



**THE CBR INSTITUTE FOR BIOMEDICAL RESEARCH, INC.
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



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Independent Auditors' Report

The Board of Directors
The CBR Institute for Biomedical Research, Inc.:

We have audited the accompanying consolidated statements of financial position of The CBR Institute for Biomedical Research, Inc. and subsidiary (CBR) as of June 30, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of CBR'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 CBR as of June 30, 2004 and 2003, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 8, 2004

**THE CBR INSTITUTE FOR BIOMEDICAL RESEARCH, INC.
AND SUBSIDIARY**

Consolidated Statements of Financial Position

June 30, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	\$ 1,340,445	788,577
Cash held in trust (notes 7 and 8)	768,884	183,208
Accounts receivable, net (note 3)	610,787	446,647
Unbilled grant revenues	953,860	2,157,498
Contributions receivable, net (note 3)	537,546	800,497
Prepaid expenses and other assets	285,654	348,117
Investments (note 4)	10,711,067	9,273,486
Pooled income fund	—	218,777
Notes receivable (note 5)	335,553	178,656
Property, plant and equipment, net (note 6)	3,214,295	3,586,125
Deferred tax assets (note 13)	—	10,620
Total assets	\$ 18,758,091	17,992,208
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,697,584	1,642,167
Accrued and other liabilities	1,098,983	893,241
Accrued rent payable	32,909	41,103
Deferred revenue	554,257	565,709
Capital leases (note 7)	2,000,743	2,723,305
Deferred tax liabilities (note 13)	—	10,620
Debt (note 8)	1,736,619	960,480
Total liabilities	8,121,095	6,836,625
Net assets:		
Unrestricted	8,090,189	8,483,648
Temporarily restricted (note 9)	676,032	816,261
Permanently restricted (note 9)	1,870,775	1,855,674
Total net assets	10,636,996	11,155,583
Total liabilities and net assets	\$ 18,758,091	17,992,208

See accompanying notes to consolidated financial statements.

**THE CBR INSTITUTE FOR BIOMEDICAL RESEARCH, INC.
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Consolidated Statements of Activities

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating:		
Revenues:		
Research grants (note 10)	\$ 32,849,322	29,087,003
Net sales	448,266	1,526,855
Total operating revenues	<u>33,297,588</u>	<u>30,613,858</u>
Expenses:		
Research:		
Direct costs	21,202,737	19,555,908
Overhead applied	14,618,510	11,694,468
Independent research and development expense	—	121,979
Cost of sales	340,984	1,133,414
	<u>36,162,231</u>	<u>32,505,769</u>
Decrease in unrestricted net assets from operations	(2,864,643)	(1,891,911)
Nonoperating:		
Investment return (note 4)	1,193,496	551,656
Loss related to exit activities (note 14)	(507,631)	(502,213)
Contributions	801,758	212,116
Net assets released from restrictions	336,191	120,871
Income tax benefit (expense) (note 13)	29,524	(84,770)
Rental, royalties and other	617,846	565,479
Total nonoperating revenue	<u>2,471,184</u>	<u>863,139</u>
Decrease in unrestricted net assets	<u>(393,459)</u>	<u>(1,028,772)</u>
Changes in temporarily restricted net assets:		
Contributions	50,499	428,817
Investment return (note 4)	145,463	—
Net assets released from restrictions	(336,191)	(120,871)
Change in temporarily restricted net assets	<u>(140,229)</u>	<u>307,946</u>
Changes in permanently restricted net assets:		
Contributions	15,101	237,948
Other	—	(6,545)
Increase in permanently restricted net assets	<u>15,101</u>	<u>231,403</u>
Change in net assets	(518,587)	(489,423)
Net assets as of beginning of year	<u>11,155,583</u>	<u>11,645,006</u>
Net assets as of end of year	<u>\$ 10,636,996</u>	<u>11,155,583</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ (518,587)	(489,423)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,411,348	1,259,025
Net realized and unrealized gain on investments	(1,149,673)	(306,587)
Net depreciation in pooled income fund	—	5,016
Loss on disposal of equipment	6,247	38,283
Loss on exit from lease	288,960	264,000
Contributions restricted for long-term investment	(65,600)	(666,764)
Changes in assets and liabilities:		
Accounts receivable, net	(164,140)	735,048
Unbilled grant revenues	1,203,638	(1,421,793)
Contributions receivable, net	262,951	(353,029)
Prepaid expenses and other assets	62,463	(51,608)
Pooled income fund	218,777	—
Deferred tax assets	10,620	85,220
Accounts payable, accrued and other liabilities	972,199	(301,233)
Accrued rent payable	(8,194)	(117,124)
Deferred revenue	(11,452)	(13,854)
Deferred tax liabilities	(10,620)	2,994
Net cash and cash equivalents provided by (used in) operating activities	2,508,937	(1,331,829)
Cash flows from investing activities:		
Cost of purchases of marketable securities	(2,498,356)	(9,481,405)
Proceeds from sales and maturities of marketable securities	2,210,448	10,008,258
Additions to property, plant and equipment	(1,045,765)	(1,359,706)
Change in notes receivable	(156,897)	124,931
Net cash and cash equivalents used in investing activities	(1,490,570)	(707,922)
Cash flows from financing activities:		
Contributions restricted for long-term investment	65,600	666,764
Cash held in trust	(585,676)	681,299
Repayment of debt	(343,861)	—
Proceeds from debt	1,120,000	960,480
Capital lease payments	(722,562)	(687,646)
Net cash and cash equivalents (used in) provided by financing activities	(466,499)	1,620,897
Change in cash and cash equivalents	551,868	(418,854)
Cash and cash equivalents as of beginning of year	788,577	1,207,431
Cash and cash equivalents as of end of year	\$ 1,340,445	788,577
Supplemental information:		
Cash paid for interest	\$ 172,132	164,440
Income taxes paid	456	4,000

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(1) Organization

The CBR Institute for Biomedical Research, Inc. (CBR), a not-for-profit organization, conducts research on the function and uses of components of blood and other tissue 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, CBR 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 CBR. CBR Labs provides commercial testing services and products to hospitals, pharmacies, home healthcare companies, physicians, attorneys, municipalities, and clinical laboratories, as well as contract research for industry and Federal agencies.

Effective August 12, 2003, CBR formally changed its name to "The CBR Institute for Biomedical Research, Inc."

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of CBR 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 CBR 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 CBR may use at its discretion.

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

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

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.

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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 CBR'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 estimated 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.

CBR 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 CBR'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 and 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*

CBR is a beneficiary of a charitable remainder trust held by a trustee. At the date the trust was established, a receivable and contribution revenue was 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 changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits and is reported in the consolidated statements of activities.

CBR maintains The CBR Institute for Biomedical Research Pooled Income Fund (the Fund). In accordance with the terms of contributions to the Fund, earnings of the Fund are retained by one or more of the designated beneficiaries. Any reinvested gains of the Fund accrue to CBR. Upon the death of the last surviving party eligible to receive such income, the original corpus plus reinvested gains, if any, will be transferred to CBR. During 2004, CBR received the assets of the Fund upon death of a remaining beneficiary.

(h) *Use of Estimates*

The preparation of consolidated financial statements in conformity with 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*

CBR records grant-related expenditures and the corresponding grant revenue on research projects as the related expenditures are incurred. Unbilled grant receivables represent allowable grant expenditures for which CBR 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. Amounts received in excess of amounts expended are recorded as deferred revenue.

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Reimbursable amounts include direct expenditures for labor and materials as well as indirect costs applied to research projects. Since July 1, 1999, indirect costs related to Federal grants are recorded at a predetermined rate.

(j) *Income Tax Status*

CBR 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.

CBR Labs provides for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as a benefit or expense in the period that includes the enactment date.

(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 (loss) on investments, and equity in subsidiary. All other activity, predominantly research, is classified as operating revenue.

(n) *Reclassifications*

Certain 2003 balances have been reclassified to conform with 2004 reporting practices.

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Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(3) Contributions and Accounts Receivable

Contributions receivable as of June 30 included the following:

	<u>2004</u>	<u>2003</u>
Amounts due in:		
Less than one year	\$ 178,782	151,073
One to five years	266,200	587,050
Charitable remainder trust	114,495	114,495
Less discount on allowance for uncollectibles	(21,931)	(52,121)
Contributions receivable, net	<u>\$ 537,546</u>	<u>800,497</u>

Accounts receivable are net of an allowance for doubtful accounts of \$20,571 and \$99,156 as of June 30, 2004 and 2003, respectively.

(4) Investments

Investments as of June 30 are summarized as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Equity mutual funds	\$ 4,760,975	6,357,726	5,035,128	5,851,063
Fixed-income mutual funds	3,947,132	3,947,132	2,981,506	3,004,458
U.S. Treasury securities	—	—	207,000	208,747
Common and preferred stocks	102,768	194,481	102,768	181,705
Cash and cash equivalents	211,728	211,728	27,513	27,513
Total	<u>\$ 9,022,603</u>	<u>10,711,067</u>	<u>8,353,915</u>	<u>9,273,486</u>

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

	<u>2004</u>	<u>2003</u>
Interest and dividends	\$ 189,286	242,235
Net unrealized gain	770,639	1,308,313
Net realized gain (loss)	379,034	(998,892)
Investment return	<u>\$ 1,338,959</u>	<u>551,656</u>

Total investment management fees were \$5,154 and \$32,305 for the years ended June 30, 2004 and 2003, respectively, and are included in expenses.

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(5) Notes Receivable

CBR purchased a promissory note from an unrelated third party for \$85,000, which was made between the unrelated third party and an employee of CBR. This promissory note was purchased as part of an incentive to acquire this individual's services as an investigator for CBR. The promissory note carries interest of 5% per annum, is payable monthly, with the then-remaining principal balance due on May 28, 2017. The principal balance on the promissory note as of June 30, 2004 and 2003 was \$62,761 and \$66,078, respectively. The promissory note is secured by a mortgage on the employee's residence and was purchased without recourse to the third party.

CBR has a note receivable, which is 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; however, interest has been imputed. Repayment is over ten years through equal, semimonthly payroll deductions. The principal balance as of June 30, 2004 and 2003 was \$132,792 and \$112,578, respectively.

CBR has a note receivable from an investigator with a principal balance of \$140,000 as of June 30, 2004. The note is interest free; however, interest has been imputed. \$60,000 will be repaid on July 15, 2004 and 2005 and \$20,000 on July 15, 2006.

(6) Property, Plant and Equipment

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

	2004	2003
Land	\$ 464,128	464,128
Buildings	1,596,821	1,596,821
Equipment	9,227,500	8,713,397
Alterations	5,039,896	4,724,057
	16,328,345	15,498,403
Less accumulated depreciation	(13,114,050)	(11,912,278)
Property, plant and equipment, net	\$ 3,214,295	3,586,125

Depreciation expense was \$1,404,484 and \$1,253,903 for the years ended June 30, 2004 and 2003, respectively.

Fully depreciated equipment, with an original cost of \$125,361 and \$79,153, was disposed of during the years ended June 30, 2004 and 2003, respectively. As of June 30, 2004 and 2003, equipment with a net book value of \$1,731,679 and \$1,743,425, respectively, was acquired under a capital lease.

(7) Operating and Capital Leases

CBR 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, CBR is required to pay minimum lease payments ranging from approximately \$1,580,000 to \$1,700,000 a year, representing the basic rent as defined in the sublease

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agreement. CBR 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.

CBR has recorded rental expense in the sublease on a straight-line basis, over the initial term of the lease, resulting in CBR recording rent payable of \$144,140 and \$4,025 as of June 30, 2004 and 2003, respectively, and is included in accrued and other liabilities. For both years ended June 30, 2004 and 2003, CBR recorded rental expense of approximately \$1,591,000 in each year. The sublease also requires CBR to pay certain operating and maintenance expenses allocable to the subleased space, which for the years ended June 30, 2004 and 2003, amounted to \$1,022,361 and \$870,914, respectively.

CBR entered into a lease agreement for certain research space from May 1, 2001 to January 31, 2004. Rental expense related to this lease was \$66,067 and \$101,250 for the years ended June 30, 2004 and 2003, respectively.

CBR entered into a lease agreement for certain office space from February 1, 2001 to January 31, 2007. Rental expense related to this lease was \$485,521 and \$464,990 for the years ended June 30, 2004 and 2003, respectively. In accordance with the terms of the lease, CBR is responsible for a pro rata share of real estate taxes and common area maintenance costs. The future minimum lease payments for the years ending June 30 are as follows:

2005	\$	330,096
2006		333,744
2007		<u>194,691</u>
Total	\$	<u><u>858,531</u></u>

CBR entered into a lease for certain research space from July 1, 1998 to June 30, 2000. CBR has extended the lease annually for successive one-year terms. The final term expired June 30, 2003. Rental expense related to this lease was \$134,066 for the year ended June 30, 2003.

CBR rents certain research space on a tenant-at-will basis. For the use of such space, rental expense was \$192,481 and \$169,641 for the years ended June 30, 2004 and 2003, respectively.

CBR renewed a lease for certain parking space from December 1, 2003 to May 31, 2006. The lease is payable in equal monthly installments of \$9,481.

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CBR entered into a lease agreement for certain research space from January 1, 2004 through February 28, 2007. Rental expense related to this lease was \$487,191 in the year ended June 30, 2004. The future minimum rental payments for the years ending June 30 are:

2005		\$ 1,090,575
2006		840,915
2007		<u>227,730</u>
Total		<u><u>\$ 2,159,220</u></u>

CBR financed the future purchase of equipment in the amount of \$4,345,007 through Massachusetts Health and Educational Facilities Authority (MHEFA). Principal and interest are payable semiannually through 2008, at annual interest rates ranging from 4.65% to 5.398%.

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

2005		\$ 847,133
2006		647,898
2007		448,666
2008		<u>224,333</u>
Total capital lease payments		2,168,030
Less amount representing interest		<u>(167,287)</u>
Capital lease obligation		<u><u>\$ 2,000,743</u></u>

Equipment purchases funded by the capital lease for the years ended June 30, 2004 and 2003 totaled \$172,695 and \$220,640, respectively.

As of June 30, 2004, the unexpended proceeds of \$69,087 were held in trust.

(8) Debt

In October 2001, CBR established a revolving variable interest rate line of credit at Citizens Bank for \$2,000,000. As of June 30, 2004 and 2003, CBR had \$400,000 and \$600,000 at 4.5% outstanding under the line of credit, respectively. The line of credit has required covenants, principally a debt service coverage ratio. As of June 30, 2004, CBR was in violation of its debt service coverage ratio covenant, and has obtained a waiver from Citizens Bank for one year.

In March 2003, CBR 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.

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

2005	\$	11,037
2006		11,634
2007		12,277
2008		12,976
2009 and thereafter		<u>302,125</u>
Total	\$	<u><u>350,049</u></u>

During 2004, CBR financed \$1,120,000 for the purchase of equipment through the MHEFA Pool M 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, 2004, CBR had a balance outstanding of \$986,570 at a rate of 1.093%. Equipment purchases funded by the loan for the year ended June 30, 2004 were \$808,944. As of June 30, 2004, unexpended proceeds of \$594,469 and required debt service deposits of \$105,328 were held in trust.

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

2005	\$	141,440
2006		149,920
2007		158,920
2008		168,450
2009 and thereafter		<u>367,840</u>
Total	\$	<u><u>986,570</u></u>

(9) Temporarily and Permanently Restricted Net Assets

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

	<u>2004</u>	<u>2003</u>
Temporarily restricted net assets:		
Purpose restrictions	\$ 380,174	201,131
Time restrictions:		
Pooled Income Fund	—	156,863
Contributions receivable, net	<u>295,858</u>	<u>458,267</u>
	<u><u>\$ 676,032</u></u>	<u><u>816,261</u></u>
Permanently restricted net assets:		
Endowment funds	\$ 1,639,746	1,513,444
Contributions receivable, net	<u>231,029</u>	<u>342,230</u>
	<u><u>\$ 1,870,775</u></u>	<u><u>1,855,674</u></u>

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Included in unrestricted net assets are \$10,659 of contributions receivable in support of CBR's 2004 general operations.

Unspent long-term investment gains on permanently restricted net assets are classified as temporarily restricted until CBR 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, 2004 and 2003, including amounts reserved for projects extending past one year, total \$85,916,494 and \$92,754,559, respectively. These commitments extend through 2009 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 CBR participate in a retirement annuity plan sponsored by the Teachers Insurance and Annuity Association. CBR makes contributions ranging from 8.5% to 12.5% of each eligible employee's gross salary depending upon their age. Expenses under this plan for the years ended June 30, 2004 and 2003 amounted to \$480,120 and \$485,140, respectively.

CBR maintains a money purchase pension plan. This plan covers other eligible scientific and administrative employees of CBR. CBR makes contributions ranging from 8.5% to 12.5% of each employee's gross salary depending upon their age. Expenses under this plan for the years ended June 30, 2004 and 2003 amounted to \$345,873 and \$358,892, respectively.

(12) Related-Party Transactions

CBR entered into a twenty-year noncancelable operating sublease for research space and equipment from BRI, an entity whose board of trustees includes CBR's President.

The following is summarized financial information for BRI:

	<u>2004</u>	<u>2003</u>
Total assets	\$ 14,204,467	14,744,036
Total liabilities	<u>(18,224,292)</u>	<u>(18,569,481)</u>
Unrestricted net deficit	<u>\$ (4,019,825)</u>	<u>(3,825,445)</u>
Total revenues	\$ 2,623,291	2,483,065
Total expenses	<u>(2,817,671)</u>	<u>(2,755,876)</u>
Change in net deficit	<u>\$ (194,380)</u>	<u>(272,811)</u>

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Notes to Consolidated Financial Statements

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(13) Federal and State Income Taxes

CBR Labs' income tax expense (benefit) consisted of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Year ended June 30, 2004:			
Federal	\$ (29,980)	—	(29,980)
State	456	—	456
	<u>\$ (29,524)</u>	<u>—</u>	<u>(29,524)</u>
Year ended June 30, 2003:			
Federal	\$ (3,900)	51,560	47,660
State	456	36,654	37,110
	<u>\$ (3,444)</u>	<u>88,214</u>	<u>84,770</u>

As of June 30, the income tax expense (benefit) differed from the amounts computed by applying the Federal income tax rate of 34% to pretax income (loss) as a result of the following:

	<u>2004</u>	<u>2003</u>
Computed "expected" tax (benefit) expense	\$ (149,651)	(257,153)
State tax, net of Federal benefit	301	24,493
General business credit	—	(7,929)
Other, net	(13,483)	6,712
Change in Federal valuation allowance	133,309	318,647
	<u>\$ (29,524)</u>	<u>84,770</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	2004	2003
Deferred tax assets:		
Reserves for uncollectible accounts	\$ 2,078	8,818
Accrued liabilities	332,638	128,746
Net operating loss	178,466	221,767
Research and development credits	78,379	69,120
Total gross deferred tax assets	591,561	428,451
Less valuation allowance	(591,561)	(417,831)
Deferred tax assets	—	10,620
Deferred tax liabilities:		
Depreciation	—	9,354
Unrealized gain on investments	—	699
Federal impact of state net operating loss and credits	—	567
Deferred tax liabilities	—	10,620
Net deferred tax assets	\$ —	—

The valuation allowance for Federal and state deferred income taxes increased by \$173,730 from June 30, 2003 to June 30, 2004. CBR Labs has recorded a valuation allowance against its deferred tax assets because management believes that, after considering all the available objective evidence, both historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. No income tax benefit has been recorded for June 30, 2003 because of the valuation allowance.

CBR Labs has Federal and state net operating loss carryforwards of approximately \$375,000 and \$550,000 as of June 30, 2004 and 2003, respectively, which are available to offset future taxable income, if any, through 2022 for Federal purposes. State expirations of net operating loss carryforwards range from 2004 through 2007. Utilization of the net operating losses may be subject to annual limitation provided by Section 382 of the Internal Revenue Code of 1986 and similar state provisions.

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(14) Exit Activities

During fiscal 2003, CBR Labs decided to discontinue certain operations and to cease use of a newly leased property. Under the terms of the lease, which expires in August 2007, CBR Labs is required to pay annual lease payments in the amount of \$199,377. In accordance with Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, a liability representing the net present value of remaining lease commitments, net of estimated sublease revenues, of approximately \$264,000, has been recorded as an expense as of June 30, 2003. In 2004, CBR Labs reassessed the sublease assumptions, information and forecasts, and recognized additional liability of approximately \$465,000. The outstanding liability as of June 30, 2004 was approximately \$553,000. Additional costs in the amount of approximately \$42,000 and \$238,000, related to the discontinued operation, were also expensed for the years ended June 30, 2004 and 2003, respectively.

(15) Equity Sharing Plan

CBR Labs holds 20,000 shares of treasury stock in accordance with an equity sharing plan (the Plan). The Plan allows participants to purchase shares of common stock from CBR Labs at book value. Any stock issued under the Plan is restricted and may only be sold back to CBR Labs at book value. At June 30, 2004 and 2003, there were no outstanding shares issued from a total of 40,000 shares reserved for sale under the Plan.