



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

Consolidated Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004, 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 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 CBR'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. 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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 20, 2005, on our consideration of CBR'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

September 20, 2005

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

June 30, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 566,315	1,340,445
Cash held in trust (note 8)	768,119	768,884
Accounts receivable, net (note 3)	798,866	610,787
Unbilled grants receivable	2,476,492	953,860
Contributions receivable, net (note 3)	411,133	537,546
Prepaid expenses and other assets	904,871	564,915
Investments (note 4)	9,933,430	10,711,067
Notes receivable (note 5)	503,546	335,553
Property, plant, and equipment, net (note 6)	2,953,148	3,214,295
Total assets	\$ 19,315,920	19,037,352
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,951,326	2,697,584
Accrued and other liabilities (note 7)	1,897,672	1,411,153
Deferred revenue	533,837	554,257
Capital leases (note 7)	1,241,480	2,000,743
Debt (note 8)	3,458,818	1,736,619
Total liabilities	9,083,133	8,400,356
Net assets:		
Unrestricted	7,839,339	8,090,189
Temporarily restricted (note 9)	539,124	676,032
Permanently restricted (note 9)	1,854,324	1,870,775
Total net assets	10,232,787	10,636,996
Total liabilities and net assets	\$ 19,315,920	19,037,352

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating:		
Revenues:		
Research grants (note 10)	\$ 34,536,483	32,849,322
Net sales	173,382	448,266
Total operating revenues	<u>34,709,865</u>	<u>33,297,588</u>
Expenses:		
Research:		
Direct costs	22,715,189	21,202,737
Overhead applied	13,873,600	14,618,510
Cost of sales	130,467	340,984
	<u>36,719,256</u>	<u>36,162,231</u>
Decrease in unrestricted net assets from operations	<u>(2,009,391)</u>	<u>(2,864,643)</u>
Nonoperating:		
Investment return (note 4)	756,083	1,193,496
Loss related to exit activities (note 14)	(11,104)	(507,631)
Contributions	161,547	801,758
Net assets released from restrictions	279,395	336,191
Income tax (expense) benefit (note 13)	(456)	29,524
Rental, royalties and other	573,076	617,846
Total nonoperating revenue	<u>1,758,541</u>	<u>2,471,184</u>
Decrease in unrestricted net assets	<u>(250,850)</u>	<u>(393,459)</u>
Changes in temporarily restricted net assets:		
Contributions	79,872	50,499
Investment return (note 4)	62,615	145,463
Net assets released from restrictions	(279,395)	(336,191)
Decrease in temporarily restricted net assets	<u>(136,908)</u>	<u>(140,229)</u>
Changes in permanently restricted net assets:		
Contributions	(16,451)	15,101
(Decrease) increase in permanently restricted net assets	<u>(16,451)</u>	<u>15,101</u>
Change in net assets	(404,209)	(518,587)
Net assets at beginning of year	<u>10,636,996</u>	<u>11,155,583</u>
Net assets at end of year	<u>\$ 10,232,787</u>	<u>10,636,996</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ (404,209)	(518,587)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,310,957	1,411,348
Net realized and unrealized gain on investments	(522,726)	(1,149,673)
Loss on disposal of equipment	—	6,247
Loss on exit from lease	—	465,000
Contributions restricted for long-term investment	(12,500)	(65,600)
Changes in assets and liabilities:		
Accounts receivable, net	(188,079)	(164,140)
Unbilled grants receivable	(1,522,632)	1,203,638
Contributions receivable, net	126,413	262,951
Prepaid expenses and other assets	(339,956)	62,463
Pooled income fund	—	218,777
Deferred tax assets	—	10,620
Accounts payable, accrued expenses and other liabilities	(259,737)	787,965
Deferred revenue	(20,420)	(11,452)
Deferred tax liabilities	—	(10,620)
	(1,832,889)	2,508,937
Net cash and cash equivalents (used in) provided by operating activities		
Cash flows from investing activities:		
Cost of purchases of marketable securities	(8,460,438)	(2,498,356)
Proceeds from sales and maturities of marketable securities	9,760,801	2,210,448
Additions to property, plant and equipment	(1,049,811)	(1,045,765)
Advances on notes receivable	(246,358)	(172,976)
Payments on notes receivable	78,364	16,079
	82,558	(1,490,570)
Net cash and cash equivalents provided by (used in) investing activities		
Cash flows from financing activities:		
Contributions restricted for long-term investment	12,500	65,600
Cash held in trust	765	(585,676)
Repayment of debt	(297,801)	(343,861)
Proceeds from debt	2,020,000	1,120,000
Capital lease payments	(759,263)	(722,562)
	976,201	(466,499)
Net cash and cash equivalents provided by (used in) financing activities		
Change in cash and cash equivalents	(774,130)	551,868
Cash and cash equivalents at beginning of year	1,340,445	788,577
Cash and cash equivalents at end of year	\$ 566,315	1,340,445
Supplemental information:		
Cash paid for interest	\$ 176,897	172,133
Income taxes paid	456	456

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(1) Organization

The CBR Institute for Biomedical Research, Inc. (CBR), 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, 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.

(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, 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 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.

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

Expenses associated with fundraising activities of CBR amounted to \$438,735 and \$477,705 in 2005 and 2004, respectively, and are included in management and general expenses on the consolidated statements of activities.

(n) *Reclassifications*

Certain 2004 balances have been reclassified to conform to the 2005 presentation.

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(3) Contributions and Accounts Receivable

Contributions receivable as of June 30 included the following:

	<u>2005</u>	<u>2004</u>
Amounts due in:		
Less than one year	\$ 78,974	178,782
One to five years	205,200	266,200
Charitable remainder trust	145,242	114,495
Less discount on allowance for uncollectibles	(18,283)	(21,931)
Contributions receivable, net	<u>\$ 411,133</u>	<u>537,546</u>

Accounts receivable are net of an allowance for doubtful accounts of \$3,379 and \$20,571 as of June 30, 2005 and 2004, respectively.

(4) Investments

Investments as of June 30 are summarized as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Equity mutual funds	\$ 8,520,801	9,705,212	4,760,975	6,357,726
Fixed-income mutual funds	—	—	3,947,132	3,947,132
Common and preferred stocks	102,768	189,537	102,768	194,481
Cash and cash equivalents	38,681	38,681	211,728	211,728
Total	<u>\$ 8,662,250</u>	<u>9,933,430</u>	<u>9,022,603</u>	<u>10,711,067</u>

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

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 295,972	189,286
Net unrealized (loss) gain	(417,284)	770,639
Net realized gain	940,010	379,034
Investment return	<u>\$ 818,698</u>	<u>1,338,959</u>

Total investment management fees were \$21,470 and \$5,154 for the years ended June 30, 2005 and 2004, respectively, and are included in expenses.

(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

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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, 2005 and 2004 was \$59,274 and \$62,761, 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 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, 2005 and 2004 was \$164,272 and \$132,792, respectively.

CBR has a note receivable from an investigator with a principal balance of \$80,000 and \$140,000 as of June 30, 2005 and 2004, respectively. The note is interest free. \$60,000 was repaid on July 15, 2004, \$60,000 will be repaid on July 15, 2005 and \$20,000 will be repaid on July 15, 2006.

CBR has a note receivable from an officer with a principal balance of \$200,000. The note is interest free. \$20,000 will be repaid on February 1, 2006 and \$20,000 will be repaid each February 1 thereafter through February 1, 2015.

(6) Property, Plant, and Equipment

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

	2005	2004
Land	\$ 464,128	464,128
Buildings	1,596,821	1,596,821
Equipment	9,240,365	9,227,500
Alterations	5,488,709	5,039,896
	16,790,023	16,328,345
Less accumulated depreciation	(13,836,875)	(13,114,050)
Property, plant, and equipment, net	\$ 2,953,148	3,214,295

Depreciation expense was \$1,306,392 and \$1,404,484 for the years ended June 30, 2005 and 2004, respectively.

Fully depreciated equipment, with an original cost of \$135,344 and \$125,361, was disposed of during the years ended June 30, 2005 and 2004, respectively. As of June 30, 2005 and 2004, equipment with a net book value of \$1,566,112 and \$1,731,679, 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

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from approximately \$1,580,000 to \$1,700,000 a year, representing the basic rent as defined in the sublease 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 \$283,953 and \$144,140 as of June 30, 2005 and 2004, respectively, and is included in accrued and other liabilities. For both years ended June 30, 2005 and 2004, CBR recorded rental expense of approximately \$1,591,000. The sublease also requires CBR to pay certain operating and maintenance expenses allocable to the subleased space, which for the years ended June 30, 2005 and 2004, amounted to \$882,934 and \$1,022,361, 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 for the year ended June 30, 2004.

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 \$486,013 and \$485,521 for the years ended June 30, 2005 and 2004, 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. Effective July 1, 2005, CBR executed an amendment to this lease, resulting in a 39% reduction of office space. The future minimum lease payments for the years ending June 30 are as follows:

2006		\$	209,170
2007			194,691
	Total	\$	<u>403,861</u>

CBR entered into a lease for certain research space from February 1, 2005 through December 31, 2009. Rental expense related to this lease was \$56,394 for the year ended June 30, 2005. The future minimum lease payments for the years ending June 30 are as follows:

2006		\$	95,772
2007			95,772
2008			95,772
2009			46,886
	Total	\$	<u>334,202</u>

CBR rents certain research space on a tenant-at-will basis. For the use of such space, rental expense was \$185,724 and \$192,481 for the years ended June 30, 2005 and 2004, 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 \$9,955.

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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 \$1,090,575 and \$487,191 for the years ended June 30, 2005 and 2004 respectively. The future minimum rental payments for the years ending June 30 are as follows:

	2006	\$	840,915
	2007		<u>227,730</u>
	Total	\$	<u><u>1,068,645</u></u>

CBR financed the 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:

	2006	\$	647,898
	2007		448,666
	2008		<u>224,333</u>
	Total capital lease payments		1,320,897
	Less amount representing interest		<u>(79,417)</u>
	Capital lease obligation	\$	<u><u>1,241,480</u></u>

Equipment purchases funded by the capital lease for the years ended June 30, 2005 and 2004 totaled \$10,832 and \$172,695, respectively.

(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, 2005 and 2004, CBR had \$1,200,000 and \$400,000, respectively, at 4.5% outstanding under the line of credit. The line of credit has required covenants, principally a debt service coverage ratio. At June 30, 2005, CBR was in compliance with its debt covenants. At June 30, 2004, CBR was in violation of its debt service coverage ratio covenant, and had 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:

2006	\$	11,634
2007		12,277
2008		12,976
2009		13,704
2010		14,473
2011 and thereafter		<u>273,968</u>
Total	\$	<u><u>339,032</u></u>

During 2004, CBR 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, 2005, CBR had a balance outstanding of \$845,130 at a rate of 2.549%. Equipment purchases funded by the loan for the year ended June 30, 2005 were \$129,480. As of June 30, 2005, unexpended proceeds of \$64,506 and required debt service deposits of \$92,237 were held in trust.

During 2005, CBR financed \$1,074,656 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, 2005, CBR had a balance outstanding of \$1,074,656 at a rate of 2.549%. Equipment purchases funded by the loan for the year ended June 30, 2005 were \$698,487. As of June 30, 2005, unexpended proceeds of \$592,136 and required debt service deposits of \$19,240 were held in trust.

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

2006	\$	303,986
2007		322,229
2008		341,558
2009		362,054
2010		383,784
2011 and thereafter		<u>206,175</u>
Total	\$	<u><u>1,919,786</u></u>

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(9) Temporarily and Permanently Restricted Net Assets

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

	2005	2004
Temporarily restricted net assets:		
Purpose restrictions	\$ 259,566	380,174
Time restrictions	279,558	295,858
	\$ 539,124	676,032
Permanently restricted net assets:		
Endowment funds	\$ 1,854,324	1,870,775
	\$ 1,854,324	1,870,775

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, 2005 and 2004, including amounts reserved for projects extending past one year, total \$95,701,931 and \$85,916,494, respectively. These commitments extend through 2010 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 his/her age. Expenses under this plan for the years ended June 30, 2005 and 2004 amounted to \$500,187 and \$480,120, 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 his/her age. Expenses under this plan for the years ended June 30, 2005 and 2004 amounted to \$349,120 and \$345,873, 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.

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Notes to Consolidated Financial Statements

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The following is summarized financial information for BRI:

	2005	2004
Total assets	\$ 13,738,367	14,204,467
Total liabilities	(17,877,746)	(18,224,292)
Unrestricted net deficit	\$ (4,139,379)	(4,019,825)
Total revenues	\$ 2,507,594	2,623,291
Total expenses	(2,627,148)	(2,817,671)
Change in net deficit	\$ (119,554)	(194,380)

(13) Federal and State Income Taxes

CBR Labs' income tax expense (benefit), which is all current, consisted of the following:

	Total
Year ended June 30, 2005:	
Federal	\$ —
State	456
	\$ 456
Year ended June 30, 2004:	
Federal	\$ (29,980)
State	456
	\$ (29,524)

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:

	2005	2004
Computed "expected" tax expense (benefit)	\$ 12,597	(149,651)
State tax, net of federal benefit	301	301
Other, net	8,296	(13,483)
Change in federal valuation allowance	(20,738)	133,309
	\$ 456	(29,524)

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

	2005	2004
Deferred tax assets:		
Reserves for uncollectible accounts	\$ —	2,078
Accrued liabilities	236,461	332,638
Net operating loss	257,971	178,466
Research and development credits	72,262	78,379
Total gross deferred tax assets	566,694	591,561
Less valuation allowance	(566,694)	(591,561)
Deferred tax assets	\$ —	—

The valuation allowance for Federal and state deferred income taxes decreased by \$24,867 from June 30, 2004 to June 30, 2005. 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, 2005 because of the valuation allowance.

CBR Labs has federal and state net operating loss carryforwards of approximately \$550,000 and \$730,000, respectively, as of June 30, 2005 and \$375,000 and \$550,000, respectively, as of June 30, 2004, which are available to offset future taxable income, if any, through 2024 for federal purposes. State expirations of net operating loss carryforwards range from 2004 through 2009. Utilization of the net operating losses may be subject to annual limitation provided by Section 382 of the Code of 1986 and similar state provisions.

(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 \$218,816. 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, 2005 and 2004 was approximately \$339,000 and \$553,000, respectively. Additional costs in the amount of approximately \$11,000 and \$42,000, related to the discontinued operation, were also expensed for the years ended June 30, 2005 and 2004, respectively.

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(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, 2005 and 2004, there were no outstanding shares issued from a total of 40,000 shares reserved for sale under the Plan.