



**IMMUNE DISEASE INSTITUTE, INC.**

Consolidated Financial Statements

June 30, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, 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 18, 2008, 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 18, 2008

**IMMUNE DISEASE INSTITUTE, INC.**

Consolidated Statements of Financial Position

June 30, 2008 and 2007

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 2,519,535	694,011
Cash held in trust (notes 7 and 8)	3,279,857	1,412,070
Accounts receivable, net (note 3)	762,604	819,556
Unbilled grants receivable	1,342,186	2,129,338
Contributions receivable, net (note 3)	219,662	207,731
Prepaid expenses and other assets (note 7)	1,424,162	1,061,861
Investments (note 4)	20,712,568	21,672,021
Notes receivable (note 5)	731,471	780,474
Property, plant, and equipment, net (note 6)	4,301,324	4,159,170
Total assets	<u>\$ 35,293,369</u>	<u>32,936,232</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 2,361,233	2,538,218
Accrued and other liabilities	1,146,870	1,580,293
Deferred revenue (note 9)	4,103,431	300,960
Lease of real property (note 7)	13,000,000	12,000,000
Capital leases (note 7)	4,476,319	2,186,992
Debt (note 8)	1,264,981	1,591,225
Total liabilities	<u>26,352,834</u>	<u>20,197,688</u>
Net assets:		
Unrestricted	6,765,439	10,193,359
Temporarily restricted (note 10)	358,943	744,032
Permanently restricted (note 10)	1,816,153	1,801,153
Total net assets	<u>8,940,535</u>	<u>12,738,544</u>
Total liabilities and net assets	<u>\$ 35,293,369</u>	<u>32,936,232</u>

See accompanying notes to financial statements.

**IMMUNE DISEASE INSTITUTE, INC.**

Consolidated Statements of Activities

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating:		
Revenues:		
Research grants (note 11)	\$ 37,145,218	38,441,937
Net sales	—	143,160
Total operating revenues	<u>37,145,218</u>	<u>38,585,097</u>
Expenses:		
Research:		
Direct costs	25,080,416	25,460,526
Overhead applied	13,412,221	13,069,172
	<u>38,492,637</u>	<u>38,529,698</u>
Management and general:		
Unapplied	1,379,445	1,859,765
Total operating expenses	<u>39,872,082</u>	<u>40,389,463</u>
Decrease in unrestricted net assets from operations	<u>(2,726,864)</u>	<u>(1,804,366)</u>
Nonoperating:		
Investment return (note 4)	(2,425,769)	2,680,546
Contributions	165,629	281,429
Net assets released from restrictions	178,537	79,927
Rental, royalties and other (note 9)	1,380,547	648,240
Total nonoperating revenue	<u>(701,056)</u>	<u>3,690,142</u>
(Decrease) increase in unrestricted net assets	<u>(3,427,920)</u>	<u>1,885,776</u>
Changes in temporarily restricted net assets:		
Contributions	241,394	84,598
Investment return (note 4)	(447,946)	140,323
Net assets released from restrictions	(178,537)	(79,927)
(Decrease) increase in temporarily restricted net assets	<u>(385,089)</u>	<u>144,994</u>
Changes in permanently restricted net assets:		
Other	15,000	(17,100)
Increase (decrease) in permanently restricted net assets	<u>15,000</u>	<u>(17,100)</u>
Change in net assets	(3,798,009)	2,013,670
Net assets at beginning of year	<u>12,738,544</u>	<u>10,724,874</u>
Net assets at end of year	<u>\$ 8,940,535</u>	<u>12,738,544</u>

See accompanying notes to financial statements.

**IMMUNE DISEASE INSTITUTE, INC.**

Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,798,009)	2,013,670
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	1,349,433	1,063,103
Net realized and unrealized loss (gain) on investments	3,614,101	(2,062,603)
Changes in assets and liabilities:		
Accounts receivable, net	56,952	(255,656)
Unbilled grants receivable	787,152	(960,360)
Contributions receivable, net	(11,931)	83,951
Prepaid expenses and other assets	(362,301)	(132,565)
Accounts payable, accrued expenses and other liabilities	(610,408)	1,713,865
Deferred revenue	3,802,471	(27,175)
Net cash and cash equivalents provided by operating activities	<u>4,827,460</u>	<u>1,436,230</u>
Cash flows from investing activities:		
Purchases of marketable securities	(26,966,835)	(14,934,725)
Proceeds from sales and maturities of marketable securities	24,312,187	14,792,435
Additions to property, plant and equipment	(1,491,587)	(2,032,508)
Advances on notes receivable	(211,299)	(480,265)
Payments on notes receivable	260,302	136,463
Net cash and cash equivalents used in investing activities	<u>(4,097,232)</u>	<u>(2,518,600)</u>
Cash flows from financing activities:		
Cash held in trust	(1,867,787)	(388,843)
Repayment of debt	(326,244)	(774,374)
Proceeds from capital lease	2,900,000	1,125,065
Capital lease payments	(610,673)	(633,949)
Proceeds from lease of real property	1,000,000	1,000,000
Net cash and cash equivalents provided by financing activities	<u>1,095,296</u>	<u>327,899</u>
Change in cash and cash equivalents	1,825,524	(754,471)
Cash and cash equivalents at beginning of year	<u>694,011</u>	<u>1,448,482</u>
Cash and cash equivalents at end of year	\$ <u><u>2,519,535</u></u>	\$ <u><u>694,011</u></u>
Supplemental information:		
Cash paid for interest	\$ 1,025,138	977,339

See accompanying notes to financial statements.

## IMMUNE DISEASE INSTITUTE, INC.

### Notes to Consolidated Financial Statements

June 30, 2008 and 2007

#### (1) Organization

Immune Disease Institute, Inc. (IDI), 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 Financial Statement Presentation*

The accompanying 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 statements of activities.

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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;
- 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 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.

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**(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

**(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 statements of activities.

**(h) 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 included in the 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 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.

In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement for tax positions taken or expected to be taken in a

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June 30, 2008 and 2007

tax return. FIN 48 was effective for IDI on July 1, 2007. The adoption of FIN 48 did not have any impact on IDI's financial statements.

**(k) Deferred Revenue**

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

**(l) Operations**

The 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 other income. All other activity, predominantly research, is classified as operating revenue.

Expenses associated with fundraising activities of IDI amounted to \$21,782 and \$315,668 in 2008 and 2007, respectively, and are included in management and general unapplied expenses on the statements of activities.

**(3) Contributions and Accounts Receivable**

Contributions receivable as of June 30 included the following:

	<b>2008</b>	<b>2007</b>
Amounts due in:		
Less than one year	\$ 47,752	45,214
Charitable remainder trust	171,910	162,517
Contributions receivable, net	\$ 219,662	207,731

Amounts receivable are net of an allowance for doubtful accounts of \$15,023 and \$40,893 as of June 30, 2008 and 2007, respectively.

**(4) Investments**

Investments as of June 30 are summarized as follows:

	<b>2008</b>		<b>2007</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
Equity mutual funds	\$ 13,383,276	13,430,040	20,728,505	21,460,112
Common and preferred stocks	102,768	26,497	102,768	185,093
Money market funds	7,256,031	7,256,031	26,816	26,816
Total	\$ 20,742,075	20,712,568	20,858,089	21,672,021

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

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 740,386	758,266
Net unrealized loss	(843,439)	(761,636)
Net realized (loss) gain	<u>(2,770,662)</u>	<u>2,824,239</u>
Investment return	<u>\$ (2,873,715)</u>	<u>2,820,869</u>

Total investment management fees were \$66,984 and \$70,969 for the years ended June 30, 2008 and 2007, respectively, and are included in management and general unapplied expenses.

**(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, 2008 and 2007 was \$47,707 and \$51,756, 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, 2008 and 2007 was \$273,764 and \$238,718, respectively.

IDI has a note receivable from an officer with an unpaid principal balance of \$180,000 and \$240,000 as of June 30, 2008 and 2007, respectively. The note is interest free and requires 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 \$0 and \$160,000 as of June 30, 2008 and 2007, respectively. The note is interest free and was paid in full during 2008.

IDI has a note receivable from a Senior Investigator with an unpaid principal balance of \$80,000 as of June 30, 2008. The note is interest free, with annual principal repayments of \$10,000 due each June through 2016.

IDI has a note receivable from an Investigator with an unpaid principal balance of \$150,000 as of June 30, 2008. The note is interest free, with annual principal repayments of \$15,000 due each March through 2018.

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Notes to Consolidated Financial Statements

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**(6) Property, Plant, and Equipment**

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

	<u>2008</u>	<u>2007</u>
Land	\$ 464,128	464,128
Buildings	1,596,822	1,596,822
Equipment	12,442,336	10,951,228
Alterations	6,060,672	6,060,672
	<u>20,563,958</u>	<u>19,072,850</u>
Less accumulated depreciation	<u>(16,262,634)</u>	<u>(14,913,680)</u>
Property, plant, and equipment, net	<u>\$ 4,301,324</u>	<u>4,159,170</u>

Depreciation expense was \$1,349,433 and \$1,063,103 for the years ended June 30, 2008 and 2007, respectively.

Fully depreciated assets, with an original cost of \$479 and \$1,036,230, were disposed of during the years ended June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, equipment with a net book value of \$2,386,635 and \$1,980,633, respectively, was acquired under a capital lease.

**(7) Leases**

**(a) 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, 2008 and 2007, amounted to \$1,124,712 and \$1,208,769, 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 \$549,511 and \$631,829 as of June 30, 2008 and 2007, 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 commenced in April 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, which has subsequently been reduced to \$1,824,785.

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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 \$4,731,869 and \$4,038,936 for the years ended June 30, 2008 and 2007, respectively, of which \$1,440,103 and \$1,356,785 was for ancillary and common area maintenance costs for the years ended June 30, 2008 and 2007, respectively. The combined future lease payments for the years ending June 30 are as follows:

2009	\$	6,800,045
2010		6,716,671
2011		5,481,067
2012		4,930,319
2013		3,722,798
Thereafter		<u>35,583,298</u>
Total	\$	<u><u>63,234,198</u></u>

**(b) Capital Leases**

Through June 30, 2008, IDI financed the purchase of equipment totaling \$6,447,026 through the Massachusetts Health and Educational Facilities Authority (MHEFA).

During 2008, MHEFA provided additional financing of \$2,900,000. Principal and interest are payable semiannually through 2013, at annual interest rates ranging from 3.04% to 4.41%.

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

2009	\$	1,116,529
2010		1,116,529
2011		1,116,529
2012		879,553
2013		<u>629,561</u>
Total capital lease payments		4,858,701
Less amount representing interest		<u>(382,382)</u>
Capital lease obligation	\$	<u><u>4,476,319</u></u>

Equipment purchases funded by the capital lease for the years ended June 30, 2008 and 2007 totaled \$1,259,421 and \$897,754, respectively. As of June 30, 2008, unexpended proceeds of \$3,263,286 were held in trust.

## IMMUNE DISEASE INSTITUTE, INC.

### Notes to Consolidated Financial Statements

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#### (c) *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 \$840,000, \$910,000 and \$962,500 for years two 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, total lease payments received of \$13 million through June 30, 2008 and \$12 million through June 30, 2007, have been deferred. Sublease payments for the years ending June 30, 2008 and 2007 totaling \$850,349 and \$780,350, respectively, have been treated as interest expense.

#### (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, 2008 and 2007, IDI had \$713,000 and \$713,000, respectively, at 5.50% outstanding under the line of credit. The line of credit has required covenants, principally a debt service coverage ratio. At June 30, 2008 and 2007, IDI was in compliance with its debt covenants.

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, 2008 and 2007, IDI had a balance outstanding of \$217,581 at a rate of 1.728% and \$487,536 at a rate of 3.910%, respectively. As of June 30, 2008 and 2007, required debt service deposits of \$10,961 and \$12,831, respectively, 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

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addition, there is a monthly letter of credit fee of 1%. At June 30, 2008, IDI had a balance outstanding of \$334,400 at a rate of 1.728% and \$390,689 at a rate of 3.910%, respectively. As of June 30, 2008 and 2007, required debt service deposits of \$5,610 and \$4,828, respectively, were held in trust.

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

2009	\$	345,821
2010		<u>206,160</u>
Total	\$	<u><u>551,981</u></u>

Interest expense recognized under these programs for the years ended June 30, 2008 and 2007 was \$92,414 and \$212,865, respectively.

**(9) Deferred Revenue**

On May 14, 2008, IDI entered into a \$25 million five year collaborative research agreement with GlaxoSmithKline (GSK). GSK will provide annual funding over five years for research projects and fellowship programs approved by an IDI and GSK joint steering committee. Revenue for the research and fellowship programs will be recognized as funds are expended with any excess or shortfall in funding being recorded as deferred revenue or receivable, respectively. In addition, GSK will make annual payments over five years for an exclusive right of first negotiation (ROFN) for certain research discoveries that IDI may make during the term of the agreement. Revenue for the ROFN will be recognized on a straight-line basis over the research term, currently estimated to be four years, with any excess or shortfall in funding being recorded as deferred revenue or receivable, respectively. The agreement may be terminated for cause at any time or without cause after four years by either party with appropriate notice being given. At June 30, 2008, IDI has deferred income of \$3,666,667 related to the first year of GSK funding. During 2008, IDI recognized \$583,333 of nonoperating revenue related to this agreement.

This agreement also contains a change of control provision which states that IDI shall notify GSK in writing within 15 days of the closing of any change in control of IDI. GSK has 90 days from the receipt of such notice to provide 12 months written notice to IDI of GSK's decision to terminate the agreement.

**IMMUNE DISEASE INSTITUTE, INC.**

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

**(10) Temporarily and Permanently Restricted Net Assets**

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

	<u>2008</u>	<u>2007</u>
Temporarily restricted net assets:		
Purpose restrictions	\$ 204,556	599,038
Time restrictions	154,387	144,994
	<u>\$ 358,943</u>	<u>744,032</u>
Permanently restricted net assets:		
Endowment funds	\$ 1,816,153	1,801,153
	<u>\$ 1,816,153</u>	<u>1,801,153</u>

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.

**(11) Research Grants**

Grants and contracts awarded, but not yet recognized as revenue as of June 30, 2008 and 2007, including amounts reserved for projects extending past one year, total \$83,823,354 and \$96,002,911, 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.

**(12) 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, 2008 and 2007 amounted to \$454,452 and \$457,408, 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, 2008 and 2007 amounted to \$317,228 and \$312,619, respectively.

**IMMUNE DISEASE INSTITUTE, INC.**

Notes to Consolidated Financial Statements

June 30, 2008 and 2007

**(13) 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>2008</u>	<u>2007</u>
Total assets	\$ 12,229,952	12,790,784
Total liabilities	(16,255,148)	(16,882,025)
Unrestricted net deficit	<u>\$ (4,025,196)</u>	<u>(4,091,241)</u>
Total revenues	\$ 2,784,658	2,907,088
Total expenses	(2,718,613)	(2,847,290)
Change in net deficit	<u>\$ 66,045</u>	<u>59,798</u>

**(14) Commitments and Contingencies**

IDI is subject to certain risks arising out of the ordinary course of business. It is IDI's policy to record the expense and associated liability whenever a loss becomes probable and estimable. IDI does not believe is has any material loss contingency exposure at June 30, 2008.

**IMMUNE DISEASE INSTITUTE**

Schedule of Functional Expenses

Year ended June 30, 2008

	<b>2008</b>			
	<b>Research – direct costs</b>	<b>Research – overhead applied</b>	<b>Management and general – unapplied</b>	<b>Total</b>
Salaries and related expenses	\$ 11,358,186	4,140,177	19,438	15,517,801
Stipends	1,238,101	—	—	1,238,101
Consultants	69,600	187,494	10,000	267,094
Subcontractors	6,085,700	—	—	6,085,700
Information services	—	71,987	—	71,987
Utilities	—	510,704	509	511,213
Depreciation	—	1,076,632	272,801	1,349,433
Professional fees	—	591,204	—	591,204
Equipment and rental	—	1,200	—	1,200
Transportation, travel, and meetings	227,797	179,505	15,983	423,285
Occupancy costs	—	293,289	70,630	363,919
Services	—	354,708	6,497	361,205
Supplies	3,479,395	279,542	1,869	3,760,806
Repairs and replacements	—	174,433	—	174,433
Research facility rental	—	4,847,993	—	4,847,993
Animal care and facility rental	1,863,343	521,724	—	2,385,067
Interest	—	120,264	904,880	1,025,144
Other	758,294	61,365	76,838	896,497
	<u>\$ 25,080,416</u>	<u>13,412,221</u>	<u>1,379,445</u>	<u>39,872,082</u>

See accompanying independent auditors' report.