundraising	449,153	-	-	449,153	1,053,538
Total Expenses	28,214,116	-	-	28,214,116	25,425,471
Excess (deficit) of revenues over expenses	(479,570)	(4,245,972)	-	(4,725,542)	346,047
Transfer of assets	(14,924)	14,924	-	-	-
Proceeds from transition assistance	-	-	-	-	413,333
Depreciation on leasehold improvements	-	-	-	-	(312,271)
Change in net assets	(494,494)	(4,231,048)	-	(4,725,542)	447,109
Net assets at beginning of year	21,031,728	62,311,573	500,000	83,843,301	83,396,192
Net assets at end of year	$ 20,537,234	$ 58,080,525	$ 500,000	$ 79,117,759	$ 83,843,301

See accompanying notes to the financial statements.

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

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
Revenues				
Research grants and contracts	$ 17,156,373	$ -	$ -	$ 17,156,373
Trust income	5,139,466	-	-	5,139,466
Contributions	507,847	269,743	-	777,590
Net contributions released from restrictions	466,286	(466,286)	-	-
Other income	40,038	5	-	40,043
Distributions from perpetual trusts	-	(4,913,661)	-	(4,913,661)
Appreciation on perpetual trusts	-	7,571,707	-	7,571,707
Total Revenues	23,310,010	2,461,508	-	25,771,518
Expenses				
Program services-Research	24,371,933	-	-	24,371,933
Supporting services-Fundraising	1,053,538	-	-	1,053,538
Total Expenses	25,425,471	-	-	25,425,471
Excess of revenues over expenses	(2,115,461)	2,461,508	-	346,047
Distribution from perpetual trusts-improvements	10,000,000	(10,000,000)	-	-
Proceeds from transition assistance	413,333	-	-	413,333
Depreciation on leasehold improvements	(312,271)	-	-	(312,271)
Change in net assets	7,985,601	(7,538,492)	-	447,109
Net assets at beginning of year	13,046,127	69,850,065	500,000	83,396,192
Net assets at end of year	$ 21,031,728	$ 62,311,573	$ 500,000	$ 83,843,301

See accompanying notes to the financial statements.

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

	2012	2011
CASH FLOWS FROM CONTINUING OPERATIONS		
Change in net assets	$ (4,725,542)	$ 447,109
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,569,548	1,574,244
Loss on disposal of equipment	31,347	57,968
Net decrease in beneficial interest of perpetual trusts	4,645,619	7,341,952
Realized and unrealized appreciation on marketable securities	(11,478)	-
(Increase)/decrease in assets:		
Accounts receivable	(2,117,226)	87,011
Pledges receivable	(742,353)	518,362
Prepaid expenses	(121,862)	241,278
Increase/(decrease) in liabilities:		
Accounts payable and accrued liabilities	2,266,131	(2,652,437)
Deferred rent	19,855	4,810,723
Deferred income	494,279	52,791
Net cash provided by continuing operations	1,308,317	12,479,001
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Purchase of marketable securities	(5,081,600)	(6,067)
Proceeds from sales of marketable securities	5,946	9,571,983
Proceeds from sale of equipment	5,000	13,000
Purchase of property and equipment	(1,935,469)	(12,641,595)
Net cash used by investing activities	(7,006,123)	(3,062,679)
Net increase/(decrease) in cash and cash equivalents	(5,697,806)	9,416,322
Cash and cash equivalents at beginning of year	9,582,373	166,051
Cash and cash equivalents at end of year	$ 3,884,567	$ 9,582,373

Supplemental Disclosure

	2012	2011
Noncash investing and financing transaction:		
Acquisition of fixed assets:		
Cost of fixed assets	$ 1,935,469	$ 12,641,595
Payable at year-end	-	-
Cash used to purchase fixed assets	$ 1,935,469	$ 12,641,595

See accompanying notes to the financial statements.

THE FORSYTH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Research Program	Supporting Services: Management & General	Supporting Services: Fund Raising	Total
Salaries and wages	$ 8,020,048	$ 3,506,275	$ 106,764	$ 11,633,087
Employee benefits	2,661,905	1,194,445	36,952	3,893,302
Rent	-	2,712,713	-	2,712,713
Subcontractors	2,134,638	-	-	2,134,638
Occupancy expense	-	1,743,435	-	1,743,435
Supplies	1,598,038	107,072	1,916	1,707,026
Depreciation	3,007	1,566,541	-	1,569,548
Professional services	25,973	660,129	65,602	751,704
Outside services	286,897	78,707	13,701	379,305
Dues and subscriptions	148,309	206,013	9,807	364,129
Travel	270,752	85,329	8,906	364,987
Trust and securities management fees	-	248,133	-	248,133
Repairs, maintenance and service contracts	51,519	128,417	457	180,393
Liability and other insurance	21,465	145,722	-	167,187
Postage and photocopying	77,911	11,986	483	90,380
Business meetings	30,844	44,279	2,635	77,758
Telecommunications	13,713	58,843	1,612	74,168
Miscellaneous	26,702	19,807	542	47,051
Loss on sale of fixed assets	-	31,347	-	31,347
Research subjects	43,825	-	-	43,825
	15,415,546	12,549,193	249,377	28,214,116
Allocation of management & general	12,349,417	(12,549,193)	199,776	-
	$ 27,764,963	$ -	$ 449,153	$ 28,214,116

See accompanying notes to the financial statements.

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

		Supporting Services		
	Research Program	Management & General	Fund Raising	Total
Salaries and wages	$ 7,123,089	$ 2,992,364	$ 149,514	$ 10,264,967
Employee benefits	2,256,692	975,748	49,489	3,281,929
Rent	31,082	3,516,640	-	3,547,722
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, maintenance and service contracts	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 and photocopying	16,899	9,839	1,504	28,242
	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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011

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 70% and 73% of total grant and contract revenue for June 30, 2012 and 2011, respectively.

SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation

The financial statements of the Institute have been prepared on the accrual basis of accounting. Certain items have been reclassified in prior years to conform to current year classifications.

Net asset classifications

For purposes of financial reporting, the Institute classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Institute are classified in the accompanying financial statements in the categories that follow:

Unrestricted net assets include all assets not restricted by donor-imposed stipulations. Although they may be designated into subcategories of funds, all net assets in this category are legally unrestricted.

Temporarily restricted net assets are subject to legal or donor-imposed stipulations that can be fulfilled by actions of the Institute or expire by the passage of time, or both. These net assets include gifts donated for a particular purpose, amounts subject to time restrictions such as funds pledged for future payment, or amounts subject to legal restrictions such as capital appreciation and income on permanently restricted net assets which must be reported as temporarily restricted net assets until appropriated for spending in accordance with Massachusetts law.

Permanently restricted net assets include gifts that are subject to donor-imposed stipulations that the principal be invested in perpetuity.

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.

Restricted cash

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, is included as part of temporarily restricted net assets.

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

Recognition of gifts and pledges

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give are recorded as pledges receivable and revenue in the appropriate net asset category. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Temporarily restricted net assets are reclassified to unrestricted net assets when the related purpose and/or time restrictions are met. Contributions other than cash are recorded at their fair value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated cash flows.

Property, equipment and improvements

Property, equipment and leasehold improvements are stated at cost and contributed properties at the fair value at the date of gift. The cost of maintenance is expensed as incurred, while significant improvements are capitalized. This policy applies to assets acquired at a basis greater than $5,000. Equipment or other assets, purchased through the use of federal or other grants are maintained by the Institute after the expiration of the respective grant agreement.

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

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 complies with the accounting guidance of 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 Commonwealth of Massachusetts enacted the provisions of UPMIFA during the fiscal year ended June 30, 2009.

The Institute complies with the accounting guidance for fair value measurements as defined in ASC 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10). In accordance with ASC 820-10, fair value is defined as the exchange 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 for 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.

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

- 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, 2012.

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.

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 "*Issues related to Accounting for 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.

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, 2012 and 2011 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.

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 complies with the accounting guidance in 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 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

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 financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates

NOTE B – PLEDGES RECEIVABLE

At June 30, 2012 and 2011 pledges receivable are scheduled to be received as follows:

	2012	2011
Within one year	$ 292,684	$ 55,000
One to five years	530,666	9,297
	823,350	64,297
Less – discount on pledges receivable	18,267	1,567
Net pledges receivable	$ 805,083	$ 62,730

The discount rate used in determining the net present value of contributions receivable was 2% at June 30, 2012 and 5% at 2011.

THE FORSYTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

	2012	2011
Leasehold improvements	$ 12,771,298	$ 12,771,298
Technical equipment	6,154,586	5,940,487
Furniture and fixtures	715,670	715,670
Vehicles	63,082	63,082
Capitalized software	0	125,660
	19,704,636	19,616,197
Less: Accumulated Depreciation	3,768,501	2,450,928
	15,936,135	17,165,269
Plus: Construction Work in Progress	1,566,932	8,223
	$ 17,503,067	$ 17,173,492

NOTE D – MARKETABLE SECURITIES INCLUDING RESTRICTED AMOUNTS

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 related mutual funds. Included in these funds are temporarily restricted net assets of $1,179,260 and $708,959 at June 30, 2012 and 2011, 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 as of June 30:

	2012				2011
	Level 1	Level 2	Level 3	Total	Total
Cash & Equivalents	$ 8,643	$ 0	$ 0	$ 8,643	$ 5,318
U.S. Treasuries	0	0	0	0	5,963
Certificates of Deposit	745,009	0	0	745,009	742,702
Core Bond Fund	5,325,228	0	0	5,325,228	237,765
Total	$ 6,078,880	$ 0	$ 0	$ 6,078,880	$ 991,748

Board designated investments were for fellowships ($1,271,796 and $1,363,186) and lecture series ($78,621 and $62,956) for the years ended June 30, 2012 and 2011 respectively.

THE FORSYTH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 and 2011

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. 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 perpetual trusts investments are 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, 2012:

	2012			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	$ 1,788,029	$ 0	$ 0	$ 1,788,029
Equities:				
U.S. Large Cap	8,449,029	0	0	8,449,029
U.S. Mid Cap	1,510,441	0	0	1,510,441
U.S. Small Cap	798,343	0	0	798,343
International Stocks	2,516,235	0	0	2,516,235
Emerging Markets	1,140,003	0	0	1,140,003
Total Equities	14,414,051	0	0	14,414,051
Fixed Income:				
Investment Grade	10,396,215	0	0	10,396,215
Global High Yield	1,808,318	0	0	1,808,318
Other Fixed Income	1,446,790	0	0	1,446,790
Total Fixed Income	13,651,323	0	0	13,651,323
Commodities	1,551,566	0	0	1,551,566
Hedge Funds	0	0	22,870,059	22,870,059
Private Equity	0	0	1,626,237	1,626,237
Total Perpetual Trusts	$ 31,404,969	$ 0	$ 24,496,296	$ 55,901,265

NOTE D – MARKETABLE SECURITIES (continued)

The following is a summary of perpetual trust investments classified based on valuation category as of June 30, 2011:

	2011			
	Level 1	Level 2	Level 3	Total
Cash and equivalents	$ 2,041,499	$ 0	$ 0	$ 2,041,499
Equities:				
U.S. Large Cap	10,070,695	0	0	10,070,695
U.S. Mid Cap	1,658,968	0	0	1,658,968
U.S. Small Cap	849,942	0	0	849,942
International Stocks	3,177,497	0	0	3,177,497
Emerging Markets	1,415,862	0	0	1,415,862
Total Equities	17,172,964	0	0	17,172,964
Fixed Income:				
Investment Grade	11,290,850	0	0	11,290,850
Global High Yield	1,994,919	0	0	1,994,919
Other Fixed Income	1,606,141	0	0	1,606,141
Total Fixed Income	14,891,910	0	0	14,891,910
Commodities	1,983,325	0	0	1,983,325
Hedge Funds	0	0	23,329,047	23,329,047
Private Equity	0	0	1,128,139	1,128,139
Total Perpetual Trusts	$ 36,089,698	$ 0	$ 24,457,186	$ 60,546,884

The hedge fund investment in the Institute's perpetual trust has a liquidity restriction that requires 95 days of notice prior to the official date of redemption. Redemption proceeds will generally be paid within 45 days of the redemption date, and are subject to the Investee's liquidity.

The following table presents the activity for the fiscal years ended June 30, 2012 and 2011 for investments 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**	**2012 Total**
Fair value at July 1, 2011	**$ 23,329,047**	**$ 1,128,139**	**$ 24,457,186**
Acquisitions	**0**	**611,249**	**611,249**
Unrealized loss on investments	**(458,988)**	**(113,151)**	**(572,139)**
Fair value at June 30, 2012	**$ 22,870,059**	**$ 1,626,237**	**$ 24,496,296**

Level 3 roll forward	Hedge Funds	Private equity	2011 Total
Fair value at July 1, 2010	$ 22,641,511	$ 670,797	$ 23,312,308
Sales	(812,242)	479,591	(332,651)
Unrealized gains 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

NOTE E - ENDOWMENT NET ASSETS

The Institute complies with the accounting guidance under 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, 2012 and 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at July 1, 2011	$ 60,046,884	$ 500,000	$ 60,546,884
Investment income	801,925	0	801,925
Realized and unrealized gains and (losses) net of fees	(1,284,510)	0	(1,284,510)
Spending policy	(4,163,034)	0	(4,163,034)
Endowment net assets at June 30, 2012	$ 55,401,265	$ 500,000	$ 55,901,265

	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
Realized and unrealized gains and (losses) net of fees	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

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, 2012 or 2011.

NOTE E - ENDOWMENT NET ASSETS (continued)

Endowment net assets of funds were classified as follows at June 30, 2012 and 2011:

June 30, 2012	Temporarily Restricted	Permanently Restricted	Total
Research	$ 107,113	$ 0	$ 107,113
Library	43,853	0	43,853
General	25,760,769	500,000	26,260,769
Real Estate	$ 29,489,530	0	$ 29,489,530
Endowment net assets	$ 55,401,265	$ 500,000	$ 55,901,265

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

NOTE F – RESEARCH GRANTS AND CONTRACTS

U.S. government research grants and contracts (70% of total grant and contract revenue for Fiscal 2012) 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 five-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 2011. 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 five-year average value of the trusts for each of the fiscal years.

NOTE G – TRUST INCOME (continued)

Trust distributions were $4,574,957 and $5,139,466 for the years ended June 30, 2012 and June 30, 2011.

NOTE H – RETIREMENT PLAN

The Institute has a contributory retirement plan for eligible employees providing individual annuity contracts with the Teachers' Insurance and Annuity Association; a defined contribution plan. 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 expense for this plan amounted to $1,195,025 and $1,081,505 for the years ended June 30, 2012 and 2011, respectively.

NOTE I – CONCENTRATION OF RISK

During fiscal 2012, the Institute received approximately 70% of its support from the National Institutes of Health (NIH), U.S. Army and U.S Navy. 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 ranged in amounts from $100 to $2,725,422. 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 $625,370 and $450,194 of revenue has been recognized as of June 30, 2012 and 2011, respectively.

NOTE K – SALE OF REAL ESTATE

Upon the petition of the Board of Trustees of the Forsyth Institute, 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 the sale of the building and 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.

NOTE K – SALE OF REAL ESTATE (continued)

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 year ended June 30, 2011 the amount amortized into income was $413,333, at which time this amount was fully amortized.

The net book value of the leasehold improvements was $3,703,496 at June 30, 2008. These costs were amortized over the 36 month lease period referred to previously. For the year ended June 30, 2011 the amount amortized was $312,271, at which time this amount was fully amortized.

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 all leases for the years ending June 30 are as follows:

2013	2,776,667
2014	2,850,449
2015	2,925,901
2016	3,001,669
2017	3,075,493
Thereafter	25,595,049
Total	$40,225,228

NOTE M –SUBSEQUENT EVENTS

In accordance with ASC855, the Institute evaluated subsequent events through October 26, 2012, 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.