



IMMUNE DISEASE INSTITUTE, INC.
Consolidated Financial Statements
June 30, 2007 and 2006
(With Independent Auditors' Report Thereon)



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Independent Auditors' Report

The Board of Directors
Immune Disease Institute, Inc.:

We have audited the accompanying consolidated statements of financial position of Immune Disease Institute, Inc. (IDI) as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of IDI's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 IDI's internal control over financial reporting. Accordingly, we express no such opinion. 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IDI as of June 30, 2007 and 2006, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 26, 2007, on our consideration of IDI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

KPMG LLP

November 26, 2007

IMMUNE DISEASE INSTITUTE, INC.

Consolidated Statements of Financial Position

June 30, 2007 and 2006

Assets	2007	2006
Cash and cash equivalents	\$ 694,011	1,448,482
Cash held in trust (notes 7 and 8)	1,412,070	1,023,227
Accounts receivable, net (note 3)	819,556	563,900
Unbilled grants receivable	2,129,338	1,168,978
Contributions receivable, net (note 3)	207,731	291,682
Prepaid expenses and other assets (note 7)	1,061,861	929,296
Investments (note 4)	21,672,021	19,467,128
Notes receivable (note 5)	780,474	436,672
Property, plant, and equipment, net (note 6)	4,159,170	3,189,765
Total assets	<u>\$ 32,936,232</u>	<u>28,519,130</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,538,218	1,479,935
Accrued and other liabilities	1,580,293	924,711
Deferred revenue	300,960	328,135
Lease of real property (note 7)	12,000,000	11,000,000
Capital leases (note 7)	2,186,992	1,695,876
Debt (note 8)	1,591,225	2,365,599
Total liabilities	<u>20,197,688</u>	<u>17,794,256</u>
Net assets:		
Unrestricted	10,193,359	8,307,583
Temporarily restricted (note 9)	744,032	599,038
Permanently restricted (note 9)	1,801,153	1,818,253
Total net assets	<u>12,738,544</u>	<u>10,724,874</u>
Total liabilities and net assets	<u>\$ 32,936,232</u>	<u>28,519,130</u>

See accompanying notes to consolidated financial statements.

IMMUNE DISEASE INSTITUTE, INC.

Consolidated Statements of Activities

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating:		
Revenues:		
Research grants (note 10)	\$ 38,441,937	35,677,668
Net sales	143,160	94,310
Total operating revenues	<u>38,585,097</u>	<u>35,771,978</u>
Expenses:		
Research:		
Direct costs	25,460,526	23,220,834
Overhead applied	13,069,172	12,474,522
	<u>38,529,698</u>	<u>35,695,356</u>
Management and general:		
Unapplied	1,859,765	1,389,907
Total operating expenses	<u>40,389,463</u>	<u>37,085,263</u>
Decrease in unrestricted net assets from operations	<u>(1,804,366)</u>	<u>(1,313,285)</u>
Nonoperating:		
Investment return (note 4)	2,680,546	930,862
Loss related to exit activities	—	(152,476)
Contributions	281,429	220,828
Net assets released from restrictions	79,927	55,346
Rental, royalties and other	648,240	726,969
Total nonoperating revenue	<u>3,690,142</u>	<u>1,781,529</u>
Increase in unrestricted net assets	<u>1,885,776</u>	<u>468,244</u>
Changes in temporarily restricted net assets:		
Contributions	84,598	43,861
Investment return (note 4)	140,323	71,399
Net assets released from restrictions	(79,927)	(55,346)
Increase in temporarily restricted net assets	<u>144,994</u>	<u>59,914</u>
Changes in permanently restricted net assets:		
Other	(17,100)	(36,071)
Decrease in permanently restricted net assets	<u>(17,100)</u>	<u>(36,071)</u>
Change in net assets	2,013,670	492,087
Net assets at beginning of year	<u>10,724,874</u>	<u>10,232,787</u>
Net assets at end of year	<u>\$ 12,738,544</u>	<u>10,724,874</u>

See accompanying notes to consolidated financial statements.

IMMUNE DISEASE INSTITUTE, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,013,670	492,087
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,063,103	1,120,057
Net realized and unrealized gain on investments	(2,062,603)	(556,800)
Contributions restricted for long-term investment	—	(8,174)
Changes in assets and liabilities:		
Accounts receivable, net	(255,656)	234,966
Unbilled grants receivable	(960,360)	1,307,514
Contributions receivable, net	83,951	119,451
Prepaid expenses and other assets	(132,565)	(24,425)
Accounts payable, accrued expenses and other liabilities	1,713,865	(1,444,352)
Deferred revenue	(27,175)	(205,702)
Net cash and cash equivalents provided by operating activities	<u>1,436,230</u>	<u>1,034,622</u>
Cash flows from investing activities:		
Purchases of marketable securities	(14,934,725)	(14,151,103)
Proceeds from sales and maturities of marketable securities	14,792,435	5,174,205
Additions to property, plant and equipment	(2,032,508)	(1,356,674)
Advances on notes receivable	(480,265)	(34,424)
Payments on notes receivable	136,463	101,298
Net cash and cash equivalents used in investing activities	<u>(2,518,600)</u>	<u>(10,266,698)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	—	8,174
Cash held in trust	(388,843)	(255,108)
Repayment of debt	(774,374)	(1,093,219)
Proceeds from capital lease	1,125,065	1,053,000
Capital lease payments	(633,949)	(598,604)
Proceeds from lease of real property	1,000,000	11,000,000
Net cash and cash equivalents provided by financing activities	<u>327,899</u>	<u>10,114,243</u>
Change in cash and cash equivalents	(754,471)	882,167
Cash and cash equivalents at beginning of year	<u>1,448,482</u>	<u>566,315</u>
Cash and cash equivalents at end of year	\$ <u><u>694,011</u></u>	\$ <u><u>1,448,482</u></u>
Supplemental information:		
Cash paid for interest	\$ 977,339	335,829
Income taxes paid	—	456

See accompanying notes to consolidated financial statements.

IMMUNE DISEASE INSTITUTE, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(1) Organization

Immune Disease Institute, Inc. (IDI) (formerly CBR Institute for Biomedical Research, Inc.), a not-for-profit organization, conducts research on the functions and uses of components of blood and other tissues, and trains medical and scientific personnel in research. The research projects are funded by private organizations and Federal government agencies under grants and contracts that provide for reimbursement of specific expenditures.

In June 1982, IDI formed a wholly-owned subsidiary, CBR Laboratories, Inc. (CBR Labs), which was established as a taxable, profit-oriented entity to perform those service-related functions previously performed by IDI. In June 2007, CBR Labs was liquidated and any remaining assets became the property of IDI.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of IDI and its wholly owned subsidiary, CBR Labs. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Basis of Consolidated Financial Statement Presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting and have been prepared to focus on IDI as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Unrestricted net assets represent those assets that IDI may use at its discretion.

Temporarily restricted net assets result from contributions and other inflows of assets whose use by IDI is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of IDI pursuant to those stipulations.

Permanently restricted net assets result from contributions and other inflows of assets whose use by IDI is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of IDI.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a qualifying expenditure occurs or a time restriction expires, temporarily restricted assets are recognized in unrestricted net assets as net assets released from restrictions in the consolidated statements of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as an unrestricted contribution.

Dividends, interest, and realized and unrealized gains (losses) on investments are reported as follows:

- Increases in permanently restricted net assets if the terms of the contribution require these to be added to the principal;

IMMUNE DISEASE INSTITUTE, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

- Increase (decrease) in temporarily restricted net assets if the terms of the contribution or IDI's interpretation of relevant state law imposes restrictions on the use of the income and gains; and
- Increase (decrease) in unrestricted net assets in all other cases.

(c) Cash Equivalents

Cash equivalents represent money market funds and short-term instruments with a maturity at the date of purchase of three months or less and are carried at cost, which approximates market value.

(d) Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these pledges are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

(e) Investments

Investments are stated at fair value. The fair value of investments is based on quoted market prices. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the fair value of investments has been included in the consolidated statements of activities in the appropriate net asset classification.

IDI has relied upon the Massachusetts Attorney General's interpretation of relevant state law as generally permitting the spending of gains on permanently restricted net assets over a stipulated period of time. State law allows the board of directors to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering IDI's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

(f) Property, Plant, and Equipment

Land, buildings, plant renovations, repairs, and equipment are stated at cost at the date of acquisition or renovation, or at fair market value at date of donation in the case of gifts. Minor renovations and repairs are charged to operations and maintenance as incurred. Depreciation of plant and equipment is computed on a straight-line basis over the expected lives of the respective assets, as follows:

Buildings	20-40 years
Alterations	5-40 years
Furniture, fixtures, and equipment	3-5 years

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Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(g) *Split-Interest Agreements*

IDI is a beneficiary of a charitable remainder trust held by a trustee. At the date the trust was established, a receivable and contribution revenue were recognized at the present value of the estimated future benefits to be received when the trust assets are distributed. The receivable is adjusted during the term of the trust for the accretion of the discount, which is reported in the consolidated statements of activities.

(h) *Use of Estimates*

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

(i) *Grants and Contracts*

IDI records grant-related expenditures and the corresponding grant revenue on research projects as the related expenditures are incurred. Unbilled grants receivable represent allowable grant expenditures for which IDI has not been reimbursed as of the end of the fiscal year. Grants and contracts awarded, but for which funding has not been received, are not included in the accompanying consolidated financial statements.

Reimbursable amounts include direct expenditures for labor and materials, as well as indirect costs applied to research projects. Indirect costs related to Federal grants are recorded at a predetermined rate.

(j) *Income Taxes*

IDI is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

(k) *Deferred Revenue*

Advance payments made on research-related grants and contracts are recorded as deferred revenue until the related expenditure is incurred.

(l) *Revenue Recognition*

Revenues are recognized when diagnostic reagents and products are shipped, when testing services are completed and as costs are incurred on contract research.

(m) *Operations*

The consolidated statements of activities report the changes in net assets from operating and nonoperating activities. Nonoperating activity reflects contributions, realized and unrealized gains (losses) on investments, and equity in subsidiary. All other activity, predominantly research, is classified as operating revenue.

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Expenses associated with fundraising activities of IDI amounted to \$315,668 and \$560,069 in 2007 and 2006, respectively, and are included in management and general unapplied expenses on the consolidated statements of activities.

(n) Reclassifications

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

(3) Contributions and Accounts Receivable

Contributions receivable as of June 30 included the following:

	2007	2006
Amounts due in:		
Less than one year	\$ 45,214	56,124
One to five years	—	90,000
Charitable remainder trust	162,517	153,637
Less discount and allowance for uncollectibles	—	(8,079)
Contributions receivable, net	\$ 207,731	291,682

Accounts receivable are net of an allowance for doubtful accounts of \$40,893 and \$9,483 as of June 30, 2007 and 2006, respectively.

(4) Investments

Investments as of June 30 are summarized as follows:

	2007		2006	
	Cost	Fair value	Cost	Fair value
Equity mutual funds	\$ 20,728,505	21,460,112	17,775,840	19,253,141
Common and preferred stocks	102,768	185,093	102,768	201,035
Cash and cash equivalents	26,816	26,816	12,952	12,952
Total	\$ 20,858,089	21,672,021	17,891,560	19,467,128

The following summarizes the investment return for the years ended June 30:

	2007	2006
Interest and dividends	\$ 758,266	445,461
Net unrealized (loss) gain	(761,636)	304,388
Net realized gain	2,824,239	252,412
Investment return	\$ 2,820,869	1,002,261

Total investment management fees were \$70,969 and \$27,997 for the years ended June 30, 2007 and 2006, respectively, and are included in management and general unapplied expenses.

IMMUNE DISEASE INSTITUTE, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(5) Notes Receivable

IDI purchased a promissory note from an unrelated third party for \$85,000, which was made between the unrelated third party and an employee of IDI. This promissory note was purchased as part of an incentive to acquire this individual's services as an investigator for IDI. The promissory note carries interest of 5% per annum, is payable monthly, with the then-remaining principal balance due on May 28, 2017. The unpaid principal balance on the promissory note as of June 30, 2007 and 2006 was \$51,756 and \$55,908, respectively. The promissory note is secured by a mortgage on the employee's residence and was purchased without recourse to the third party.

IDI has a note receivable, which has been amended for additional borrowings, from an employee that was issued as part of the Educational Loan Program for Tenured Professors. The note is interest free. Repayment is over ten years through equal, semimonthly payroll deductions. The principal balance as of June 30, 2007 and 2006 was \$238,718 and \$180,765, respectively.

IDI has a note receivable from an officer with an unpaid principal balance of \$240,000 and \$20,000 as of June 30, 2007 and 2006, respectively. The note is interest free. The original note was paid off in 2007 with a \$20,000 payment made July 2006. A new note was issued during 2007 for \$300,000, \$60,000 was repaid during 2007 with annual principal repayments of \$60,000 due each July through 2010.

IDI has a note receivable from an officer with an unpaid principal balance of \$160,000 and \$180,000 as of June 30, 2007 and 2006, respectively. The note is interest free, with annual principal repayments of \$20,000 due each February through 2015.

IDI has a note receivable from a Senior Investigator with an unpaid principal balance of \$90,000 as of June 30, 2007. The note is interest free, with annual principal repayments of \$10,000 due each June through 2016.

(6) Property, Plant, and Equipment

Property, plant, and equipment as of June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 464,128	464,128
Buildings	1,596,822	1,596,822
Equipment	10,951,228	10,169,496
Alterations	6,060,672	5,846,127
	<u>19,072,850</u>	<u>18,076,573</u>
Less accumulated depreciation	<u>(14,913,680)</u>	<u>(14,886,808)</u>
Property, plant, and equipment, net	<u>\$ 4,159,170</u>	<u>3,189,765</u>

Depreciation expense was \$1,063,103 and \$1,120,057 for the years ended June 30, 2007 and 2006, respectively.

Fully depreciated assets, with an original cost of \$1,036,230 and \$70,124, were disposed of during the years ended June 30, 2007 and 2006, respectively. As of June 30, 2007 and 2006, equipment with a net book value of \$1,980,633 and \$1,463,412, respectively, was acquired under a capital lease.

IMMUNE DISEASE INSTITUTE, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(7) Leases

Operating Leases

IDI is party to a twenty-year noncancelable operating lease commitment to sublease certain research space and equipment from Blood Research Institute, Inc. (BRI), a related party. The lease expires on August 31, 2012. Under the terms of the lease, IDI is required to pay minimum lease payments ranging from \$1,580,000 to \$1,700,000 a year, representing the basic rent as defined in the sublease agreement. The sublease also requires IDI to pay certain operating and maintenance expenses allocable to the subleased space, which for the years ended June 30, 2007 and 2006, amounted to \$1,208,769 and \$981,528, respectively. IDI has the option to extend the sublease for two consecutive periods of ten years at the then prevailing market rental rate. The sublease is subject and subordinate to a certain lease between BRI and its landlord. IDI has recorded rental expense in the sublease on a straight-line basis over the initial term of the lease, resulting in IDI recording prepaid rent of \$631,829 and \$449,776 as of June 30, 2007 and 2006, respectively, which is included in other assets.

On May 25, 2006 IDI entered into an agreement to lease approximately 50,000 rentable square feet. The initial term of the lease is 15 years with two 10-year options to extend the lease. The rent commencement date is the later of the "delivery date" defined as the date IDI first occupies the building, or April 1, 2008. The base rent is \$73.50 per rentable square foot per annum with adjustments for the Consumer Price Index at the beginning of the sixth and eleventh years of the lease term. In addition, IDI will be responsible for its pro-rata share of taxes, insurance, utilities and other operating expenses. In connection with this transaction, IDI was required to deliver a letter of credit in the amount of \$2,160,778 as a security deposit.

IDI leases various other office and research space under operating leases that expire through May 25, 2021.

Combined rental expense and ancillary costs including real estate and common area maintenance costs under all of IDI's lease agreements was \$4,038,936 and \$4,238,029 for the years ended June 30, 2007 and 2006, respectively, of which \$1,356,785 and \$1,000,000 was for ancillary and common area maintenance costs for the years ended June 30, 2007 and 2006, respectively. The combined future lease payments for the year ended June 30, 2007 are as follows:

2008	\$	4,284,991
2009		6,800,045
2010		6,716,671
2011		5,481,067
2012		4,930,319
Thereafter		<u>39,306,096</u>
Total	\$	<u><u>67,519,189</u></u>

Capital Leases

IDI financed the purchase of equipment totaling \$6,523,072 through the Massachusetts Health and Educational Facilities Authority (MHEFA). During 2007, MHEFA provided additional financing of \$1,125,065. Principal and interest are payable semiannually through 2012, at annual interest rates ranging from 3.92% to 4.65%.

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June 30, 2007 and 2006

Principal and interest payments due under the capital lease for the years ending June 30 are as follows:

2008	\$	693,632
2009		486,967
2010		486,967
2011		486,967
2012		249,992
		<hr/>
Total capital lease payments		2,404,525
		<hr/>
Less amount representing interest		(217,533)
		<hr/>
Capital lease obligation	\$	<u>2,186,992</u>

Equipment purchases funded by the capital lease for the years ended June 30, 2007 and 2006 totaled \$897,754 and \$285,842, respectively. As of June 30, 2007, unexpended proceeds of \$1,394,411 were held in trust.

Lease Financing

On May 10, 2006, IDI entered into a series of transactions with a third party to lease (Lease) the land and building located at 800 Huntington Avenue and 10 Mission Street (hereafter collectively referred to as the Property). IDI then subleased (Sublease) the Property back from the third party. The initial term of the Lease is 50 years, expiring on May 9, 2056 with three options to extend the term of the Lease for ten years each. Upon execution of this Lease, IDI received \$11,000,000 with additional payments of \$1,000,000 due on the first and second anniversary of the term commencement date and \$750,000 due upon the third anniversary of the term commencement date, or upon IDI exercising its option to terminate the Sublease, whichever comes first. The third party has the option to purchase the Property for \$1 upon giving proper notice, as defined, to IDI. In consideration for granting the third party the option to purchase the Property, IDI is entitled to receive an additional land payment, equal to 50% of the difference between the total Sublease rent paid and the appraised value of the Property at the time financing for the redevelopment of the Property is obtained. The additional land payment, if any, is due to IDI at the time financing for the redevelopment of the Property is obtained but not before November 10, 2008. After the option to purchase the Property is exercised then on the later of the date the deed to the Property is delivered or the expiration of the Sublease, IDI will be admitted as a member in the entity that redevelops the Property, receiving a 20% economic participation, as defined.

In connection with the above mentioned Lease, IDI entered into the Sublease dated May 10, 2006. The Sublease has an initial term of four years, with annual net minimum rental payments equal to 7% of the cumulative rent paid in accordance with the Lease or \$770,000, \$840,000, \$910,000 and \$962,500 for years one through four respectively. IDI has the right to terminate the Sublease anytime after November 10, 2008 without recourse.

In accordance with Statement of Financial Accounting Standards No. 98, *Accounting for Leases*, IDI has treated the Lease and Sublease under the finance method of accounting. Accordingly, the Lease payment received totaling \$12 million has been deferred at June 30, 2007. Sublease payments for the years ending June 30, 2007 and 2006 totaling \$780,350 and \$105,565, respectively, have been treated as interest expense.

IMMUNE DISEASE INSTITUTE, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(8) Debt

In October 2001, IDI established a revolving variable interest rate line of credit at Citizens Bank for \$2,000,000. As of June 30, 2007 and 2006, IDI had \$713,000 and \$813,000, respectively, at 8.50% outstanding under the line of credit. The line of credit has required covenants, principally a debt service coverage ratio. At June 30, 2007 and 2006, IDI was in compliance with its debt covenants.

In March 2003, IDI entered into a mortgage loan agreement to finance the purchase of a property in Roxbury, Massachusetts. The mortgage provided for financing of \$363,000 at 5.47% for twenty years. Monthly principal and interest payments total \$2,520. During 2006, IDI paid off the mortgage in full.

During 2004, IDI financed \$1,120,000 for the purchase of equipment through the MHEFA Pool M1-A program. Principal is paid annually. Interest is charged monthly on a tax-exempt, variable-rate basis. In addition, there is a monthly letter of credit fee of 1%. At June 30, 2007, IDI had a balance outstanding of \$487,536 at a rate of 3.910%. Equipment purchases funded by the loan for the year ended June 30, 2007 were \$487,536. As of June 30, 2007, required debt service deposits of \$12,831 were held in trust.

During 2005, IDI financed \$1,220,000 for the purchase of equipment through the MHEFA Pool M3-A program. Principal is paid annually. Interest is charged monthly on a tax-exempt, variable-rate basis. In addition, there is a monthly letter of credit fee of 1%. At June 30, 2007, IDI had a balance outstanding of \$390,689 at a rate of 3.910%. Equipment purchases funded by the loan for the year ended June 30, 2007 were \$214,545. As of June 30, 2007, unexpended proceeds of \$0 and required debt service deposits of \$4,828 were held in trust.

Principal payments due under the loans for the years ending June 30 are as follows:

2008		\$	326,244
2009			345,821
2010			<u>206,160</u>
Total		\$	<u><u>878,225</u></u>

Interest expense recognized under these programs for the years ended June 30, 2007 and 2006 was \$212,865 and \$230,264, respectively.

(9) Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Temporarily restricted net assets:		
Purpose restrictions	\$ 599,038	382,619
Time restrictions	<u>144,994</u>	<u>216,419</u>
	<u>\$ 744,032</u>	<u>599,038</u>
Permanently restricted net assets:		
Endowment funds	\$ 1,801,153	<u>1,818,253</u>
	<u>\$ 1,801,153</u>	<u>1,818,253</u>

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Unspent long-term investment gains on permanently restricted net assets are classified as temporarily restricted until IDI appropriates and spends such sums in accordance with the terms of the underlying contributions, at which time they will be reclassified to unrestricted revenues.

(10) Research Grants

Grants and contracts awarded, but not yet recognized as revenue as of June 30, 2007 and 2006, including amounts reserved for projects extending past one year, total \$96,002,911 and \$84,253,208, respectively. These commitments extend through 2011 and are subject to the availability of funds from the respective granting agency and satisfactory progress on the individual projects.

(11) Pension Plans

Certain investigators and senior management personnel of IDI participate in a retirement annuity plan sponsored by the Teachers Insurance and Annuity Association. IDI makes contributions ranging from 8.5% to 12.5% of each eligible employee's gross salary depending upon his/her age. Expenses under this plan for the years ended June 30, 2007 and 2006 amounted to \$457,408 and \$491,122, respectively.

IDI maintains a money purchase pension plan. This plan covers other eligible scientific and administrative employees of IDI. IDI makes contributions ranging from 8.5% to 12.5% of each employee's gross salary depending upon his/her age. Expenses under this plan for the years ended June 30, 2007 and 2006 amounted to \$312,619 and \$298,148, respectively.

(12) Related-Party Transactions

On September 1, 1992, IDI entered into a twenty-year noncancelable operating sublease for research space and equipment from BRI, an entity whose board of trustees includes IDI's president.

The following is summarized financial information for BRI:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 12,320,955	13,302,327
Total liabilities	(16,412,202)	(17,453,366)
Unrestricted net deficit	<u>\$ (4,091,247)</u>	<u>(4,151,039)</u>
Total revenues	\$ 2,907,088	2,652,932
Total expenses	(2,847,290)	(2,664,592)
Change in net deficit	<u>\$ 59,798</u>	<u>(11,660)</u>

(13) Subsequent Event

The Institute had an investment in the State Street Limited Duration Bond CTF fund with a fair value of \$5.3 million as of June 30, 2007. In May 2007, the Institute's Investment Committee developed an exit strategy to systematically liquidate the fund by September 30, 2007. Subsequent to year-end, this bond fund experienced significant fair value fluctuations due to its structured fixed income holdings. The Institute realized losses of \$1,852,281 as it executed its planned exit of this investment.

IMMUNE DISEASE INSTITUTE, INC.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(14) Commitments and Contingencies

The Institute is subject to certain risks arising out of the ordinary course of business. It is the Institute's policy to record the expense and associated liability whenever a loss becomes probable and estimable. The Institute does not believe it has any material loss contingency exposure at June 30, 2007.