



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

Consolidated Financial Statements

June 30, 2006 and 2005

(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, 2006 and 2005, 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, 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, 2006 and 2005, 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 December 15, 2006, 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**

December 15, 2006

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

June 30, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 1,448,482	566,315
Cash held in trust (notes 7 and 8)	1,023,227	768,119
Accounts receivable, net (note 3)	563,900	798,866
Unbilled grants receivable	1,168,978	2,476,492
Contributions receivable, net (note 3)	291,682	411,133
Prepaid expenses and other assets	929,296	904,871
Investments (note 4)	19,467,128	9,933,430
Notes receivable (note 5)	436,672	503,546
Property, plant, and equipment, net (note 6)	3,189,765	2,953,148
Total assets	\$ 28,519,130	19,315,920
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 1,479,935	1,951,326
Accrued and other liabilities (note 7)	924,711	1,897,672
Deferred revenue	328,135	533,837
Lease of real property (note 7)	11,000,000	—
Capital leases (note 7)	1,695,876	1,241,480
Debt (note 8)	2,365,599	3,458,818
Total liabilities	17,794,256	9,083,133
Net assets:		
Unrestricted	8,307,583	7,839,339
Temporarily restricted (note 9)	599,038	539,124
Permanently restricted (note 9)	1,818,253	1,854,324
Total net assets	10,724,874	10,232,787
Total liabilities and net assets	\$ 28,519,130	19,315,920

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, 2006 and 2005

	<b>2006</b>	<b>2005</b>
Operating:		
Revenues:		
Research grants (note 10)	\$ 35,677,668	34,536,483
Net sales	94,310	173,382
Total operating revenues	35,771,978	34,709,865
Expenses:		
Research:		
Direct costs	23,220,834	22,715,189
Overhead applied	13,800,718	13,873,600
Cost of sales	63,711	130,467
	37,085,263	36,719,256
Decrease in unrestricted net assets from operations	(1,313,285)	(2,009,391)
Nonoperating:		
Investment return (note 4)	930,862	756,083
Loss related to exit activities (note 14)	(152,476)	(11,104)
Contributions	220,828	161,547
Net assets released from restrictions	55,346	279,395
Income tax expense (note 13)	(456)	(456)
Rental, royalties and other	727,425	573,076
Total nonoperating revenue	1,781,529	1,758,541
Increase (decrease) in unrestricted net assets	468,244	(250,850)
Changes in temporarily restricted net assets:		
Contributions	43,861	79,872
Investment return (note 4)	71,399	62,615
Net assets released from restrictions	(55,346)	(279,395)
Increase (decrease) in temporarily restricted net assets	59,914	(136,908)
Changes in permanently restricted net assets:		
Contributions	(36,071)	(16,451)
Decrease in permanently restricted net assets	(36,071)	(16,451)
Change in net assets	492,087	(404,209)
Net assets at beginning of year	10,232,787	10,636,996
Net assets at end of year	\$ 10,724,874	10,232,787

See accompanying notes to consolidated financial statements.

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

Years ended June 30, 2006 and 2005

	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Change in net assets	\$ 492,087	(404,209)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	1,120,057	1,310,957
Net realized and unrealized gain on investments	(556,800)	(522,726)
Contributions restricted for long-term investment	(8,174)	(12,500)
Changes in assets and liabilities:		
Accounts receivable, net	234,966	(188,079)
Unbilled grants receivable	1,307,514	(1,522,632)
Contributions receivable, net	119,451	126,413
Prepaid expenses and other assets	(24,425)	(339,956)
Accounts payable, accrued expenses and other liabilities	(1,444,352)	(259,737)
Deferred revenue	(205,702)	(20,420)
Net cash and cash equivalents provided by (used in) operating activities	1,034,622	(1,832,889)
Cash flows from investing activities:		
Cost of purchases of marketable securities	(14,151,103)	(8,460,438)
Proceeds from sales and maturities of marketable securities	5,174,205	9,760,801
Additions to property, plant and equipment	(1,356,674)	(1,049,811)
Advances on notes receivable	(34,424)	(246,358)
Payments on notes receivable	101,298	78,364
Net cash and cash equivalents (used in) provided by investing activities	(10,266,698)	82,558
Cash flows from financing activities:		
Contributions restricted for long-term investment	8,174	12,500
Cash held in trust	(255,108)	765
Repayment of debt	(1,093,219)	(297,801)
Proceeds from capital lease	1,053,000	2,020,000
Capital lease payments	(598,604)	(759,263)
Proceeds from lease of real property	11,000,000	—
Net cash and cash equivalents provided by financing activities	10,114,243	976,201
Change in cash and cash equivalents	882,167	(774,130)
Cash and cash equivalents at beginning of year	566,315	1,340,445
Cash and cash equivalents at end of year	\$ 1,448,482	566,315
Supplemental information:		
Cash paid for interest	\$ 335,829	176,897
Income taxes paid	456	456

See accompanying notes to consolidated financial statements.

**THE CBR INSTITUTE FOR BIOMEDICAL RESEARCH, INC.  
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**(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 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.

**(h) *Use of Estimates***

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

**(i) *Grants and Contracts***

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.

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 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.

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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 \$560,069 and \$438,735 in 2006 and 2005, respectively, and are included in management and general expenses on the consolidated statements of activities.

**(3) Contributions and Accounts Receivable**

Contributions receivable as of June 30 included the following:

	<u>2006</u>	<u>2005</u>
Amounts due in:		
Less than one year	\$ 56,124	78,974
One to five years	90,000	205,200
Charitable remainder trust	153,637	145,242
Less discount on allowance for uncollectibles	<u>(8,079)</u>	<u>(18,283)</u>
Contributions receivable, net	<u>\$ 291,682</u>	<u>411,133</u>

Accounts receivable are net of an allowance for doubtful accounts of \$9,483 and \$3,379 as of June 30, 2006 and 2005, respectively.

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**(4) Investments**

Investments as of June 30 are summarized as follows:

	<b>2006</b>		<b>2005</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
Equity mutual funds	\$ 17,775,840	19,253,141	8,520,801	9,705,212
Common and preferred stocks	102,768	201,035	102,768	189,537
Cash and cash equivalents	12,952	12,952	38,681	38,681
Total	<u>\$ 17,891,560</u>	<u>19,467,128</u>	<u>8,662,250</u>	<u>9,933,430</u>

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

	<b>2006</b>	<b>2005</b>
Interest and dividends	\$ 445,461	295,972
Net unrealized (loss) gain	304,388	(417,284)
Net realized gain	252,412	940,010
Investment return	<u>\$ 1,002,261</u>	<u>818,698</u>

Total investment management fees were \$27,997 and \$21,470 for the years ended June 30, 2006 and 2005, 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 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 unpaid principal balance on the promissory note as of June 30, 2006 and 2005 was \$55,908 and \$59,274, 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 unpaid principal balance as of June 30, 2006 and 2005 was \$180,765 and \$164,272, respectively.

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

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CBR has a note receivable from an officer with an unpaid principal balance of \$180,000. The note is interest free, with annual principal repayments of \$20,000 due each February 1 through 2015.

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

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

	<u>2006</u>	<u>2005</u>
Land	\$ 464,128	464,128
Buildings	1,596,822	1,596,821
Equipment	10,169,496	9,240,365
Alterations	5,846,127	5,488,709
	<u>18,076,573</u>	<u>16,790,023</u>
Less accumulated depreciation	<u>(14,886,808)</u>	<u>(13,836,875)</u>
Property, plant, and equipment, net	<u>\$ 3,189,765</u>	<u>2,953,148</u>

Depreciation expense was \$1,120,057 and \$1,306,392 for the years ended June 30, 2006 and 2005, respectively.

Fully depreciated assets, with an original cost of \$70,124 and \$135,344, were disposed of during the years ended June 30, 2006 and 2005, respectively. As of June 30, 2006 and 2005, equipment with a net book value of \$1,463,412 and \$1,566,112, respectively, was acquired under a capital lease.

**(7) Leases**

*Operating 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 agreement. The sublease also requires CBR to pay certain operating and maintenance expenses allocable to the subleased space, which for the years ended June 30, 2006 and 2005, amounted to \$981,528 and \$882,934, respectively. 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 prepaid rent of \$449,776 and \$283,953 as of June 30, 2006 and 2005, respectively, which is included in accrued and other liabilities.

On May 25, 2006 CBR entered into an agreement to lease approximately 50,000 rentable square feet. The initial term of the lease is 15 years with two 10-year options to extend the lease. The rent commencement date is the later of the "delivery date" defined as the date CBR first occupies the building, or April 1, 2008.

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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, CBR will be responsible for its pro-rata share of taxes, insurance, utilities and other operating expenses. In connection with this transaction, CBR was required to deliver a letter of credit in the amount of \$2,160,778 as a security deposit.

CBR 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 CBR's lease agreements was \$4,238,029 and \$4,301,601 for the years ended June 30, 2006 and 2005, respectively, of which approximately \$1,000,000 and \$900,000 was for ancillary and common area maintenance costs for the years ended June 30, 2006 and 2005, respectively. The combined future lease payments for the year ended June 30, 2006 are as follows:

2007	\$	2,543,590
2008		3,184,129
2009		5,890,045
2010		5,754,171
2011		5,481,067
Thereafter		<u>44,236,415</u>
Total	\$	<u><u>67,089,417</u></u>

*Capital Leases*

CBR financed the purchase of equipment in the amount of \$5,398,007 through the Massachusetts Health and Educational Facilities Authority (MHEFA), including \$1,053,000 obtained in fiscal 2006. Principal and interest are payable semiannually through 2011, at annual interest rates ranging from 4.41% to 5.398%.

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

2007	\$	685,641
2008		461,308
2009		236,975
2010		236,976
2011		<u>236,976</u>
Total capital lease payments		1,857,876
Less amount representing interest		<u>(162,000)</u>
Capital lease obligation	\$	<u><u>1,695,876</u></u>

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Equipment purchases funded by the capital lease for the years ended June 30, 2006 and 2005 totaled \$285,842 and \$10,832, respectively. As of June 30, 2006, unexpended proceeds of \$777,049 were held in trust.

*Lease Financing*

On May 10, 2006, CBR 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). CBR 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, CBR 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 CBR 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 CBR. In consideration for granting the third party the option to purchase the Property, CBR 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 CBR 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, CBR 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, CBR entered into the Sublease dated May 10, 2006. The Sublease has an initial term of four years, with annual net minimum rental payments equal to 7% of the cumulative rent paid in accordance with the Lease or \$770,000, \$840,000, \$910,000 and \$962,500 for years one through four respectively. CBR 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*, CBR has treated the Lease and Sublease under the finance method of accounting. Accordingly, the Lease payment received totaling \$11 million has been deferred at June 30, 2006. Sublease payments totaling \$105,565 for the year ended June 30, 2006, have been treated as interest expense.

**(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, 2006 and 2005, CBR had \$813,000 and \$1,200,000, respectively, at 8.50% outstanding under the line of credit. The line of credit has required covenants, principally a debt service coverage ratio. At June 30, 2006 and 2005, CBR was in compliance with its debt covenants.

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. During 2006, CBR paid off the mortgage in full.

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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, 2006, CBR had a balance outstanding of \$632,009 at a rate of 3.772%. Equipment purchases funded by the loan for the year ended June 30, 2006 were \$63,976. As of June 30, 2006, required debt service deposits of \$14,565 were held in trust.

During 2005, CBR financed \$1,220,000 for the purchase of equipment through the MHEFA Pool M3-A program. Principal is paid annually. Interest is charged monthly on a tax-exempt, variable-rate basis. In addition, there is a monthly letter of credit fee of 1%. At June 30, 2006, CBR had a balance outstanding of \$920,590 at a rate of 3.772%. Equipment purchases funded by the loan for the year ended June 30, 2006 were \$295,035. As of June 30, 2006, unexpended proceeds of \$214,545 and required debt service deposits of \$17,068 were held in trust.

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

2007	\$	307,782
2008		326,244
2009		345,821
2010		366,577
2011		<u>206,175</u>
Total	\$	<u><u>1,552,599</u></u>

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

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

	<b>2006</b>	<b>2005</b>
Temporarily restricted net assets:		
Purpose restrictions	\$ 382,619	259,566
Time restrictions	<u>216,419</u>	<u>279,558</u>
	<u>\$ 599,038</u>	<u>539,124</u>
Permanently restricted net assets:		
Endowment funds	\$ <u>1,818,253</u>	<u>1,854,324</u>
	<u>\$ 1,818,253</u>	<u>1,854,324</u>

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.

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**(10) Research Grants**

Grants and contracts awarded, but not yet recognized as revenue as of June 30, 2006 and 2005, including amounts reserved for projects extending past one year, total \$84,253,208 and \$95,701,931, respectively. These commitments extend through 2011 and are subject to the availability of funds from the respective granting agency and satisfactory progress on the individual projects.

**(11) Pension Plans**

Certain investigators and senior management personnel of 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, 2006 and 2005 amounted to \$491,122 and \$500,187, 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, 2006 and 2005 amounted to \$298,148 and \$349,120, 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>2006</u>	<u>2005</u>
Total assets	\$ 13,302,327	13,738,367
Total liabilities	<u>(17,453,366)</u>	<u>(17,877,746)</u>
Unrestricted net deficit	<u>\$ (4,151,039)</u>	<u>(4,139,379)</u>
Total revenues	\$ 2,652,932	2,507,594
Total expenses	<u>(2,664,592)</u>	<u>(2,627,148)</u>
Change in net deficit	<u>\$ (11,660)</u>	<u>(119,554)</u>

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**(13) Federal and State Income Taxes**

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

	<b>Total</b>
Year ended June 30, 2006:	
Federal	\$ —
State	456
	\$ 456
Year ended June 30, 2005:	
Federal	\$ —
State	456
	\$ 456

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:

	<b>2006</b>	<b>2005</b>
Computed "expected" tax expense (benefit)	\$ (40,139)	12,597
State tax, net of federal benefit	301	301
Other, net	310	8,296
Change in federal valuation allowance	39,984	(20,738)
	\$ 456	456

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

	<b>2006</b>	<b>2005</b>
Deferred tax assets:		
Accrued liabilities	\$ 162,799	236,461
Net operating loss	382,748	257,971
Research and development credits	56,465	72,262
Total gross deferred tax assets	602,012	566,694
Less valuation allowance	(602,012)	(566,694)
Deferred tax assets	\$ —	—

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The valuation allowance for federal and state deferred income taxes increased by \$35,318 from June 30, 2005 to June 30, 2006. 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, 2006 because of the valuation allowance.

CBR Labs has federal and state net operating loss carryforwards of approximately \$845,000 and \$977,000, as of June 30, 2006 and 2005, respectively, which are available to offset future taxable income, if any, through 2025 for federal purposes. State expirations of net operating loss carryforwards range from 2007 through 2010. 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 \$225,934. In accordance with Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, CBR Labs recorded a liability in fiscal 2003 representing the net present value of remaining lease commitments, net of any estimated sublease revenues. In 2006, CBR Labs reassessed its sublease assumptions which resulted in recording an additional liability of approximately \$147,000. The liability related to these exit activities was approximately \$264,000 and \$339,000 at June 30, 2006 and 2005, 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, 2006 and 2005, there were no outstanding shares issued from a total of 40,000 shares reserved for sale under the Plan.