KPMG

COLD SPRING HARBOR LABORATORY

Consolidated Financial Statements

December 31, 2007

(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, 2007, 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 2006 consolidated financial statements and, in our report dated May 2, 2007, 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, 2007, 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

April 16, 2008

COLD SPRING HARBOR LABORATORY

Consolidated Balance Sheet

December 31, 2007

(with comparative financial information as of December 31, 2006)

		2007	2006
Assets:			
Cash and cash equivalents	$	25,576,470	23,563,414
Accounts receivable		2,669,325	2,995,007
Grants receivable		9,037,130	7,859,380
Contributions receivable, net (Note 4)		67,093,000	43,226,518
Publications inventory		4,033,100	3,831,443
Prepaid expenses and other assets (Note 11)		4,049,972	3,720,386
Investments (Note 2)		333,635,052	308,108,275
Investment in employee residences (Note 5)		5,446,047	5,557,353
Restricted use assets (Note 6)		3,991,338	3,598,745
Deposits with bond trustee (Note 7)		29,483,468	46,014,949
Land, buildings and equipment, net (Note 8)		159,204,452	130,942,408
Total assets	$	644,219,354	579,417,878
Liabilities and Net Assets:			
Liabilities:			
Accounts payable and accrued expenses (Note 11)	$	19,998,678	12,450,777
Deferred revenue		4,003,091	3,585,913
Bonds payable (Note 11)		97,200,000	97,200,000
Total liabilities		121,201,769	113,236,690
Commitment and contingencies (Note 20)			
Net assets:			
Unrestricted (Note 12)		219,853,852	213,562,751
Temporarily restricted (Note 13)		119,623,060	82,791,081
Permanently restricted (Note 14)		183,540,673	169,827,356
Total net assets		523,017,585	466,181,188
Total liabilities and net assets	$	644,219,354	579,417,878

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Activities

Year ended December 31, 2007

(with summarized financial information for the year ended December 31, 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Revenue and other support:					
Public support - contributions and non-Federal grant awards (Note 4)	$ 18,471,699	46,374,702	6,786,787	71,633,188	59,431,937
Federal grant awards	30,887,232	-	-	30,887,232	33,128,165
Indirect cost allowances (Note 15)	19,634,082	-	-	19,634,082	20,258,404
Investment return utilized (Note 16)	18,299,207	-	-	18,299,207	10,741,551
Program fees	4,103,754	-	-	4,103,754	4,192,163
Publications sales	10,404,661	-	-	10,404,661	9,319,286
Dining services	3,640,595	-	-	3,640,595	3,780,431
Rooms and apartments	2,804,675	-	-	2,804,675	3,043,489
Royalty and licensing fees	1,092,311	-	-	1,092,311	693,345
Miscellaneous	910,490	-	-	910,490	931,666
Net assets released from restrictions	9,542,723	(9,542,723)	-	-	-
Total revenue and other support	119,791,429	36,831,979	6,786,787	163,410,195	145,520,437
Expenses (Note 17):					
Research	65,315,923	-	-	65,315,923	62,822,726
Educational programs	12,017,459	-	-	12,017,459	13,565,968
Publications	10,241,091	-	-	10,241,091	9,351,363
Banbury Center conferences	1,342,587	-	-	1,342,587	1,124,415
Dolan DNA Learning Center programs	1,413,157	-	-	1,413,157	1,325,479
Watson School of Biological Sciences programs	3,206,295	-	-	3,206,295	2,973,896
General and administrative	13,111,199	-	-	13,111,199	13,619,460
Dining services	5,109,292	-	-	5,109,292	4,981,661
Total expenses	111,757,003	-	-	111,757,003	109,764,968
Excess of revenue and other support over expenses	8,034,426	36,831,979	6,786,787	51,653,192	35,755,469
Other changes in net assets:					
Investment return in excess of amount utilized (Note 16)	1,333,223	-	6,926,530	8,259,753	20,946,485
Change in fair value of interest rate swap (Note 11)	(3,076,548)	-	-	(3,076,548)	(3,370,108)
Increase in net assets	6,291,101	36,831,979	13,713,317	56,836,397	53,331,846
Net assets at beginning of year	213,562,751	82,791,081	169,827,356	466,181,188	412,849,342
Net assets at end of year	$ 219,853,852	119,623,060	183,540,673	523,017,585	466,181,188

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Cash Flows

Year ended December 31, 2007

(with comparative financial information for the year ended December 31, 2006)

		2007	2006
Cash flows from operating activities:			
Increase in net assets	$	56,836,397	53,331,846
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Change in fair value of interest rate swap		3,076,548	3,370,108
Depreciation and amortization		6,397,045	6,032,302
Net appreciation in fair value of investments		(17,332,229)	(24,403,523)
Contributions restricted for long-term investment		(9,760,257)	(30,918,132)
Changes in assets and liabilities:			
Decrease in accounts receivable		325,682	2,740,444
(Increase) decrease in grants receivable		(1,177,750)	492,837
Increase in contributions receivable		(26,406,799)	(31,856)
Increase in publications inventory		(201,657)	(851,626)
(Increase) decrease in prepaid expenses and other assets		(329,586)	535,210
Increase in restricted use assets		(392,593)	(372,207)
Decrease in accounts payable and accrued expenses		(560,202)	(1,042,172)
Increase (decrease) in deferred revenue		417,178	(651,641)
Net cash provided by operating activities		10,891,777	8,231,590
Cash flows from investing activities:			
Capital expenditures		(34,659,089)	(21,123,188)
Proceeds from sales and maturities of investments		84,438,846	97,347,685
Purchases of investments		(92,610,279)	(124,641,857)
Net change in investment in employee residences		88,191	434,677
Net cash used in investing activities		(42,742,331)	(47,982,683)
Cash flows from financing activities:			
Permanently restricted contributions		6,786,787	14,917,606
Contributions restricted for investment in land, buildings and equipment		2,973,470	16,000,526
Decrease in contributions receivable		2,540,317	4,383,403
Decrease (increase) in deposits with bond trustee		16,531,481	(46,014,949)
Debt issue costs paid		-	(2,240,577)
Increase (decrease) in accounts payable relating to capital expenditures		5,069,642	(276,659)
Repayment of notes payable		(38,087)	(35,551)
Redemption of 1993 Suffolk IDA Bond		-	(3,000,000)
Issuance of bonds payable		-	55,000,000
Net cash provided by financing activities		33,863,610	38,733,799
Net increase (decrease) in cash and cash equivalents		2,013,056	(1,017,294)
Cash and cash equivalents at beginning of year		23,563,414	24,580,708
Cash and cash equivalents at end of year	$	25,576,470	23,563,414
Supplemental disclosures:			
Interest paid	$	3,812,914	2,614,630

See accompanying notes to consolidated financial statements.

(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.

(1) Summary of Significant Accounting Policies (Continued)

(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 $20,072,000 and $20,930,000 at December 31, 2007 and 2006, 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 works published and offered for sale by the Laboratory. Amounts are stated at the lower of cost or estimated realizable value.

(g) Investments

Investments are reported at fair value based upon quoted market prices or, with respect to alternative investment funds, at estimated values provided by external investment managers. Their estimated values are reviewed and evaluated by the Laboratory. Due to the inherent uncertainties of certain of these estimates, these values may differ from the values that would have been used had a ready market existed for such investments. 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.

(1) Summary of Significant Accounting Policies and Practices (Continued)

(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. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainties in income taxes recognized in an enterprise’s financial statements and prescribes a threshold of more-likely-than-not for recognition and de-recognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. There was no material impact to the Laboratory’s consolidated financial statements as a result of the adoption of FIN 48.

(l) Comparative Financial Statements

The accompanying consolidated statement of activities is presented with certain 2006 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 2006 financial statements from which the summarized comparative information was derived.

(m) Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

(2) Investments

Investments at December 31, 2007 and 2006 were as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Auction Rate Securities	$ 60,275,000	60,275,000	43,575,000	43,575,000
Mutual Funds:				
Equity	63,033,724	83,796,164	52,366,506	75,724,004
Fixed Income	62,456,102	62,531,440	64,158,455	62,501,813
Stocks	85,892,610	118,340,860	80,508,170	118,738,032
Alternative Investments	5,717,000	8,691,588	5,788,983	7,569,426
	$ 277,374,436	333,635,052	246,397,114	308,108,275

Included in stocks are the Laboratory's investment in biotechnology companies, which have a fair value (net of a valuation allowance) of approximately $132,265 and $2,526,000 at December 31, 2007 and 2006, respectively. As discussed in note 1, a valuation allowance of approximately $1,190,000 at December 31, 2007 and 2006 has been applied to these investments.

The Laboratory has invested $930,000 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 $70,000 in additional funding for the 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, 2007 and 2006:

	2007	2006
Contributions receivable	$ 75,978,689	49,780,747
Less: discount to present value at rates ranging from 2.8% to 6.5%	(8,885,689)	(6,554,229)
	$ 67,093,000	43,226,518

(4) Contributions Receivable (Continued)

Contributions receivable are expected to be collected as follows:

		2007	2006
Within one year	$	23,603,910	16,780,218
One to five years		36,157,032	16,793,506
More than five years		16,217,747	16,207,023
	$	75,978,689	49,780,747

Contributions receivable at December 31, 2007 include eleven individual pledges representing approximately 81% of the amount due, with $20 million due from a single donor. Included in contributions revenue is a $25 million pledge ($23 million discounted value) relating to the furtherance of autism research.

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 $2,970,000 and $2,881,000 at December 31, 2007 and 2006, 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 either share in market value fluctuations of the real estate in proportion to its ownership in the residence, or receive reimbursement of the outstanding mortgage balance. 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, 2007 and 2006, the fair value of segregated assets was $189,411 and $146,953, 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, 2007 and 2006, the fair value of the assets in the trust was $1,561,927 and $1,211,792, respectively.

(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, 2007 and 2006 consist of:

		2007	2006
Land and land improvements	$	15,433,720	15,367,865
Buildings		122,686,654	119,765,713
Furniture, fixtures and equipment		19,166,805	16,945,952
Laboratory equipment		22,419,863	20,188,330
Library books and periodicals		365,630	365,630
Construction in progress		51,328,597	24,984,953
		231,401,269	197,618,443
Less accumulated depreciation and amortization		(72,196,817)	(66,676,035)
Land, buildings and equipment, net	$	159,204,452	130,942,408

Construction in progress principally includes costs of construction and capitalized interest of the Hillside Campus. Cost of construction of the Hillside Campus is approximately $48,766,000 and $23,797,000 at December 31, 2007 and 2006, respectively. Capitalized interest of the Hillside Campus is approximately $732,400 and $135,800 at December 31, 2007 and 2006, respectively. 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, 2008. The facility bears interest at prime plus 0.5%. At December 31, 2007 and 2006, 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.

(10) Commitments under Leases (Continued)

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 $37,270 and $18,635 at December 31, 2007 and 2006, respectively. The annual future lease payments and imputed interest are:

		Imputed Interest	Lease Payments
2008	$	7,282	96,667
2009		1,293	56,389
	$	8,575	153,056

(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 (3.73% as of December 31, 2007), 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 (3.50% as of December 31, 2007), 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.

The 2006 bond documents include a provision which limits the interest rate to a maximum of 14% either through the auction process or in the event of a failed auction. There have been no failed auctions and the rate reset at the most recent auction on April 15, 2008 was 2.80% (see note 21).

(11) Bonds Payable (Continued)

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 one-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. The fair value of the interest rate swap was a liability of $6,446,656 and $3,370,108 at December 31, 2007 and 2006, respectively, 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 $2,637,644 and $2,654,130 at December 31, 2007 and 2006, respectively.

Interest expense on bonds outstanding during 2007 and 2006 was $3,782,356 and $2,625,929, respectively. The effective average interest rate on all of the bonds outstanding during 2007 and 2006 approximated 3.52% and 3.40%, respectively.

(12) Unrestricted Net Assets

Unrestricted net assets at December 31, 2007 and 2006 consist of:

		2007	2006
General operating	$	38,614,627	25,841,678
Designated by Board for endowment		126,579,772	129,098,699
Net investment in plant		46,609,899	58,622,374
Research start up		8,049,554	-
	$	219,853,852	213,562,751

(13) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2007 and 2006 consist of gifts restricted by the donors as follows:

		2007	2006
Capital projects	$	53,418,260	51,051,995
Research programs		41,458,682	9,810,630
Research start up		3,685,303	-
Restricted use assets (Note 6)		2,240,000	2,240,000
Educational programs		1,634,352	1,012,194
Time restricted		17,186,463	18,676,262
	$	119,623,060	82,791,081

(13) Temporarily Restricted Net Assets (Continued)

Included in temporarily restricted net assets for capital projects is approximately $44.9 million and $21.0 million of amounts expended through December 31, 2007 and 2006, respectively, in connection with the 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, 2007 and 2006 are restricted in perpetuity with investment return available to support the following activities:

		2007	2006
Primary program services	$	132,182,028	120,988,715
Watson School of Biological Sciences programs		37,701,042	35,966,479
Operation and improvement of Banbury Center facilities		13,657,603	12,872,162
	$	183,540,673	169,827,356

(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.

For the year ended December 31, 2007, the Board of Trustees authorized a one-year 5% spend down on endowed investments. In accordance with the above spending policies, $18,299,207 and $10,741,551 were made available to support operations of the Laboratory for the years ended December 31, 2007 and 2006, respectively.

(16) Investment Return Utilized (Continued)

The following summarizes the Laboratory's total investment return for the years ended December 31, 2007 and 2006:

	2007		
	Unrestricted	Permanently restricted	Total
Interest and dividends on investments	$ 9,153,542	-	9,153,542
Net appreciation on investments	10,478,888	6,926,530	17,405,418
Total return on investments	19,632,430	6,926,530	26,558,960
Investment return utilized	18,299,207	-	18,299,207
Investment return in excess of amount utilized	$ 1,333,223	6,926,530	8,259,753

	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

(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 $1,420,000 and $1,495,000 of fund-raising expenses in 2007 and 2006, respectively.

(17) Expenses (Continued)

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.

	2007			2006		
	Direct Functional Expenses	Allocated Expenses	Total	Direct Functional Expenses	Allocated Expenses	Total
Research	$ 45,073,006	20,242,917	65,315,923	44,818,423	18,004,303	62,822,726
Educational programs	9,829,796	2,187,663	12,017,459	11,536,507	2,029,461	13,565,968
Publications	9,850,281	390,810	10,241,091	8,968,389	382,974	9,351,363
Banbury Center conferences	788,120	554,467	1,342,587	624,962	499,453	1,124,415
Dolan DNALC programs	916,359	496,798	1,413,157	817,900	507,579	1,325,479
WSBS programs	2,693,897	512,398	3,206,295	2,427,043	546,853	2,973,896
General and administrative	10,716,241	2,394,958	13,111,199	11,398,227	2,221,233	13,619,460
Dining services	4,044,909	1,064,383	5,109,292	3,986,757	994,904	4,981,661
	$ 83,912,609	27,844,394	111,757,003	84,578,208	25,186,760	109,764,968

(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 $2,979,000 and $2,966,000 for the years ended December 31, 2007 and 2006, respectively.

(20) Commitments & Contingencies

The Laboratory has entered into various construction contracts for the Hillside Campus and Carnegie Library renovation projects. At December 31, 2007, the Laboratory was committed to an additional amount on these contracts of approximately $67,071,010.

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.

(21) Subsequent Event

Beginning April 1, 2008, the Laboratory submitted bids for 100% of the outstanding 2006 Nassau County Industrial Development Agency Bonds, further described in note 11, at an interest rate equivalent to The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, plus a spread of 1.00%. As of April 15, 2008 the Laboratory has successfully purchased a total of $31,350,000 of the outstanding 2006 Series Bonds. The Laboratory intends to continue to bid in one or more additional auctions for all bonds not owned by the Laboratory.