



COLD SPRING HARBOR LABORATORY

Consolidated Financial Statements

December 31, 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

The Board of Trustees
Cold Spring Harbor Laboratory:

We have audited the accompanying consolidated balance sheet of Cold Spring Harbor Laboratory (the Laboratory) as of December 31, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Laboratory's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Laboratory's 2005 consolidated financial statements and, in our report dated April 14, 2006, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Laboratory's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cold Spring Harbor Laboratory as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 2, 2007

COLD SPRING HARBOR LABORATORY

Consolidated Balance Sheet

December 31, 2006

(with comparative financial information as of December 31, 2005)

	<u>2006</u>	<u>2005</u>
Assets:		
Cash and cash equivalents	\$ 23,563,414	24,580,708
Accounts receivable	2,995,007	5,735,451
Grants receivable	7,859,380	8,352,217
Contributions receivable, net (Note 4)	43,226,518	47,578,065
Publications inventory	3,831,443	2,979,817
Prepaid expenses and other assets	3,720,386	2,015,019
Investments (Note 2)	308,108,275	256,675,871
Investment in employee residences (Note 5)	5,557,353	5,726,739
Restricted use assets (Note 6)	3,598,745	3,226,538
Deposits with bond trustee (Note 7)	46,014,949	—
Land, buildings and equipment, net (Note 8)	<u>130,942,408</u>	<u>115,851,522</u>
Total assets	<u>\$ 579,417,878</u>	<u>472,721,947</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable and accrued expenses (Note 11)	\$ 12,450,777	10,435,051
Deferred revenue	3,585,913	4,237,554
Bonds payable (Note 11)	<u>97,200,000</u>	<u>45,200,000</u>
Total liabilities	<u>113,236,690</u>	<u>59,872,605</u>
Net assets:		
Unrestricted (Note 12)	213,562,751	195,431,117
Temporarily restricted (Note 13)	82,791,081	70,289,399
Permanently restricted (Note 14)	<u>169,827,356</u>	<u>147,128,826</u>
Total net assets	<u>466,181,188</u>	<u>412,849,342</u>
Total liabilities and net assets	<u>\$ 579,417,878</u>	<u>472,721,947</u>

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Activities

the year ended December 31, 2006

(with summarized financial information for the year ended December 31, 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>	<u>2005 Total</u>
Revenue:					
Public support - contributions and non-Federal grant awards	\$ 21,344,574	23,169,757	14,917,606	59,431,937	83,882,020
Federal grant awards	33,128,165	—	—	33,128,165	32,067,800
Indirect cost allowances (Note 15)	20,258,404	—	—	20,258,404	19,558,159
Investment return utilized (Note 16)	10,741,551	—	—	10,741,551	9,576,065
Program fees	4,192,163	—	—	4,192,163	3,583,017
Publications sales	9,319,286	—	—	9,319,286	9,751,069
Dining services	3,780,431	—	—	3,780,431	3,349,002
Rooms and apartments	3,043,489	—	—	3,043,489	2,703,382
Royalty and licensing fees	693,345	—	—	693,345	2,873,198
Miscellaneous	931,666	—	—	931,666	652,207
Net assets released from restrictions	<u>10,668,075</u>	<u>(10,668,075)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenue	<u>118,101,149</u>	<u>12,501,682</u>	<u>14,917,606</u>	<u>145,520,437</u>	<u>167,995,919</u>
Expenses (Note 17):					
Research	62,822,726	—	—	62,822,726	57,766,809
Educational programs	13,565,968	—	—	13,565,968	13,207,352
Publications	9,351,363	—	—	9,351,363	9,432,319
Banbury Center conferences	1,124,415	—	—	1,124,415	1,396,425
Dolan DNA Learning Center programs	1,325,479	—	—	1,325,479	1,231,059
Watson School of Biological Sciences programs	2,973,896	—	—	2,973,896	2,848,109
General and administrative	13,619,460	—	—	13,619,460	13,267,025
Dining services	<u>4,981,661</u>	<u>—</u>	<u>—</u>	<u>4,981,661</u>	<u>4,684,031</u>
Total expenses	<u>109,764,968</u>	<u>—</u>	<u>—</u>	<u>109,764,968</u>	<u>103,833,129</u>
Excess of revenue over expenses before excess investment return and change in value of interest rate swap	8,336,181	12,501,682	14,917,606	35,755,469	64,162,790
Investment return in excess of amount utilized (Note 16)	13,165,561	—	7,780,924	20,946,485	8,264,298
Change in fair value of interest rate swap (Note 11)	<u>(3,370,108)</u>	<u>—</u>	<u>—</u>	<u>(3,370,108)</u>	<u>—</u>
Increase in net assets	18,131,634	12,501,682	22,698,530	53,331,846	72,427,088
Net assets at beginning of year	<u>195,431,117</u>	<u>70,289,399</u>	<u>147,128,826</u>	<u>412,849,342</u>	<u>340,422,254</u>
Net assets at end of year	<u>\$ 213,562,751</u>	<u>82,791,081</u>	<u>169,827,356</u>	<u>466,181,188</u>	<u>412,849,342</u>

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Cash Flows

Year ended December 31, 2006

(with comparative financial information for the year ended December 31, 2005)

	2006	2005
Cash flows from operating activities:		
Increase in net assets	\$ 53,331,846	72,427,088
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swap	3,370,108	—
Depreciation and amortization	6,032,302	5,852,278
Net appreciation in fair value of investments	(24,403,523)	(13,009,353)
Contributions restricted for long-term investment	(30,918,132)	(47,445,268)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	2,740,444	(3,247,129)
Decrease (increase) in grants receivable	492,837	(1,376,762)
Increase in contributions receivable	(31,856)	(125,496)
Increase in publications inventory	(851,626)	(34,718)
Decrease (increase) in prepaid expenses and other assets	535,210	(409,312)
Increase in restricted use assets	(372,207)	(321,615)
(Decrease) increase in accounts payable and accrued expenses	(1,042,172)	900,672
(Decrease) increase in deferred revenue	(651,641)	358,816
Net cash provided by operating activities	8,231,590	13,569,201
Cash flows from investing activities:		
Capital expenditures	(21,123,188)	(10,946,777)
Proceeds from sales and maturities of investments	97,347,685	134,357,645
Purchases of investments	(124,641,857)	(162,172,939)
Net change in investment in employee residences	434,677	(678,172)
Net cash used in investing activities	(47,982,683)	(39,440,243)
Cash flows from financing activities:		
Permanently restricted contributions	14,917,606	12,312,801
Contributions restricted for investment in land, buildings and equipment	16,000,526	35,132,467
Decrease (increase) in contributions receivable	4,383,403	(34,959,882)
Increase in deposits with bond trustee	(46,014,949)	—
Debt issue costs paid	(2,240,577)	—
(Decrease) increase in accounts payable relating to capital expenditures	(276,659)	2,031,084
Repayment of notes payable	(35,551)	(34,137)
Redemption of 1993 Suffolk IDA Bond	(3,000,000)	—
Proceeds from bonds issuance	55,000,000	—
Net cash provided by financing activities	38,733,799	14,482,333
Net decrease in cash and cash equivalents	(1,017,294)	(11,388,709)
Cash and cash equivalents at beginning of year	24,580,708	35,969,417
Cash and cash equivalents at end of year	\$ 23,563,414	24,580,708
Supplemental disclosures:		
Interest paid	\$ 2,614,630	1,134,372

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(1) Summary of Significant Accounting Policies

(a) Description of Business

Cold Spring Harbor Laboratory (Laboratory) is organized as an educational corporation under the laws of New York state. The Laboratory's primary objectives are to conduct research in cancer, neurobiology, bioinformatics, plants, and related subjects, to disseminate information, and to provide instruction and training through courses, meetings, publications, and a wide range of other educational activities. A substantial portion of the Laboratory's revenues are derived from federal government grants, which are awarded on a competitive basis. If there were a significant cutback in Federal Government research funding, it could have a material impact on the operations and cash flows of the Laboratory.

The Laboratory received approval from the Board of Regents of the State of New York to operate a graduate education program and confer the degrees of Doctor of Philosophy, Master of Science, and Doctor of Science, Honorary. The program operates under the name "Cold Spring Harbor Laboratory, Watson School of Biological Sciences." Funding has been provided through the establishment of an endowment dedicated to the graduate school.

(b) Basis of Presentation

The Laboratory's net assets and its revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets

Net assets that are not subject to donor imposed restrictions including the carrying value of all land, buildings and equipment. Items that affect this net asset category include revenue and expenses associated with the primary objectives of the Laboratory, as well as unrestricted gifts, including those designated by the Board of Trustees of the Laboratory (Trustees) to function as endowments. In addition, changes to this category of net assets include restricted gifts whose donor-imposed restrictions were met in the year received, through the passage of time, or through fulfillment of the restricted purpose.

Temporarily restricted net assets

Net assets subject to donor-imposed restrictions that will be met either by the actions of the Laboratory or the passage of time. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions in the accompanying consolidated statement of activities.

Permanently restricted net assets

Net assets subject to donor-imposed restrictions to be maintained permanently by the Laboratory, the income from which investments is expendable to support research, education and training. Realized and unrealized gains (losses) are added (subtracted) to permanently restricted net assets if so restricted by the donor. Otherwise, gains are expendable to support research and educational activities.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(1) Summary of Significant Accounting Policies and Practices (Cont'd)

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Laboratory and the Robertson Research Fund, Inc. (Corporation), a not-for-profit organization incorporated in 1972 to provide funds for the benefit of the Laboratory on a continuing basis, unless the Laboratory ceases to be exempt from taxation under the Internal Revenue Code. The Corporation is further described in note 18. All inter-company accounts and transactions have been eliminated in consolidation.

(d) Cash Equivalents

Cash equivalents consist principally of money market funds and short-term notes maturing within three months of the date of purchase. Cash equivalents approximated \$20,930,000 and \$23,141,000 at December 31, 2006 and 2005, respectively.

(e) Use of Estimates

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

(f) Publications Inventory

The publications inventory represents works in progress as well as published and offered for sale by the Laboratory. Amounts are stated at the lower of cost or estimated realizable value.

(g) Investments

Investments are recorded at fair value. Contributions of investment securities are recorded at their fair value at the date of the gift.

Included in investments are stocks that do not have a readily determinable fair value, which were received by the Laboratory from biotechnology companies in return for various rights to Laboratory-developed intellectual property. Upon the receipt of founders stock from a newly formed company, the value of each share of stock is based on the amount paid per share by the outside investor(s). The amount is reduced by an appropriate valuation allowance, reflecting the high risk associated with startup companies and limitations on the transferability of such stock, to arrive at the initial cost basis of the stock. The values of the stocks are not adjusted until either a) the company is determined to have no value, at which time the value of the stock is written off; b) the company is sold, at which time a gain or loss is recognized; or c) the company completes an initial public offering (IPO) and its stock becomes publicly traded on a securities exchange. At the time of the IPO, the value of the stock is increased to fair value based on the quoted price of the stock. The fair value is reduced by an appropriate valuation allowance if the stock is restricted by governmental or contractual requirements, or the Laboratory owns a large block of stock that could not be sold without potentially affecting the market price.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(1) Summary of Significant Accounting Policies and Practices (Cont'd)

(h) Contributions Receivable

Contributions receivable are recorded at their estimated net realizable value (discounted to present value at a risk-free rate).

(i) Land, Buildings and Equipment

Land, buildings and equipment are reported at cost. Donated books and periodicals and other assets are recorded at appraised value as of the date of gift. Depreciation is computed on the straight-line basis over the estimated useful lives (ranging from three to forty years) of all buildings and equipment. Land, buildings and equipment, and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Long-lived assets deemed to be impaired are written down to fair value.

(j) Deferred Revenue

Deferred revenue represents advances received on grants deemed to be exchange transactions, and amounts received for publication subscriptions and fees received, but not yet earned. Revenue is recognized in future periods as expenses are incurred or publications are shipped.

(k) Federal Income Tax Status

The Laboratory and the Corporation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(l) Comparative Financial Statements

The accompanying consolidated statement of activities is presented with certain 2005 summarized comparative information in the aggregate and not displayed by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Laboratory's 2005 financial statements from which the summarized comparative information was derived.

(m) Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(2) Investments

Investments at December 31, 2006 and 2005 were as follows:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Bonds	\$ -	-	1,223,588	1,206,520
Auction Rate Securities	43,575,000	43,575,000	24,304,605	24,304,605
Mutual Funds:				
Equity	52,366,506	75,724,004	47,543,284	66,532,786
Fixed Income	64,158,455	62,501,813	62,740,478	61,745,521
Stocks	80,508,170	118,738,032	66,629,069	96,037,566
Alternative Investments	5,788,983	7,569,426	5,730,124	6,848,873
	\$ 246,397,114	308,108,275	208,171,148	256,675,871

Included in stocks are the Laboratory's investment in biotechnology companies, which have a fair value (net of a valuation allowance) of approximately \$2,526,000 and \$1,993,000 at December 31, 2006 and 2005, respectively. As discussed in note 1, a valuation allowance of approximately \$1,190,000 and \$1,711,000 at December 31, 2006 and 2005, respectively, has been applied to these investments.

The Laboratory has invested \$900,000 in a limited partnership, which is included in alternative investments. Under the terms of the limited partnership agreement, the Laboratory is obligated to advance up to \$100,000 in additional funding for investment.

(3) Fair Value of Financial Instruments

The fair value of all financial instruments, other than bonds payable, approximates carrying value because of the short-term maturity of the instruments. The fair value of bonds payable approximates carrying value as these financial instruments bear interest at rates, which reflect approximate market rates for loans with similar characteristics, maturities and credit quality.

(4) Contributions Receivable

Contributions receivable consist of the following at December 31, 2006 and 2005:

	2006	2005
Contributions receivable	\$ 49,780,747	51,280,531
Less: discount to present value at rates ranging from 2.8% to 6.5%	(6,554,229)	(3,702,466)
	\$ 43,226,518	47,578,065

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(4) Contributions Receivable (Cont'd)

Contributions receivable are expected to be collected as follows:

	2006	2005
Within one year	\$ 16,780,218	28,498,612
One to five years	16,793,506	17,143,057
More than five years	16,207,023	5,638,862
	<u>\$ 49,780,747</u>	<u>51,280,531</u>

Approximately 80% of the contributions receivable at December 31, 2006 are represented by amounts due from seven sources – approximately \$7 million remaining on a capital grant from the New York State Gen*NY*sis program and six individual donor pledges totaling approximately \$33 million.

Also, included in contributions receivable is the Laboratory's interest in charitable remainder unitrusts. In accordance with the terms of the trusts, the Laboratory will receive a defined interest upon the death of the designated beneficiaries. The Laboratory's interest, net of the present value discount, approximated \$2,881,000 and \$2,560,000 at December 31, 2006 and 2005, respectively.

(5) Investment in Employee Residences

Investment in employee residences consists of (a) notes receivable collateralized by mortgages on residential properties owned by several key employees, and (b) the Laboratory's percentage ownership in residences inhabited by employees. Upon sale of these residences, the Laboratory will share in market value fluctuations of the real estate in proportion to its ownership in the residence. These investments were authorized by the board of trustees to enable such employees to purchase local residences. All costs of property ownership, including real estate taxes, are borne by the employees.

(6) Restricted Use Assets

In 2001, the Laboratory received a gift of a residence in Mill Neck, New York valued at \$1,400,000. Under the terms of the contribution, the donor will continue to reside at the residence. The Laboratory will be entitled to occupancy upon the death of the donor.

In 2002, the Laboratory recorded a gift of a residence in Oyster Bay, New York valued at \$840,000. Under the terms of the contribution, the donor and current occupant will continue to reside at the residence. Upon the death of the life tenant, the Laboratory will enter into a lease with the occupant for up to twelve months. At the end of the lease term the Laboratory will be entitled to occupancy of the residence.

In 2005, the Laboratory started a charitable gift annuity program. At December 31, 2006 and 2005, the fair value of segregated assets was \$146,953 and \$135,308, respectively.

The Laboratory has a supplemental executive retirement plan (SERP) for certain members of its management and scientific staff. The Laboratory has established a grantor trust, whereby the assets and income of the trust are assets and income of the Laboratory. At December 31, 2006 and 2005, the fair value of the assets in the trust was \$1,211,792 and \$851,230, respectively.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(7) Deposits with Bond Trustee

Deposits with bond trustee include the unexpended construction proceeds from the issuance of \$55 million in bonds in June 2006, which is further described in note 11. On September 26, 2006, the Laboratory executed an agreement with a financial institution to obtain a guaranteed investment contract to invest the proceeds. The funds, which are redeemable upon demand as expended, earn a 5.245% guaranteed rate until July 1, 2008, the termination date on the agreement.

(8) Land, Buildings and Equipment

Land, buildings and equipment at December 31, 2006 and 2005 consist of:

	2006	2005
Land and land improvements	\$ 15,367,865	15,308,612
Buildings	119,765,713	117,395,573
Furniture, fixtures and equipment	16,945,952	12,825,289
Laboratory equipment	20,188,330	19,765,305
Library books and periodicals	365,630	365,630
Construction in progress	24,984,953	11,672,359
	197,618,443	177,332,768
Less accumulated depreciation and amortization	(66,676,035)	(61,481,246)
Land, buildings and equipment, net	\$ 130,942,408	115,851,522

Construction in progress principally includes costs of construction and capitalized interest of the Hillside Campus. Cost of construction of the Hillside Campus is approximately \$23,797,000 and \$10,297,000 at December 31, 2006 and 2005, respectively. Capitalized interest of the Hillside Campus is approximately \$135,000 at December 31, 2006. The remaining balances are associated with various campus renovations ongoing at the Laboratory.

(9) Other Financing Arrangements

The Laboratory has a \$5,000,000 discretionary line of credit with JP Morgan Chase, which expires on June 30, 2007. The facility bears interest at prime plus 0.5%. At December 31, 2006 and 2005, there were no borrowings outstanding. The Laboratory expects to renew the facility upon expiration.

(10) Commitments Under Leases

On December 1, 2003, the Laboratory entered into a sixty-one month noncancelable operating lease for property located at 180 Oser Avenue, Hauppauge, New York. The monthly rental is \$5,365, or approximately \$327,000 over the lease term.

On January 1, 2005, the Laboratory entered into a five-year noncancelable operating lease with an optional five-year extension for property located at 266 Pulaski Road, Greenlawn, New York. The monthly rental is \$25,472, or approximately \$1,528,000 over the lease term.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(10) Commitments under Leases (Cont'd)

On June 30, 2006, the Laboratory entered into a three-year noncancelable capital lease for a DNA analyzer with a capitalized value of \$260,890. Depreciation expense associated with the capital lease was \$18,635 at December 31, 2006. The annual future lease payments and imputed interest are:

	Imputed Interest	Lease Payments
2007	\$ 13,308	96,667
2008	7,282	96,667
2009	1,293	56,389
	<u>\$ 21,883</u>	<u>249,723</u>

(11) Bonds Payable

During 1993, the Laboratory executed an agreement to obtain \$10 million of bond financing for the construction, purchase, renovation and equipping of Laboratory facilities, of which \$7 million was obtained through the Nassau County Industrial Development Agency (NCIDA), and \$3 million was obtained through the Suffolk County Industrial Development Agency (SCIDA). The \$7 million NCIDA bonds were refunded during 1999, as described below. The \$3 million SCIDA bonds were redeemed on July 3, 2006. Outstanding deferred bond costs on the \$3 million SCIDA issue of \$90,514 were written off at the time of redemption.

On April 1, 1999, the Laboratory executed an agreement to obtain \$42.2 million of bond financing through the NCIDA. Approximately \$5 million of the proceeds were used to reimburse the Laboratory for the purchase of property and a building located in Woodbury, New York. Approximately \$10 million of the proceeds were used, together with other available funds, to finance renovation, equipping and furnishing of the building. The property, purchased on June 1, 1998, houses additional research facilities and the editorial offices of the Cold Spring Harbor Laboratory Press. The remaining \$27 million of the proceeds were used to refund \$20 million 1989 Series bonds and \$7 million 1993 Series bonds issued through the NCIDA. The bonds, which mature on January 1, 2034, bear interest at a variable daily rate, which is payable on a monthly basis (3.98% as of December 31, 2006), and are secured by a revolving line of credit agreement issued by a financial institution. The interest rate is negotiated with the bondholders by the remarketing agent. The agreements contain certain covenants, including those relating to liquidity, net worth as defined, capital expenditures, restrictions of additional liens on certain Laboratory property and assumption of additional debt.

On June 27, 2006, the Laboratory executed an agreement to obtain \$55 million of bond financing through the NCIDA for the purpose of paying a portion of the cost of construction, installation and equipping of six research buildings and a chiller building consisting of approximately 120,000 square feet of space on the Laboratory's main campus in Laurel Hollow. The bonds bear interest at a seven day auction rate (3.10% as of December 31, 2006), which is payable on a weekly basis and are insured by a financial guarantee insurance policy issued by Financial Guarantee Insurance Company. The bonds, which mature on January 1, 2042, require annual principal payments beginning January 1, 2035.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(11) Bonds Payable (Cont'd)

In April 2006, the Laboratory entered into an interest rate swap agreement with a notional principal amount of \$97,200,000 to mitigate the risk of interest rates associated with the Series 1999 and Series 2006 bond issues. Under the terms of the agreement, the Laboratory pays interest at a predetermined fixed rate of 3.805% and receives 68% of the 1-month LIBOR on the notional principal amount. The swap agreement had an effective date of October 1, 2006 and a termination date of January 1, 2042. At December 31, 2006, the fair value of the interest rate swap was a liability of \$3,370,108 and is included in accounts payable and accrued expenses in the accompanying consolidated financial statements. The change in fair value is reported as other changes in net assets in the accompanying consolidated statement of activities.

In connection with the bond issues, financing costs of approximately \$2,818,000 were capitalized and are being amortized over the life of the bond issues. The financing costs are included in prepaid expenses and other assets in the accompanying consolidated balance sheet. Financing costs, net of amortization, were \$2,654,130 and \$552,109 at December 31, 2006 and 2005, respectively.

The effective average interest rate on all of the bonds outstanding during 2006 and 2005 approximated 3.4% and 2.4%, respectively.

(12) Unrestricted Net Assets

Unrestricted net assets at December 31, 2006 and 2005 consist of:

	2006	2005
General operating	\$ 25,841,678	16,185,887
Designated by Board for endowment	129,098,699	115,076,724
Net investment in plant	58,622,374	64,168,506
	\$ 213,562,751	195,431,117

(13) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2006 and 2005 consist of gifts restricted by the donors as follows:

	2006	2005
Capital projects	\$ 69,728,257	53,727,731
Research programs	9,810,630	13,252,289
Restricted use assets (Note 6)	2,240,000	2,240,000
Educational programs	1,012,194	1,069,379
	\$ 82,791,081	70,289,399

Included in temporarily restricted net assets for capital projects is approximately \$21.0 and \$10.3 million of amounts expended through December 31, 2006 and 2005 respectively, in connection with the

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

construction of the Hillside Campus. These net assets will be released from restriction upon completion of the project.

(14) Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2006 and 2005 are restricted in perpetuity with investment return available to support the following activities:

	<u>2006</u>	<u>2005</u>
Primary program services	\$ 120,988,715	101,195,082
Watson School of Biological Sciences programs	35,966,479	33,981,524
Operation and improvement of Banbury Center facilities	<u>12,872,162</u>	<u>11,952,220</u>
	<u>\$ 169,827,356</u>	<u>147,128,826</u>

(15) Indirect Cost Allowances

Indirect cost allowances recovered under certain government and other grants are accrued in the period the research is performed. For federal grants, these accruals are based on an approved indirect cost rate negotiated with the cognizant government granting agency. In 2006, the Laboratory negotiated a new agreement establishing predetermined rates for each of the years 2006 through 2008. As a result, the Laboratory should not, except for unforeseen changes in federal regulations, be subject to revisions of its predetermined indirect cost rates through the end of 2008. For nongovernment grants, indirect cost recoveries are accrued at various rates as allowed by the grantor.

(16) Investment Return Utilized

In accordance with the Laboratory's spending rate policy, 4% of a 12-quarter moving average of the market value of endowment investments is available each year for expenditure. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year earnings. If investment return is in excess of the authorized spending level, the balance is reinvested. Investment return utilized also includes amounts reimbursed from Board designated funds relating to certain Board-authorized expenses and investment return on working capital funds.

In accordance with the above spending policies, \$10,741,551 and \$9,576,065 were made available to support operations of the Laboratory for the years ended December 31, 2006 and 2005, respectively.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(16) Investment Return Utilized (Cont'd)

The following summarizes the Laboratory's total investment return for the years ended December 31, 2006 and 2005:

	2006		
	Unrestricted	Permanently restricted	Total
Interest and dividends on investments	\$ 7,284,513	-	7,284,513
Net appreciation on investments	16,622,599	7,780,924	24,403,523
Total return on investments	23,907,112	7,780,924	31,688,036
Investment return utilized	10,741,551	-	10,741,551
Investment return in excess of amount utilized	\$ 13,165,561	7,780,924	20,946,485
	2005		
	Unrestricted	Permanently restricted	Total
Interest and dividends on investments	\$ 4,831,010	-	4,831,010
Net appreciation on investments	8,799,118	4,210,235	13,009,353
Total return on investments	13,630,128	4,210,235	17,840,363
Investment return utilized	9,576,065	-	9,576,065
Investment return in excess of amount utilized	\$ 4,054,063	4,210,235	8,264,298

(17) Expenses

Expenses are reported in the accompanying consolidated statement of activities by their functional classifications as required by Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. The Laboratory's primary program services are research, education and instructional training through courses, meetings, publications and educational activities. Expenses reported as general and administrative, and dining services, are incurred in support of these primary program services. General and administrative expenses include approximately \$1,495,000 and \$1,382,000 of fund-raising expenses in 2006 and 2005, respectively.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(17) Expenses (Cont'd)

SFAS No. 117 also requires allocation of expenses, which relate to more than one program or supporting activity. Expenses of the Laboratory in this category include, but are not limited to, depreciation, interest, operation and maintenance of plant, library and direct research support. Amounts have been allocated to the programs and services using methods such as square footage, usage, and other financial methods.

	2006			2005		
	Direct			Direct		
	Functional Expenses	Allocated Expenses	Total	Functional Expenses	Allocated Expenses	Total
Research	\$ 44,818,423	18,004,303	62,822,726	43,518,523	14,248,286	57,766,809
Educational programs	11,536,507	2,029,461	13,565,968	11,044,596	2,162,756	13,207,352
Publications	8,968,389	382,974	9,351,363	9,018,698	413,621	9,432,319
Banbury Center conferences	624,962	499,453	1,124,415	817,561	578,864	1,396,425
Dolan DNALC programs	817,900	507,579	1,325,479	652,816	578,243	1,231,059
WSBS programs	2,427,043	546,853	2,973,896	2,202,723	645,386	2,848,109
General and administrative	11,398,227	2,221,233	13,619,460	10,898,702	2,368,323	13,267,025
Dining services	3,986,757	994,904	4,981,661	3,537,441	1,146,590	4,684,031
	\$ 84,578,208	25,186,760	109,764,968	81,691,060	22,142,069	103,833,129

(18) Robertson Research Fund, Inc.

The Corporation is administered by a nine member board of trustees, five of whom represent the Laboratory. The Corporation is composed of two funds; the Robertson Research Fund (Research Fund) and the Robertson Maintenance Fund (Maintenance Fund).

The Research Fund was established in 1972 to provide income to the Laboratory in support of educational facilities, basic scientific research and public dissemination of the results thereof, scholarship and fellowship awards, and auxiliary services, among other purposes.

The Maintenance Fund was established in 1976 to provide income exclusively for the improvement and operation of the Robertson house and appurtenant buildings and grounds at the Banbury Center of the Laboratory.

The Laboratory is entitled to receive all of the income of the Research and Maintenance Funds. In years when the distribution has been less than the total annual income of each fund, the difference has been reinvested along with the principal of the funds to offset the effects of inflation and to provide for future programs at the Laboratory.

(19) Retirement Plan

The Laboratory's employees are covered under a defined-contribution retirement plan by the Teachers Insurance and Annuity Association/College Retirement Equities Fund Plan (the Plan). The Laboratory remits contributions to the Plan based on a predetermined percentage of the participants' salaries. Total expense under the Plan approximated \$2,966,000 and \$2,755,000 for the years ended December 31, 2006 and 2005, respectively.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2006

(with comparative financial information as of and for the year ended December 31, 2005)

(20) Commitments & Contingencies

The Laboratory has entered into various construction contracts for the Hillside Campus project. At December 31, 2006, the Laboratory was committed to an additional amount on these contracts of approximately \$86,344,000.

The Laboratory is currently, and has in the past been, a party to routine litigation incidental to its business. The impact of the final resolution of these matters on the Laboratory's change in net assets or liquidity in a particular reporting period is not known. Management is of the opinion, however, that the ultimate outcome of such matters will not have a material adverse effect upon the Laboratory's financial condition or liquidity.