

**COLD SPRING HARBOR LABORATORY**

**Consolidated Financial Statements**

**December 31, 2005 and 2004**

**KPMG LLP**  
Suite 200  
1305 Walt Whitman Road  
Melville, NY 11747-4302

## **Independent Auditors' Report**

The Board of Trustees  
Cold Spring Harbor Laboratory:

We have audited the accompanying consolidated balance sheet of Cold Spring Harbor Laboratory (the

Assets:

2005

2004

## COLD SPRING HARBOR LABORATORY

### Consolidated Statement of Activities

Year ended December 31, 2005

(with summarized financial information for the year ended December 31, 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
Revenue and other support:					
Public support - contributions and non-Federal grant awards	\$ 22,009,798	49,454,134	12,312,801	83,776,733	30,258,733
Federal grant awards	32,067,800	-	-	32,067,800	29,451,302
Indirect cost allowances (Note 14)	19,558,159	-	-	19,558,159	17,659,458
Program fees	3,583,017	-	-	3,583,017	3,644,734
Publications sales	9,751,069	-	-	9,751,069	9,743,639
Dining services	3,349,002	-	-	3,349,002	3,183,440
Rooms and apartments	2,703,382	-	-	2,703,382	2,632,671
Royalty and licensing fees	2,873,198	-	-	2,873,198	926,913
Investment income - interest and dividends	4,831,010	-	-	4,831,010	3,134,480
Miscellaneous	652,207	-	-	652,207	514,559
Total revenue	101,378,642	49,454,134	12,312,801	163,145,577	101,149,929
Net assets released from restrictions	4,583,791	(4,583,791)	-	-	-
Total revenue and other support	105,962,433	44,870,343	12,312,801	163,145,577	101,149,929
Expenses (Note 18):					
Research	57,766,809	-	-	57,766,809	52,049,866
Educational programs	13,207,352	-	-	13,207,352	13,238,766
Publications	9,432,319	-	-	9,432,319	9,380,833
Banbury Center conferences	1,396,425	-	-	1,396,425	1,159,499
Dolan DNA Learning Center programs	1,231,059	-	-	1,231,059	1,611,325
Watson School of Biological Sciences programs	2,848,109	-	-	2,848,109	2,263,518
General and administrative	13,267,025	-	-	13,267,025	12,508,768
Dining services	4,684,031	-	-	4,684,031	4,236,535

# COLD SPRING HARBOR LABORATORY

## Consolidated Statement of Cash Flows

Year ended December 31, 2005

(with comparative financial information for the year ended December 31, 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Increase in net assets	\$ 72,427,088	26,516,776
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,852,278	5,769,622
Net appreciation in fair value of investments	(13,009,353)	(21,746,064)
Contributions restricted for long-term investment	(47,445,268)	(13,812,552)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,247,129)	101,178
(Increase) decrease in grants receivable	(1,376,762)	92,932
(Increase) decrease in contributions receivable	(125,496)	79,666
Increase in publications inventory	(34,718)	(738,459)
Increase in prepaid expenses and other assets	(409,312)	(38,716)
Increase in restricted use assets	(321,615)	(195,347)
Increase in accounts payable and accrued expenses	900,672	1,275,293
Increase (decrease) in deferred revenue	358,816	(189,222)
Net cash provided by (used in) operating activities	<u>13,569,201</u>	<u>(2,884,893)</u>
Cash flows from investing activities:		
Capital expenditures	(10,946,777)	(7,273,237)
Proceeds from sales and maturities of investments	134,357,645	113,998,317
Purchases of investments	(142,643,334)	(104,850,454)
Net change in investment in employee residences	<u>(678,172)</u>	<u>(55,591)</u>
Net cash (used in) provided by investing activities	<u>(19,910,638)</u>	<u>1,819,035</u>
Cash flows from financing activities:		
Permanently restricted contributions	12,312,801	1,159,665
Contributions restricted for investment in land, buildings, and equipment	35,132,467	12,652,887
Increase in contributions receivable	(34,959,882)	(1,119,362)
Increase in accounts payable relating to capital expenditures	2,031,084	179,083
Repayment of notes payable	<u>(34,137)</u>	<u>(33,183)</u>
Net cash provided by financing activities	<u>14,482,333</u>	<u>12,839,090</u>
Net increase in cash and cash equivalents	8,140,896	11,773,232
Cash and cash equivalents at beginning of year	<u>40,744,417</u>	<u>28,971,185</u>
Cash and cash equivalents at end of year	<u>\$ 48,885,313</u>	<u>40,744,417</u>
Supplemental disclosure:		
Interest paid	<u>\$ 1,134,372</u>	<u>780,758</u>

*See accompanying notes to consolidated financial statements.*

# **COLD SPRING HARBOR LABORATORY**

Notes to Consolidated Financial Statements

December 31, 2005

(with comparative financial information as of and for the year ended December 31, 2004)

**(1) Summary of Significant Accounting Policies and Practices**

(a) Description of Business

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2005

(with comparative financial information as of and for the year ended December 31, 2004)

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Laboratory and the Robertson Research Fund, Inc. ("Corporation"), a not-for-profit organization incorporated in 1972 to provide funds for the benefit of the Laboratory on a continuing basis, unless the Laboratory ceases to be exempt from taxation under the Internal Revenue Code. The Corporation is further described in Note 15. All intercompany accounts and transactions have been eliminated in consolidation.

(d) Cash Equivalents

Cash equivalents consist principally of money market funds and short-term notes maturing within three months of the date of purchase. Cash equivalents approximated \$47,446,000 and \$40,739,000 at December 31, 2005 and 2004, respectively.

(e) Use of Estimates

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

(f) Publications Inventory

The publications inventory represents works in progress and published and offered for sale by the Laboratory. Amounts are stated at the lower of cost or estimated realizable value.

(g) Investments

Investments are recorded at fair value. Contributions of investment securities are recorded at their fair value at the date of the gift.

Included in investments are stocks which do not have a readily determinable fair value that were received by the Laboratory from biotechnology companies in return for various rights to Laboratory-developed intellectual property. Upon the receipt of founders stock from a newly formed company, the value of each share of stock is based on the amount paid per share by the outside investor(s). The amount is reduced by an appropriate valuation allowance, reflecting the high risk associated with startup companies and limitations on the transferability of such stock, to arrive at the initial cost basis of the stock. The values of the stocks are not adjusted until either a) the company is determined to have no value at which time the value of the stock is written off; b) the company is sold at which time a gain or loss is recognized; or c) the company completes an initial public offering (IPO) and its stock becomes publicly traded on a securities exchange. At the time of the IPO, the value of the stock is increased to fair value based on the quoted price of the stock. The fair value is reduced by an appropriate valuation allowance if the stock is restricted by governmental or contractual requirements, or the Laboratory owns a large block of stock that could not be sold without potentially affecting the market price.

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(with comparative financial information as of and for the year ended December 31, 2004)

(h) Contributions Receivable

Contributions receivable are recorded at their estimated net realizable value (discounted to present value at a risk-free rate).

(i) Land, Buildings and Equipment

Land, buildings and equipment are reported at cost. Donated books and periodicals and other assets are recorded at appraised value as of the date of gift. Depreciation is computed on the straight-line basis over the estimated useful lives (ranging from three to forty years) of all buildings and equipment acquired with non-Federal funds. Equipment acquired with Federal funds is charged against the applicable grant in the year acquired. Land, buildings and equipment, and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Long-lived assets deemed to be impaired are written down to fair value.

(j) Deferred Revenue

Deferred revenue represents advances received on grants deemed to be exchange transactions, and amounts received for publication subscriptions and fees received, but not yet earned. Revenue is recognized in future periods as expenses are incurred or publications are shipped.

(k) Federal Income Tax Status

The Laboratory and the Corporation are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(l) Excess of Revenue and Other Support over Expenses

The consolidated statement of activities presents the excess of revenue and other support over expenses, exclusive of the net appreciation in fair value of investments. Net appreciation in fair value of investments includes realized gains or losses on sales of investments as well as unrealized gains or losses in fair value of investments.

(m) Comparative Financial Statements

The accompanying consolidated statement of activities includes certain 2004 summarized comparative information presented in the aggregate and not displayed by net asset class. Such information does not include sufficient detail to constitute a present



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Contributions receivable are expected to be collected as follows:

	<u>2005</u>	<u>2004</u>
Within one year	\$ 28,498,612	3,710,000
One to five years	17,143,057	6,989,831
More than five years	5,638,862	4,105,728
	<u>\$ 51,280,531</u>	<u>14,805,559</u>

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### (7) Land, Buildings and Equipment

Land, buildings and equipment at December 31, 2005 and 2004 consists of:

	<u>2005</u>	<u>2004</u>
Land and land improvements	\$ 15,308,612	14,881,302
Buildings	117,395,573	114,580,213
Furniture, fixtures and equipment	12,825,289	12,021,846
Laboratory equipment	19,765,305	19,141,687
Library books and periodicals	365,630	365,630
Construction in progress	<u>11,672,359</u>	<u>6,233,113</u>
	177,332,768	167,223,791
Less accumulated depreciation and amortization	<u>(61,481,246)</u>	<u>(56,466,768)</u>
Land, buildings and equipment, net	<u>\$ 115,851,522</u>	<u>110,757,023</u>

Construction in progress principally includes costs of construction of the Hillside Campus totaling approximately \$10,297,000 and \$3,888,000 at December 31, 2005 and 2004, respectively. The remaining balances are associated with various campus renovations ongoing at the Laboratory.

### (8) Other Financing Arrangements

The Laboratory has a \$5,000,000 discretionary line of credit with JP Morgan Chase, which expires on June 30, 2006. The facility bears interest at prime plus .5%. At December 31, 2005 and 2004, there were no borrowings outstanding. The Laboratory expects to renew the facility upon expiration.

### (9) Commitments Under Operating Leases

On December 1, 2003, the Laboratory entered into a sixty-one month non-cancelable operating lease for property located at 180 Oser Avenue, Hauppauge, New York. The monthly rental is \$5,365 or approximately \$327,000 over the lease term.

On January 1, 2005, the Laboratory entered into a five year non-cancelable operating lease with an optional five-year extension for property located at 266 Pulaski Road, Greenlawn, New York. The monthly rent is \$25,472 or approximately \$1,528,000 over the lease term.

### (10) Bonds Payable

During 1993, the Laboratory executed an agreement to obtain \$10 million of bond financing for the construction, purchase, renovation and equipping of Laboratory facilities of which \$7 million was obtained through the Nassau County Industrial Development Agency (NCIDA), and \$3 million was obtained through the Suffolk County Industrial Development Agency (SCIDA). The \$7 million NCIDA bonds were refunded during 1999, as described below. The \$3 million SCIDA bonds mature and are payable in full on July 1, 2023, bear interest at a variable daily rate which is payable on a monthly basis, and are guaranteed by a letter of credit issued by a financial institution.

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On April 1, 1999, the Laboratory executed an agreement to obtain \$42.2 million of bond financing through

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## (13) Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2005 and 2004 are restricted in perpetuity with investment return available to support the following activities:

	<u>2005</u>	<u>2004</u>
Primary program services	\$ 104,017,864	92,170,237
Watson School of Biological Sciences programs	31,158,742	26,974,560
Operation and improvement of Banbury Center facilities	<u>11,952,220</u>	<u>11,460,993</u>
	<u>\$ 147,128,826</u>	<u>130,605,790</u>

## (14) Indirect Cost Allowances

Indirect cost allowances recovered under certain government and other grants are accrued in the period the research is performed. For Federal grants, these accruals are based on an approved indirect cost rate negotiated with the cognizant government granting agency. In 2006, the Laboratory negotiated a

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## (17) Commitments and Contingencies

The Laboratory entered into various construction contracts for the Hillside Campus project. At December 31, 2005, the Laboratory was committed to an additional amount on these contracts of approximately \$15,304,000.

The Laboratory is currently, and has in the past been, a party to routine litigation incidental to its business. The impact of the final resolution of these matters on the Laboratory's change in net assets or liquidity in a particular reporting period is not known. Management is of the opinion, however, that the ultimate outcome of such matters will not have a material adverse effect upon the Laboratory's consolidated financial condition or liquidity.

## (18) Expenses

Expenses are reported in the consolidated statement of activities by their functional classifications as required by Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. The Laboratory's primary program services are research, education and instructional training through courses, meetings, publications and educational activities. Expenses reported as general and administrative, and dining services are incurred in support of these primary program services. General and administrative expenses include approximately \$1,382,000 and \$1,120,000 of fund-raising expenses in 2005 and 2004, respectively.

SFAS No. 117 also requires allocation of expenses which relate to more than one program or supporting activity. Expenses of the Laboratory in this category include, but are not limited to, depreciation, interest, operation and maintenance of plant, library and direct research support. Amounts have been allocated to the programs and services using methods such as square footage, usage, and other financial methods.

	<u>2005</u>			<u>2004</u>		
	Direct			Direct		
	Functional Expenses	Allocated Expenses	Total	Functional Expenses	Allocated Expenses	Total
Research	\$ 43,518,523	14,248,286	57,766,809	39,064,467	12,985,399	52,049,866
Educational programs	11,044,596	2,162,756	13,207,352	11,265,214	1,973,552	13,238,766
Publications	9,018,698	413,621	9,432,319	8,994,745	386,088	9,380,833
Banbury Center conferences	817,561	578,864	1,396,425	625,162	534,337	1,159,499
Dolan DNALC programs	652,816	578,243	1,231,059	1,025,929	585,396	1,611,325
WSBS programs	2,202,723	645,386	2,848,109	1,880,340	383,178	2,263,518
General and administrative	10,898,702	2,368,323	13,267,025	10,346,816	2,161,952	12,508,768
Dining services	3,537,441	1,146,590	4,684,031	3,201,182	1,035,353	4,236,535
	<u>\$ 81,691,060</u>	<u>22,142,069</u>	<u>103,833,129</u>	<u>76,403,855</u>	<u>20,045,255</u>	<u>96,449,110</u>

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