Howard Hughes Medical Institute

Consolidated Financial Statements
for the years ended August 31, 2012 and 2011
and Report of Independent Auditors Thereon

Report of Independent Auditors

To Trustees of the
Howard Hughes Medical Institute:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the Howard Hughes Medical Institute and its subsidiaries (Institute) at August 31, 2012 and 2011, and the changes in its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 26, 2012

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HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Financial Position
August 31, 2012 and 2011

(In thousands)

Assets	2012	2011
Cash and Cash Equivalents	$ 804,224	$ 705,285
Escrowed Bond Proceeds	-	501
Investment Receivables	152,270	196,666
Investments	16,201,205	16,350,313
Securities Pledged as Collateral	103,294	100,065
Laboratory Space, Equipment, Buildings and Other Property, net	833,695	855,275
Other Assets	23,878	29,689
Total Assets	$ 18,118,566	$ 18,237,794
Liabilities		
Accounts Payable and Accrued Expenses	$ 91,183	$ 91,020
Investment Payables	385,272	604,984
Repurchase Obligations	103,199	101,663
Grant Commitments	127,238	110,330
Post-Retirement/Employment Obligations	287,287	263,074
Capital Financing		
Note Payable	40,376	40,376
Capital Lease Obligation	19,902	3,480
Bonds Payable	1,283,000	1,283,000
Total Liabilities	2,337,457	2,497,927
Net Assets	15,781,109	15,739,867
Total Liabilities and Net Assets	$ 18,118,566	$ 18,237,794

The accompanying notes are an integral part of these consolidated financial statements.

HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended August 31, 2012 and 2011

(In thousands)

Revenue	2012	2011
Investment Earnings		
Interest, Dividends, and Other Income from Investments	$ 235,092	$ 280,969
Realized Gain on Investment Sales, net	987,511	754,920
Change in Unrealized (Depreciation)/Appreciation of Investments, net	(110,881)	1,247,235
Less - Expenses Incurred in the Production of Income:		
Investment management expenses	(92,407)	(113,251)
Interest expense	(227)	(275)
Net Investment Earnings	1,019,088	2,169,598
Intellectual Property and Other Income	13,689	10,845
Total Revenue	1,032,777	2,180,443
Expenses		
Program Activities		
Medical Research	750,118	713,378
Science Education	123,573	40,061
General Administration	72,296	70,622
Interest Expense	45,548	46,060
Total Expenses	991,535	870,121
Increase in Net Assets	41,242	1,310,322
Net Assets, beginning of year	15,739,867	14,429,545
Net Assets, end of year	$ 15,781,109	$ 15,739,867

The accompanying notes are an integral part of these consolidated financial statements.

HOWARD HUGHES MEDICAL INSTITUTE

Consolidated Statements of Cash Flows
For the Years Ended August 31, 2012 and 2011

(In thousands)	2012	2011
Increase in Net Assets	$ 41,242	$ 1,310,322
To Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Depreciation and Amortization	101,390	102,322
Loss on Disposal of Assets	6,118	13,065
Decrease/(Increase) in Receivables	8,450	(9,170)
(Decrease)/Increase in Accounts Payable, Accrued Expenses, Commitments and Obligations	(10,295)	55,424
Net Appreciation/(Depreciation) of Investments		
Realized	(987,511)	(754,920)
Change in Unrealized	110,881	(1,247,235)
Net Cash Used in Operating Activities	(729,725)	(530,192)
Cash Flows From Investing Activities		
Use of Escrowed Bond Proceeds	501	12,186
Purchases of Facilities, Leasehold Improvements, and Equipment	(84,163)	(106,601)
Sale of Equipment	21,705	4,638
Proceeds from Sales of Investments	6,482,853	6,277,497
Purchases of Investments	(5,586,949)	(5,670,278)
Net Cash Provided by Investing Activities	833,947	517,442
Cash Flows from Financing Activities		
Repayment on Capital Lease obligations	(5,283)	(1,157)
Net Cash Used in Financing Activities	(5,283)	(1,157)
Net Increase/(Decrease) in Cash	98,939	(13,907)
Cash and Cash Equivalents, beginning of year	705,285	719,192
Cash and Cash Equivalents, end of year	$ 804,224	$ 705,285

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Howard Hughes Medical Institute ("HHMI" or the "Institute") was established for the purpose of promoting knowledge within the basic sciences, principally medical research and education, and the effective application of this knowledge for the benefit of humanity. The Institute conducts medical research at its Janelia Farm Research Campus located in Loudoun County, Virginia, and in conjunction with hospitals and academic research institutions ("host institutions") under the terms of various agreements. The agreements generally require the Institute to fund a portion of the construction cost, if any, and to pay occupancy charges for research space the Institute occupies within the host institution, and to reimburse certain other costs. In return, the host institution provides laboratory and office space together with related maintenance and repairs, and a range of services including animal care, hazardous materials purchasing, management and disposal, and management of intellectual property created by Institute scientists. The Institute has contractual rights to occupy host institution facilities for periods ranging from five to nineteen years. In most cases, the Institute's obligation to pay occupancy charges is not fixed and will vary depending on the space occupied.

In addition to its basic research activities the Institute funds grants to both institutions and individuals in support of a wide range of science and research-related initiatives, including precollege and undergraduate science education, pre- and post-doctoral research fellowships, and international research scholars. Grant awards to individuals are generally administered by the grantee's institution for the benefit of the grantee.

The consolidated financial statements include the accounts of the Institute's single member limited liability companies, which are used primarily in connection with investment activities. All intra-company transactions and accounts have been eliminated.

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the dates of the financial statements, and reported revenues and expenses for the years then ended. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents includes both US and non-US currency held at the Institute's custodians, prime brokers, clearing agents, and banking institutions held for investment or spending purposes and short-term interest-bearing marketable instruments with original maturities of less than three months. Cash equivalents include short-term US Treasury securities and other short-term, highly liquid investments that are carried at cost, which approximates fair value.

The total cash and cash equivalents maintained at various institutions exceeds the amount guaranteed by federal agencies and, therefore, bears some risk. The Institute has not experienced any loss due to this risk.

Escrowed Bond Proceeds - Escrowed bond proceeds are restricted to the construction of an apartment complex at the Janelia Farm Research Campus located in Loudoun County, Virginia. As of August 31, 2012 these funds have been fully expended.

Restricted Funds - The Institute does not accept contributions. As a result, there are no restrictions on net assets.

Intellectual Property - The Institute receives licensing fees and royalty income in connection with the commercialization of intellectual property created by its scientists. Licensing fees and royalty income are recorded as revenue in the Consolidated Statements of Operations and Changes in Net Assets at the time of receipt.

In addition, the Institute has received equity interests in startup companies formed to commercialize inventions created by its investigators. Such equity interests are held in the host institution's name for the benefit of HHMI until such time as the host institution disposes of that interest. HHMI generally cannot exercise control over this equity interest, and cannot either execute or block its sale. Valuations of these equity interests are generally provided by the host institution or management of the startup. Such values are highly subjective and may not be fully realized. As a result, revenue related to such equity interests is recorded only upon notification to HHMI by the host institution that its equity interest has been sold, and the Institute's share of the proceeds has been determined. No value for such equity interests is carried on the balance sheet.

Investments - The Institute's investments are its principal source of support. A majority of the Institute's spending is made under its medical research program in which it makes multi-year employment and spending commitments to its principal investigators, and a grants program in which it makes multi-year grant commitments for science education. These attributes of the Institute's mode of operation present the need to balance longer-term investment fund growth, stability of investment returns, and liquidity, for a significant part of the fund. The Institute's long-range investment goal is to manage the fund in a prudent manner that will support the Institute's programs in perpetuity. Significant accounting policies related to investments are as follows:

1. Investment transactions are accounted for on a trade-date basis. Net realized and change in unrealized gains and losses are calculated using the average cost of investments and are recognized in the Consolidated Statements of Operations and Changes in Net Assets. Investment income, including interest, is accrued as earned. Dividend income is recorded on the ex-dividend date.

2. Investments are valued based on quoted market prices whenever available, except for certain alternative investments such as private equity, hedge, and commingled funds, for which the detailed composition of holdings may not be readily available.

3. The estimated fair value for alternative investments is determined by management after consideration of valuations provided by the external investment managers adjusted for receipts, disbursements, distributions, and management fees. The valuations for these alternative investments may involve estimates, appraisals, assumptions, and methods which are evaluated by internal investment management.

4. Investments in commingled funds for which detailed holdings information is not available, including those that may consist of publicly-traded securities, are carried at values provided by the managers and reviewed and approved by internal investment management.

5. Derivatives, such as foreign currency forwards, futures, options and credit default swap contracts, are recorded at fair value with the resulting gain or loss recognized in the Consolidated Statements of Operations and Changes in Net Assets.

6. Investments may include some cash and cash equivalents held by investment managers for a specific purpose. These amounts are carried at par, which approximates fair value.

Laboratory Space, Equipment and Other Property - Costs of constructing and renovating laboratory space under lease from host institutions, and leasehold improvements in excess of $25,000, are capitalized and amortized over the lesser of 5 years or the remaining appointment term of the investigator for whom renovations are being made. These terms may vary from less than five years to nineteen years. Buildings and building improvements having a useful life of more than one year and a unit cost of at least $25,000 are capitalized. Equipment having a useful life of more than one year and a unit cost of at least $10,000 is capitalized. Interest paid on construction debt is capitalized as a component of the building cost. There is no interest cost associated with any renovations. Repair and maintenance costs are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Classification	Estimated Useful Life
Equipment and furniture	5
Leasehold Improvements	5-10
Buildings	35

Grant Commitments - The Institute awards domestic and international grants for periods ranging from one to five years. Awards may be deferred at the request of the awardee. Deferred awards continue to be unconditional commitments for which there are no additional contingencies, and are included in the grant commitment liability at August 31, 2012. For multi-year awards, grant commitments are recorded as expenses in the Consolidated Statements of Operations and Changes in Net Assets in the year the grant commitment is made, and the present value of the grant commitment liability is reflected in the Consolidated Statements of Financial Position. The discount rate used to arrive at the present value of future payments is based on the rates for US Treasury Notes with maturities in the years in which the payments will be made.

Leases – Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with Accounting Standards Codification ("ASC") 840, *Leases* ("ASC 840"). When substantially all of the risks and benefits of property ownership have been transferred to the Institute, as determined by the criteria in ASC 840, the lease then qualifies as a capital lease. Capital leases are capitalized at the lower of the net present value of the total amount of rent payable under the leasing agreement or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis over a period consistent with the Institute's

depreciation policy for equipment, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Self-Insurance - The Institute self-insures at varying levels for property and casualty risks. Third party insurance is purchased to provide pollution coverage, and to cover individuals under Directors' and Officers' liability and fiduciary liability. The Institute also purchases workers' compensation insurance and commercial automobile liability coverage. Other insurance policies are purchased from time to time in response to specific needs.

Reclassifications – Certain period amounts have been reclassified in order to conform with the current year's presentation.

Recent Accounting Pronouncements – In January 2010 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-6, *Improving Disclosures about Fair Value Measurements*, which clarifies existing disclosures and requires new disclosures related to fair value measurements, providing greater disaggregated information on each class of assets and liabilities, and more robust disclosures on transfers between levels 1 and 2 and activity in level 3 fair value measurements. This guidance was adopted by the Institute effective September 1, 2010, and the Institute adopted the disclosure requirement about purchases, sales, issuances, and settlements for Level 3 holdings as of September 1, 2011.

In May 2011 the FASB issued ASU 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ("ASU 2011-04"). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles related to measuring fair value, and requires additional disclosure about fair value measurements. Specifically, the guidance specifies that the concepts of highest and best use and valuation premise in a fair value measurement are only relevant when measuring the fair value of nonfinancial assets whereas they are not relevant when measuring fair value of financial assets and liabilities. Required disclosures are expanded under the new guidance, especially for fair value measurements that are categorized within Level 3 of the fair value hierarchy, for which quantitative information about the unobservable inputs used and a narrative description of the valuation processes in place will be required. ASU 2011-04 is effective for annual periods beginning after December 15, 2011and is to be applied prospectively. Management is currently assessing the impact of the guidance on the Institute's financial statements.

2. INVESTMENTS

The fair value hierarchy prioritizes the use of market-based information over entity-specific information, and establishes a three-level hierarchy for fair value measurement based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. It consists of observable and unobservable inputs at three levels. Observable inputs are based on market data obtained from sources independent of the reporting entity; unobservable inputs are based on the best information available in the circumstances.

- Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities.

- Level 2 inputs are from sources other than quoted prices that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates, and market corroborated inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 inputs are unobservable inputs for the asset or liability. They are used to measure fair value when observable inputs are not available, including situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The availability of inputs relevant to the asset or liability and the reliability of the inputs determines the selection of appropriate valuation techniques. Valuation techniques applied to HHMI's investments include a combination of both observable and unobservable inputs. When there is little, if any, market activity for the asset or liability at the measurement date, models or other valuation methodologies that require varying degrees of judgment are used, including management estimates, where appropriate. Valuation techniques have been selected and applied as considered appropriate in the circumstances. Once selected, they have been consistently applied. A change in a valuation technique or its application will be made only if the change results in a measurement that is more representative of fair value in the circumstances. There have been no changes in the valuation methodology for the fiscal years ending August 31, 2012 and 2011. The valuation methods described in Note 1 may produce a fair value calculation that may not be indicative of the ultimate net realizable value, or reflective of future fair values.

The following tables present the financial instruments carried at fair value as of August 31, 2012 and 2011 according to the valuation hierarchy defined above.

August 31, 2012
(In thousands)

Assets	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ -	$ 674,274	$ -	$ 674,274
Foreign exchange contracts	-	15,114	-	15,114
Repurchase obligations collateral	-	103,294	-	103,294
Contracts for difference	-	13,375	-	13,375
Credit default swaps	-	10,060	-	10,060
Investments:				
Cash and cash equivalents	258,007	545,862	-	803,869
Equity	3,770,987	217	816,819	4,588,023
Fixed income securities	203	1,707,413	137,624	1,845,240
Preferred securities	39,013	-	26,451	65,464
Convertible securities	-	7,393	-	7,393
Futures contracts	2,409	-	-	2,409
Alternative Investments	-	-	8,863,384	8,863,384
Purchased options	25,020	-	-	25,020
Equity swaps	-	105	-	105
Swaptions	-	298	-	298
Total investments	4,095,639	2,261,288	9,844,278	16,201,205
Deferred compensation plan assets	10,234	5,978	2,890	19,102
Total Assets	$ 4,105,873	$ 3,083,383	$ 9,847,168	$ 17,036,424
Liabilities				
Repurchase obligations	$ -	$ 103,199	$ -	$ 103,199
Interest rate swaps payable	-	171,722	-	171,722
Investments:				
Short Positions	115,229	215	-	115,444
Foreign exchange contracts	-	9,184	-	9,184
Equity swaps	-	44	-	44
Options Payable	1,220	-	-	1,220
Total investments	116,449	9,443	-	125,892
Total Liabilities	$ 116,449	$ 284,364	$ -	$ 400,813

August 31, 2011
(In thousands)

Assets	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ -	$ 694,625	$ -	$ 694,625
Foreign exchange contracts	-	22,858	-	22,858
Repurchase obligations collateral	-	100,065	-	100,065
Contracts for difference	-	32,173	-	32,173
Credit default swaps	-	10,270	-	10,270
Investments:				
Cash and cash equivalents	481,758	344,829	-	826,587
Equity	4,294,251	850	985,691	5,280,792
Fixed income securities	201	1,786,551	74,155	1,860,907
Preferred securities	41,811	-	13,135	54,946
Convertible securities	-	39,828	448	40,276
Futures contracts	7,562	-	-	7,562
Alternative Investments	-	-	8,268,293	8,268,293
Purchased options	1,587	-	-	1,587
Equity swaps	-	1,541	-	1,541
Swaptions	-	7,822	-	7,822
Total investments	4,827,170	2,181,421	9,341,722	16,350,313
Deferred compensation plan assets	9,066	4,864	2,526	16,456
Total Assets	$ 4,836,236	$ 3,046,276	$ 9,344,248	$ 17,226,760

Liabilities	Quoted Market Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Repurchase obligations	$ -	$ 101,663	$ -	$ 101,663
Interest rate swaps payable	-	118,769	-	118,769
Investments:				
Short Positions	290,019	8,021	12	298,052
Foreign exchange contracts	-	7,532	-	7,532
Equity swaps	-	185	-	185
Options Payable	87	-	-	87
Swaptions	-	787	-	787
Total investments	290,106	16,525	12	306,643
Total Liabilities	$ 290,106	$ 236,957	$ 12	$ 527,075

The following table is a rollforward of instruments classified within Level 3 of the fair value hierarchy defined above:

(In thousands)
For the year ending August 31, 2012

	Fair Value Beginning Balance	Realized/ Unrealized G/(L)	Acquisitions	Dispositions	Transfers In	Transfers Out	Fair Value Ending Balance
Equity	$ 985,691	$ 52,135	$ 17,796	$ (218,545)	$ 441	$ (20,699)	$ 816,819
Fixed income securities	74,155	(1,118)	79,125	(17,433)	2,895	-	137,624
Preferred securities	13,135	10,957	7,775	(5,416)	-	-	26,451
Convertible securities	448	(448)	-	-	-	-	-
Alternative Investments	8,268,293	659,578	1,964,644	(2,029,077)	23,700	(23,754)	8,863,384
Deferred compensation funds	2,526	334	30	-	-	-	2,890
Totals	$ 9,344,248	$ 721,438	$ 2,069,370	$ (2,270,471)	$ 27,036	$ (44,453)	$ 9,847,168

For the year ending August 31, 2011

	Fair Value Beginning Balance	Realized/ Unrealized G/(L)	Acquisitions	Dispositions	Transfers In	Transfers Out	Fair Value Ending Balance
Equity	$ 1,120,491	$ 160,101	$ 26,874	$ (321,314)	$ 43,329	$ (43,790)	$ 985,691
Fixed income securities	67,203	2,879	16,551	(12,478)	-	-	74,155
Preferred securities	25,580	(14,451)	2,006	-	-	-	13,135
Convertible securities	1,119	(671)	-	-	-	-	448
Alternative Investments	7,599,986	1,173,815	1,661,457	(2,166,965)	-	-	8,268,293
Deferred compensation funds	1,975	313	238	-	-	-	2,526
Totals	$ 8,816,354	$ 1,321,986	$ 1,707,126	$ (2,500,757)	$ 43,329	$ (43,790)	$ 9,344,248

For Level 3 holdings, net change in unrealized gains relating to assets held during the year ended August 31, 2012 and 2011 totaled approximately $(96) million and $1 billion, respectively. These gains and losses are included in *Change in Unrealized (Depreciation)/Appreciation of Investments, net.*

There were no significant transfers between Levels 1 and 2 during the years ended August 31, 2012 and 2011, respectively.

Fair value for Level 3 holdings, which primarily consist of limited partnership interests in absolute return, hedge, private equity, real estate, and natural resources funds, is based on valuation techniques that use significant inputs that are unobservable. The fair values of securities that do not have readily determinable fair values held by these alternative investment entities are determined by the entity's management, reviewed and approved by Institute investment management. They are based on historical cost, appraisals, pricing models, discounted cash flows or other estimates that require varying degrees of professional judgment. If no public market exists for the securities, the fair value is determined by the entity's management taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, risk inherent in the valuation techniques, risk inherent in the inputs to the valuation models, and subsequent developments concerning the issuer.

Net Asset Value ("NAV") is used as fair value for investments which (a) do not have a readily determinable fair value and (b) the entity either prepares its financial statements consistent with the measurement principles of an investment company or has the attributes of an investment company. Investments that can be redeemed at NAV by the Institute on the measurement date or in the near term may be classified as Level 2. Investments that cannot be redeemed at the measurement date

or in the near term are classified as Level 3. The following table lists investments in other investment companies by major category:

(In thousands)

Assets	Strategy	Fair Value 2012	Fair Value 2011	Unfunded Commitment 2012	Note
Alternative Investments	Comprises investments held within the Alternative, Distressed/Credit Sensitive, Emerging Markets, Global, Hedged Equity, International Equity, Market Neutral Arbitrage, Private Equity, Real Estate, Energy, and Real Assets strategies.	$ 8,826,489	$ 8,240,579	$ 2,334,439	a)
Equity	Comprises investments held within the Distressed/Credit Sensitive, Domestic Equity, Emerging Markets, and Hedged Equity strategies.	795,104	964,744	$ 79,706	b)
Preferred securities	Comprises investments held within the Private Equity strategy.	-	10,000	$ -	c)
Grand Totals		$ 9,621,593	$ 9,215,323	$ 2,414,145	

a) Approximately 78% of the investments are not redeemable and are generally held for the life of the investment. The remaining 22% of the investments are redeemable on a monthly, quarterly, semi-annual, or annual basis with advance notice of 30 to 180 days. A small number of funds also contain one time or revolving lock-up provisions that limit the frequency a redemption may be initiated.

b) Investments are redeemable on a monthly, or annual basis with advance notice of 30 to 90 days except for 2 investments that have a fund life pending liquidation of side pocketed private investments and 2 investments that have equal sized quarterly redemptions through 9/30/2014. Approximately 58% of the investments are redeemable annually, 14% are redeemable monthly, and the remainder redeemable quarterly.

c) Investments are not redeemable and are generally held for the life of the investment.

As noted above, the Institute has made contractual commitments to fund various investments. The Institute expects these commitments to be called over the next 1 to 7 years. Investment returns are expected to be received over the next 1 to 12 years.

At August 31, 2012, approximately 80% of the Institute's holdings are in the United States.

In addition, the Institute has $25 million in commitments for direct investments in the equity and debt of private companies.

Derivatives

The Institute invests in derivative financial instruments to control market risks, manage its portfolio exposure, reduce investment implementation costs, and enhance returns. Derivatives are recorded at fair value with the resulting gain or loss recognized in the Consolidated Statements of Operations and Changes in Net Assets. Most derivative trades are transacted with counterparties that are operating under master netting agreements. As a result of investing in derivative financial instruments, the Institute is exposed to potential credit-related losses in the event of nonperformance by counterparties. The Institute limits its exposure by evaluating the creditworthiness of potential counterparties before investing. Derivatives in which the Institute invests are principally foreign currency forwards, futures contracts, and options.

The following tables present the value of derivatives held as of August 31, 2012 and 2011, respectively, by their primary underlying risk exposure and respective location on the Consolidated Statements of Financial Position. These derivatives are not designated as hedging instruments under ASC 815 *Derivatives and Hedging.*

August 31, 2012
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Total Fair Value
Assets							
Interest rate	$ -	$ -	$ -	$ -	$ 296	$ -	$ 296
Foreign currency	23	972	15,114	-	2	-	16,111
Equity	24,997	2,774	-	105	-	14,395	42,271
Credit	-	-	-	10,341	-	-	10,341
Totals	$ 25,020 a)	$ 3,746 a)	$ 15,114 b)	$ 10,446	$ 298 a)	$ 14,395 b)	$ 69,019
Liabilities							
Interest rate *	$ -	$ 160	$ -	$ 171,722	$ -	$ -	$ 171,882
Foreign currency	-	1,028	9,184	-	-	-	10,212
Equity	1,220	149	-	44	-	1,020	2,433
Credit	-	-	-	281	-	-	281
Totals	$ 1,220 c)	$ 1,337 a)	$ 9,184 c)	$ 172,047	$ - c)	$ 1,020 b)	$ 184,808

August 31, 2011
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Total Fair Value
Assets							
Interest rate	$ -	$ 15	$ -	$ -	$ 6,110	$ -	$ 6,125
Foreign currency	403	5,823	22,858	-	1,712	-	30,796
Equity	1,184	4,037	-	1,541 a)	-	34,878	41,640
Credit	-	-	-	10,270 b)	-	-	10,270
Totals	$ 1,587 a)	$ 9,875 a)	$ 22,858 b)	$ 11,811	$ 7,822 a)	$ 34,878 b)	$ 88,831
Liabilities							
Interest rate *	$ -	$ 64	$ -	$ 118,769 c)	$ -	$ -	$ 118,833
Foreign currency	-	654	7,532	-	787	-	8,973
Equity	87	1,595	-	185 a)	-	2,705	4,572
Totals	$ 87 c)	$ 2,313 a)	$ 7,532 c)	$ 118,954	$ 787 c)	$ 2,705 b)	$ 132,378

Location of derivatives included in the Consolidated Statements of Financial Position:
a) Investments
b) Investment receivables
c) Investment payables
*Interest rate swap agreements related to the Institute's notes and bonds payable are reflected in Investment Payables on the Consolidated Statements of Financial Position. Interest rate swap contracts related to investment strategies are reflected in Investments on the Consolidated Statements of Financial Position.

The following tables present the effect of derivatives on the Consolidated Statements of Operations as of August 31, 2012 and 2011, respectively. Realized gain/(loss) on derivatives is included in *Realized Gain on Investment Sales, net.* Change in unrealized appreciation/(depreciation) on derivatives is included in *Change in Unrealized (Depreciation)/Appreciation of Investments, net.*

August 31, 2012
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Total
Realized Gain/(Loss) on Derivatives Recognized in Revenue							
Interest rate	$ -	$ 4,175	$ -	$ -	$ (1,686)	$ -	$ 2,489
Foreign currency	(2,002)	7,992	(31,447)	-	(642)	-	(26,099)
Equity	143	5,475	-	(5)	-	13,527	19,140
Credit	-	-	-	6,449	-	-	6,449
Totals	$ (1,859)	$ 17,642	$ (31,447)	$ 6,444	$ (2,328)	$ 13,527	$ 1,979
Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Revenue							
Interest rate	$ -	$ (2,312)	$ -	$ -	$ (4,558)	$ -	$ (6,870)
Foreign currency	1,765	(3,146)	(9,397)	-	43	-	(10,735)
Equity	7,621	304	-	(1,296)	-	(18,798)	(12,169)
Credit	-	-	-	(3,488)	-	-	(3,488)
Totals	$ 9,386	$ (5,154)	$ (9,397)	$ (4,784)	$ (4,515)	$ (18,798)	$ (33,262)

August 31, 2011
(In thousands)

Underlying Risk	Option Contracts	Futures Contracts	Foreign Exchange Contracts	Swaps	Swaption	Contracts for Difference	Total
Realized Gain/(Loss) on Derivatives Recognized in Revenue							
Interest rate	$ -	$ 7,622	$ -	$ (790)	$ -	$ -	$ 6,832
Foreign currency	(2,725)	8,150	31,557	-	33	-	37,015
Equity	(2,710)	13,520	-	(80)	-	1,049	11,779
Credit	-	-	-	915	-	-	915
Totals	$ (5,435)	$ 29,292	$ 31,557	$ 45	$ 33	$ 1,049	$ 56,541
Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Revenue							
Interest rate	$ -	$ 1,488	$ -	$ (2,906)	$ (2,835)	$ -	$ (4,253)
Foreign currency	708	(1,945)	14,433	-	(696)	-	12,500
Equity	(147)	2,437	-	1,371	-	18,403	22,064
Credit	-	-	-	6,248	-	-	6,248
Totals	$ 561	$ 1,980	$ 14,433	$ 4,713	$ (3,531)	$ 18,403	$ 36,559

Derivative notional amounts and values as of August 31, 2012 and 2011 discussed below are indicative of the volume of the Institute's activities for the years then ended.

Certain currency contracts described below are entered into by single-member Limited Liability Companies of the Institute. The Institute has issued a guarantee and commitment for one Limited Liability Company with a face value of $25 million for the net settlement of trades by them.

Foreign exchange contracts are over-the-counter contractual agreements primarily used to sell or buy certain amounts of foreign currencies as a means to control foreign exchange risk. These contracts are actively traded for the purpose of exploiting opportunities for arbitrage in the foreign currency market. The notional value of open forward contract purchases and sales totaled approximately $665.9 million and $501.2 million, respectively, at August 31, 2012 and $873.7 million and $308.9 million, respectively, at August 31, 2011.

Futures contracts are commitments to purchase or sell a financial instrument at a stated time and price in the future. They are generally used to increase exposure to a specific market or to reduce a specific risk. These contracts are settled daily to reflect the changes in their market values.

As of August 31, 2012 and 2011, the Institute had entered into various futures contracts with notional exposures at fair values as follows:

(In thousands)

	2012		2011	
	Buy	Sell	Buy	Sell
Equity Indexes	$ 33,060	$ 3,714	$ 45,978	$ 25,962
Commodities	32,370	7,666	35,727	5,563
Fixed Income	601,993	557,338	1,066,098	158,456
Total	$ 667,423	$ 568,718	$ 1,147,803	$ 189,981

Option contracts are typically contractual agreements to buy or to sell an underlying security or index at a fixed price. The Institute uses options as a means to manage exposure or risk to a specific equity, equity index, commodity or foreign currency. The notional amount of open purchased option contracts as of August 31, 2012 and 2011 was $976.0 million and $310.7 million, respectively. The notional amount of open written contracts was $54 million and $10 million as of August 31, 2012 and 2011, respectively. A swaption is an option to enter into an interest rate swap. The notional amount of open purchased swaptions as of August 31, 2012 was $643.3 million. There were no open written swaption contracts as of August 31, 2012. The notional amount of open purchased swaptions as of August 31, 2011 was $688.5 million. The notional amount of open written swaptions as of August 31, 2011 was $28.2 million.

Contracts for difference are agreements between a buyer and a seller to exchange the difference between the opening value of a share, currency, commodity, index or other tradable financial instrument and its closing value at the end of the contract. Contracts for differences are used by the Institute for the purpose of gaining financial exposure to an underlying security or index without the need to own the underlying shares. The notional amount of open contract for differences was $4.3 million and $(6.1) million as of August 31, 2012 and 2011, respectively

A swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows. Interest rate swaps are used to manage the Institute's fixed or floating assets and liabilities. Interest rate swaps related to the Institute's bonds and notes payable are discussed in Notes 4 and 6. There were no open Interest rate swaps related to investment strategies at August 31, 2012. Interest rate swaps related to investment strategy at August 31, 2011 had notional amount $5.7 million.

Equity swaps are exchanges of cash flows in which at least one of the indices is an equity index. An equity index is a measure of the performance of an individual stock or a basket of stocks. The notional amount was $8.4 million as of August 31, 2012. The notional amount of these swaps as of August 31, 2011 was $26.5 million.

Credit default swap contracts are used as a means to transfer credit risk of fixed income securities. Credit default swaps notional amounts were $275.6 million at August 31, 2012. Credit default swaps notional amounts were $171.0 million at August 31, 2011.

Receivables and Payables

The Institute's investment receivables and payables as of August 31, 2012 and 2011 consist of the following:

(In thousands)

	2012		2011	
	Receivable	Payable	Receivable	Payable
Short Sales	$ -	$ 115,444	$ -	$ 298,237
Securities Pending Settlement	96,648	73,698	111,769	158,867
Foreign Exchange Contracts	15,114	9,184	22,858	7,532
Interest and Dividend Receivable	16,929	-	19,567	-
Interest Rate Swap Contracts	-	171,722	-	118,769
Management Fees	-	10,942	-	15,857
Contracts for Difference	13,375	-	32,173	-
Credit Default Swap Contracts	10,060	-	10,270	-
Other	144	4,282	29	5,722
Total	$ 152,270	$ 385,272	$ 196,666	$ 604,984

Commitments, Obligations and Other

The Institute had loaned securities to third parties with a market value of approximately $62.9 million and $144.6 million at August 31, 2012 and 2011, respectively. In connection with the securities lending program, collateral must be maintained at 102% and 105% of the market value of domestic and foreign loaned securities, respectively. During the period securities are on loan all dividends and interest accrue to the third party. Collateral designated for the Institute's benefit by third parties is held at the Institute's custodian bank and not included in the Consolidated Statements of Financial Position. Loaned securities and collateral, which may consist of cash or U.S. Treasuries, are marked to market daily. The value of collateral posted was $65.7 million and $147.9 million at August 31, 2012 and 2011, respectively. Income from securities lending activities totaled

approximately $813 thousand and $1.1 million for fiscal years 2012 and 2011, respectively and is included in *Interest, Dividends, and Other Income from Investments.*

The Institute has entered into repurchase obligations as part of its overall investment strategy to leverage its operational needs and changes in interest rates. These repurchase agreements and related collateral, which consists of US Treasury notes and bonds with maturity dates that range up to eighteen years, are reflected in the Consolidated Statements of Financial Position as *Repurchase Obligations* and *Securities Pledged as Collateral.* The Institute has the obligation to repurchase $103.2 and $101.7 million of marketable securities for which the Institute had provided collateral of $103.3 million and $100.1 million to its counterparties as of August 31, 2012 and 2011, respectively.

The Institute incurred expenses in the production of investment income, which include routine internal operating expenditures, external management and incentive fees, custodial fees and interest expense related to the repurchase obligations mentioned earlier. These expenses totaled $92.6 million and $113.5 million for the fiscal years ended August 31, 2012 and 2011, respectively.

3. LABORATORY SPACE, EQUIPMENT AND OTHER PROPERTY

The cost and accumulated amortization and depreciation of the Institute's investment in laboratory space, equipment and other property at August 31, 2012 and 2011 are as follows:

(In thousands)	2012	2011
Laboratory space and leasehold improvements	$ 424,862	$ 422,202
Equipment, furniture and fixtures	547,743	516,288
Buildings	690,610	678,203
Land	89,763	89,763
	1,752,978	1,706,456
Accumulated amortization and depreciation	(919,283)	(851,181)
Total	$ 833,695	$ 855,275

Approximately $4.6 million and $2.8 million related to the construction at the Headquarters and Janelia Farm campuses, equipment and other property was included in *Accounts Payable and Accrued Expenses* at August 31, 2012 and 2011, respectively.

4. ECONOMIC DEVELOPMENT BONDS PAYABLE

On February 27, 2003, the Institute issued $500 million in tax-exempt bonds through The Industrial Development Authority of Loudoun County, Virginia to finance construction of the Janelia Farm Research Campus. The bonds carry a variable interest rate determined on a weekly basis and mature on February 15, 2038. Concurrently, the Institute entered into receive-variable, pay-fixed interest rate swaps with a total notional amount of $450 million. During fiscal year ended August, 2010, the Institute entered into a receive-variable pay-fixed 30-year interest rate swap with a single counterparty for the remaining $50 million of bonds. The interest rate swaps were entered into with several counterparties and have terms of 10 and 30 years. The net composite interest rate on the bonds and interest rate swaps for the fiscal years ended August 31, 2012 and 2011

was 3.04% and 3.13%, respectively. The interest expense for the fiscal years ended August 31, 2012 and 2011 was $15.2 million and $15.7 million respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $96.7 million and $76.6 million at August 31, 2012 and August 31, 2011, respectively which is included in *Investment Payables*.

On February 15, 2008, the Institute issued $83.5 million in tax-exempt bonds through the Maryland Economic Development Corporation ("MEDCO") to finance the expansion of the Institute's existing headquarters and conference facilities. The bonds carry a variable interest rate determined on a weekly basis and mature on February 15, 2043. The Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $83.5 million. The interest rate swap was entered into with a single counterparty with a term of 30 years. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2012 and 2011 was 3.27% and 3.33% respectively. The interest expense for the fiscal years ended August 31, 2012 and 2011 was $2.7 million, which approximates the net cash paid. The unrealized loss reflecting the market value of the swap was $28.6 million and $18.8 million at August 31, 2012 and August 31, 2011, respectively which is included in *Investment Payables.*

On May 15, 2008, the Institute issued $76.5 million of bonds through MEDCO to refund $76.5 million of outstanding bonds issued on November 8, 1990 to finance the construction of the Institute's headquarters and conference center complex. The bonds carry a variable interest rate determined on a weekly basis, and mature on May 15, 2043. The Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $76.5 million. The swap is with a single counterparty and has a remaining term of 24 years. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2012 and 2011 was 3.45% and 3.51%, respectively. The interest expense for the fiscal years ended August 31, 2012 and 2011 was $2.6 million and $2.8 million respectively, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $27.9 million and $19.3 million at August 31, 2012 and August 31 2011, respectively which is included in *Investment Payables.*

On October 2, 2009 the Institute issued $23 million of tax-exempt bonds through The Industrial Development Authority of Loudoun County, Virginia to finance the construction of a 60-unit apartment building at the Janelia Farm Research Campus, to be used by scientists and others engaged in research and administration at the Campus. The bonds carry a variable interest rate determined on a weekly basis and mature on October 1, 2039. For these bonds and the remaining balance of $50 million of Loudoun County Industrial Development Authority bonds described above, the Institute entered into receive-variable, pay-fixed interest rate swap at a rate of 2.75% with a total notional amount of $73 million. The interest rate swap was executed with one counterparty and has a term of 30 years. The net composite interest rate on the bonds and interest rate swap for the fiscal years ended August 31, 2012 and 2011 was 2.72% and 2.78%, respectively. The interest expense for the fiscal years ended August 31, 2012 and 2011 was $638,000 and $639,000, which approximates the net cash paid. The unrealized loss reflecting the market value of the swaps was $17.5 million and $2.8 million at August 31, 2012 and August 31, 2011, respectively which is included in *Investment Payables.*

Prior to the maturity of each of these tax-exempt bond issues, the Institute is obligated upon seven-day notice from a holder to redeem any or all bonds unless the remarketing agent is able to place the bonds with another party. To date, no remarketing agent has failed to fulfill their obligations

under their respective remarketing agreements. The Institute maintains sufficient cash and marketable securities to pay any bondholder redemption of part or all of the $683 million outstanding.

5. BONDS PAYABLE

On August 12, 2009, the Institute issued $600 million of taxable fixed rate bonds to establish a program spending reserve. The bonds mature in five years and carry an interest rate of 3.45%. Interest is payable semi-annually in March and September. The effective interest rate on the bonds for the fiscal years ended August 31, 2012 and 2011 was 3.62%. Interest expense for the fiscal years ended August 31, 2012 and 2011 was $21.7 million. Accrued interest at August 31, 2012 and 2011 was $10.4 million and $10.3 million respectively, and is included in *Accounts Payable and Accrued Expenses*. The Institute's taxable bonds payable are stated at face value. Fair value has been calculated by determining the net present value of future cash outlays under the debt agreement and using the effective interest rate. The total estimated fair value of the Institute's taxable bonds approximated the carrying value as of August 31, 2012 and 2011.

6. NOTES PAYABLE

In June 2003, the Institute entered into a 1-year renewable promissory note to finance the commercially-used land and buildings at the Janelia Farm Research Campus that could not be financed with tax-exempt debt. In May 2012, the Institute renewed the note, which has a current balance of $40.4 million and carries monthly interest payments based on the one-month LIBOR rate plus 0.185%. In May 2012 the Institute entered into a receive-variable, pay-fixed interest rate swap with a total notional amount of $40.4 million. The interest rate swap is with a single counterparty and has a term of 5 years. The net composite interest rate on the note and interest rate swap was 3.87% and 4.93% for the fiscal years ended August 31, 2012 and 2011 respectively. The unrealized loss reflecting the market value of the swap was $1.0 million at August 31, 2012, which is included in *Investment Payables*. Interest expense for the fiscal years ended August 31, 2012 and 2011 was $1.6 million and $2.0 million respectively, which approximates the net cash paid.

Net bond and note interest paid in cash was approximately $45.3 million and $46.3 million for the years ended August 31, 2012 and 2011, respectively.

The annual principal payments required for bond and notes payable are as follows:

(In thousands)

Year	
2013	$ 40,376
2014	600,000
2015	-
2016	-
Thereafter	683,000
Total	$ 1,323,376

7. COMMITMENTS AND CONTINGENCIES

Lease obligations - The Institute occupies space at various host institutions for medical research. The Institute's agreements with its host institutions include provisions for the annual payment of utilities and other space charges. Most of these agreements are for an indefinite term, others contain renewal options for periods of from 5 to 10 years. Minimum annual rents under these agreements generally are not fixed and vary from year to year depending on the number of investigators at the host institution, the amount of space occupied, and the length of their remaining terms.

Laboratory and other space charges, excluding amortization of leasehold improvements, totaled $83.8 million and $83.9 million for the years ended August 31, 2012 and 2011, respectively.

Estimated minimum annual rent and other payments due under these agreements as of August 31, 2012 are summarized below:

(In thousands) Year	
2013	$ 84,328
2014	84,195
2015	84,195
2016	84,195
2017	84,195
2018 - 2031	114,953
Total	$ 536,061

As of August 31, 2012, the Institute had entered into 22 capital leases totaling $26.3 million to cover scientific and information technology equipment. Interest paid on these obligations for the year ended August 31, 2012 and 2011was $293 thousand and $74 thousand, respectively. The Institute's capital lease obligation at August 31, 2012 and 2011 was $19.9 million and $3.5 million, respectively. Assets held under capital leases of $26.3 million and $4.7 million, net of accumulated amortization of $8.0 million and $982 thousand, are included in *Laboratory Space, Equipment, Buildings and Other Property, net* at August 31, 2012 and 2011, respectively. Amortization of assets under capital leases is included in either *Medical Research* or *General Administration* Expenses, depending upon the use of the asset. The following table presents future annual lease payments for the year ending August 31, 2012:

(In thousands) Year	
2013	$ 8,883
2014	7,755
2015	4,319
Total	$ 20,957

Grant commitments - The timing of the Institute's grant payments and the associated discount is presented below:

(In thousands)

Year		
2013	$	49,843
2014 - 2017		78,347
Total		128,190
Discount		(952)
Net Liability	$	127,238

Letter of Credit – The Institute held an irrevocable standby letter of credit with a bank in the amount not to exceed $10 million, with an expiration date of November 29, 2012. Sixty days prior to expiration, the letter of credit was automatically renewed for a period of one year from initial expiration date. The letter of credit expires November 29, 2013. The standby letter of credit serves as security for an investment.

8. EMPLOYEE BENEFITS

Defined Contribution Retirement Plans - The Institute contributes to defined contribution retirement plans offered through the Teachers Insurance and Annuity Association ("TIAA"), College Retirement Equities Fund ("CREF"), and Vanguard Funds for substantially all of its employees. The Institute's contributions to these plans were $22.4 million and $22.7 million for the years ended August 31, 2012 and 2011, respectively.

Deferred Compensation Plan - The Institute has an unfunded deferred compensation plan in accordance with Section 457(b) of the Internal Revenue Code. The fair value of the assets and related liability to employees in the amount of approximately $19.1 million and $16.5 million at August 31, 2012 and 2011 respectively, is reflected in the Consolidated Statements of Financial Position within *Other Assets* and *Accounts Payable and Accrued Expenses.*

9. POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Institute maintains unfunded defined postretirement and postemployment benefit plans that provide eligible retirees with medical, prescription drug, vision, dental, life insurance and disability programs. The total obligation for these benefits reflected in the Consolidated Statements of Financial Position was $287.3 million and $263.1 million at August 31, 2012 and 2011, respectively, which is the measurement date.

The following tables summarize the postretirement plan's funded status and the amount of the accumulated postretirement benefit plan costs for the years ended August 31, 2012 and 2011:

(In thousands) Accrued Benefit Liability:	2012	2011
Accumulated postretirement benefit obligation, beginning of year	$ 259,131	$ 257,109
Service cost	15,051	16,554
Interest cost	11,683	14,012
Employee contributions	144	126
Benefits paid net of contributions	(3,843)	(3,458)
Net actuarial (gain) loss	1,086	(25,370)
Medicare subsidies received	-	158
Accumulated benefit obligation, end of year	$ 283,252	$ 259,131
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	$ -	$ -
Medicare subsidies received	-	158
Employer contributions	3,699	3,332
Employee contributions	144	126
Employer contributions less subsidy received	-	(158)
Benefits paid	(3,843)	(3,458)
Fair value of plan assets, end of year	$ -	$ -
Reconciliation of funded status:		
Funded status	$ (283,252)	$ (259,131)
Unrecognized actuarial (gain)/loss	N/A	N/A
Unrecognized transition (asset)/obligation	N/A	N/A
Unrecognized prior term cost	N/A	N/A
Accumulated postretirement benefit liability included in the Consolidated Statements of Financial Position	$ (283,252)	$ (259,131)

The Institute's policy is to fund postretirement benefits as payments are made.

Components of net periodic benefit cost:		
Term/service cost	$ 15,051	$ 16,554
Interest cost	11,683	14,012
Immediate recognition of net actuarial loss/(gain)	1,086	(25,370)
Net periodic benefit cost	$ 27,820	$ 5,196

The Institute's policy is to immediately recognize all actuarial gains and losses; consequently there are no amounts not recognized in net periodic benefit cost. Because all gains and losses are recorded in the current period there are no amounts currently to be amortized from net assets into net periodic benefit cost for the year ended August 31, 2012.

The net periodic benefit cost for the postretirement benefit plan was $27.8 million and $5.2 million for the years ended August 31, 2012 and 2011, respectively. The discount rate assumed in determining the actuarial present value of accumulated postretirement benefit obligations was 4.3% and 5.3% as of August 31, 2012 and 2011, respectively. The average health care cost trend rate assumption used to determine the accumulated postretirement benefit obligation at

August 31, 2012 was 7.0% for fiscal year 2013 and decreases each successive year until it reaches 4.5% in fiscal year 2029. A one percent increase in each year of this annual trend rate would increase the accumulated postretirement benefit obligation at August 31, 2012 by approximately $53.1 million. A one percent decrease in the trend rate would decrease the accumulated postretirement benefit obligation at August 31, 2012 by approximately $41.9 million.

Health insurance is provided to disabled employees until the age of sixty-five. This postemployment benefit cost/(income) was $933,000 and $(329,000) for the years ended August 31, 2012 and 2011, respectively.

Under the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act, the Institute is eligible for a 28% subsidy from Medicare on its prescription drug benefits for Medicare-eligible retirees. The Medicare subsidy was reflected in the obligation as of August 31, 2012.

The postretirement benefits that are expected to be paid out under the plan in each of the next five fiscal years, which reflects expected future service, and in the aggregate for the five fiscal years thereafter, together with the related Medicare subsidy, are as follows:

(In thousands)

Year	Expected Benefit Payments	Expected Medicare Subsidy
2013	$ 5,270	$ 293
2014	6,011	353
2015	6,736	410
2016	7,567	467
2017	8,415	536
2018 - 2022	58,737	3,929

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents and receivables approximate fair value due to the short maturity of these financial instruments. Investments are reported at fair value as of the date of the consolidated financial statements. The carrying amounts of accounts payable, accrued payroll and related accruals approximates fair value due to their short maturity. The carrying amounts of notes and bonds payable with variable interest rates approximates their fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality.

11. TAXES

Tax refunds due or received on income totaled approximately $0.8 million and $8.2 million for the years ended August 31, 2012 and 2011, respectively. Taxes paid on income totaled approximately $0.2 million and $0.8 million for the years ended August 31, 2012 and 2011, respectively.

12. MEDICAL RESEARCH ORGANIZATION

The Institute is classified as a medical research organization for federal income tax purposes under section 170 (b)(1)(A)(iii) of the Internal Revenue Code of 1986, as amended (the "Code"). Consequently, the Institute is not a private foundation under Chapter 42 of the Code.

13. SUBSEQUENT EVENTS

Management has performed an evaluation of subsequent events through October 26, 2012 which is the date that the financial statements were available to be issued, noting no events which affect the financial statements as of August 31, 2012.