



COLD SPRING HARBOR LABORATORY

**Consolidated Financial Statements
and Schedule**

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)



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 Laboratory) as of December 31, 2004, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Laboratory's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Laboratory's 2003 consolidated financial statements and, in our report dated April 2, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 the Laboratory'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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cold Spring Harbor Laboratory as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the accompanying schedule is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

April 5, 2005

COLD SPRING HARBOR LABORATORY

Consolidated Balance Sheet

December 31, 2004

(with comparative financial information as of December 31, 2003)

Assets:	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 40,744,417	28,971,185
Accounts receivable:		
Publications	1,308,718	1,257,221
Other	1,179,604	1,332,279
Grants receivable	6,975,455	7,068,387
Contributions receivable, net (Note 4)	12,492,687	11,452,991
Publications inventory	2,945,099	2,206,640
Prepaid expenses and other assets	1,605,707	1,566,991
Investments (Note 2)	211,294,366	198,696,165
Investment in employee residences (Note 5)	4,830,425	4,774,834
Restricted use assets (Note 6)	2,904,923	2,709,576
Land, buildings and equipment, net (Note 7)	<u>110,757,023</u>	<u>109,253,408</u>
Total assets	<u>\$ 397,038,424</u>	<u>369,289,677</u>
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 7,429,657	5,975,281
Notes payable	107,775	140,958
Deferred revenue	3,878,738	4,067,960
Bonds payable (Note 9)	<u>45,200,000</u>	<u>45,200,000</u>
Total liabilities	<u>56,616,170</u>	<u>55,384,199</u>
Net assets:		
Unrestricted (Note 10)	184,397,408	178,415,767
Temporarily restricted (Note 11)	25,419,056	14,223,309
Permanently restricted (Note 12)	<u>130,605,790</u>	<u>121,266,402</u>
Total net assets	<u>340,422,254</u>	<u>313,905,478</u>
Total liabilities and net assets	<u>\$ 397,038,424</u>	<u>369,289,677</u>

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Activities

Year ended December 31, 2004

(with summarized financial information for the year ended December 31, 2003)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total	2003 Total
Revenue and other support:					
Public support - contributions and non-government grant awards	\$ 10,582,015	17,086,618	1,159,665	28,828,298	29,792,003
Government grant awards	29,451,302	-	-	29,451,302	26,878,120
Indirect cost allowances (Note 13)	19,089,893	-	-	19,089,893	18,000,004
Program fees	3,644,734	-	-	3,644,734	3,134,443
Publications sales	9,743,639	-	-	9,743,639	10,052,963
Dining services	3,183,440	-	-	3,183,440	2,927,668
Rooms and apartments	2,632,671	-	-	2,632,671	2,347,090
Royalty and licensing fees	926,913	-	-	926,913	869,826
Investment income - interest and dividends	3,134,480	-	-	3,134,480	4,141,495
Miscellaneous	514,559	-	-	514,559	616,755
Total revenue	82,903,646	17,086,618	1,159,665	101,149,929	98,760,367
Net assets released from restrictions	5,890,871	(5,890,871)	-	-	-
Total revenue and other support	88,794,517	11,195,747	1,159,665	101,149,929	98,760,367
Expenses (Note 17):					
Research	52,049,866	-	-	52,049,866	45,619,807
Educational programs	13,238,766	-	-	13,238,766	12,917,185
Publications	9,380,833	-	-	9,380,833	10,631,334
Banbury Center conferences	1,159,499	-	-	1,159,499	1,136,159
Dolan DNA Learning Center programs	1,611,325	-	-	1,611,325	1,809,174
Watson School of Biological Sciences programs	2,263,518	-	-	2,263,518	2,029,275
General and administrative	12,508,768	-	-	12,508,768	11,976,718
Dining services	4,236,535	-	-	4,236,535	4,262,515
Total expenses	96,449,110	-	-	96,449,110	90,382,167
(Deficiency) excess of revenue and other support over expenses	(7,654,593)	11,195,747	1,159,665	4,700,819	8,378,200
Other changes in net assets:					
Net appreciation in fair value of investments	13,636,234	-	8,179,723	21,815,957	38,128,865
Increase in net assets	5,981,641	11,195,747	9,339,388	26,516,776	46,507,065
Net assets at beginning of year	178,415,767	14,223,309	121,266,402	313,905,478	267,398,413
Net assets at end of year	\$ 184,397,408	25,419,056	130,605,790	340,422,254	313,905,478

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Cash Flows

Year ended December 31, 2004

(with comparative financial information for the year ended December 31, 2003)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in net assets	\$ 26,516,776	46,507,065
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	5,769,622	5,458,719
Net appreciation in fair value of investments	(21,746,064)	(37,868,190)
Contributions restricted for long-term investment	(13,812,552)	(13,460,462)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	101,178	(459,802)
Decrease (increase) in grants receivable	92,932	(1,912,888)
Decrease (increase) in contributions receivable	79,666	(875,375)
(Increase) decrease in publications inventory	(738,459)	7,859
(Increase) decrease in prepaid expenses and other assets	(38,716)	63,375
(Increase) decrease in restricted use assets	(195,347)	355,653
Increase in accounts payable and accrued expenses	1,454,376	802,963
(Decrease) increase in deferred revenue	(189,222)	419,507
Net cash used in operating activities	<u>(2,705,810)</u>	<u>(961,576)</u>
Cash flows from investing activities:		
Capital expenditures	(7,273,237)	(6,296,049)
Proceeds from sales and maturities of investments	113,998,317	135,393,757
Purchases of investments	(104,850,454)	(122,075,553)
Net change in investment in employee residences	(55,591)	(427,207)
Net cash provided by investing activities	<u>1,819,035</u>	<u>6,594,948</u>
Cash flows from financing activities:		
Permanently restricted contributions	1,159,665	4,822,932
Contributions restricted for investment in land, buildings and equipment	12,652,887	8,637,530
Increase in contributions receivable	(1,119,362)	(6,092,438)
Repayment of notes payable	(33,183)	(29,161)
Net cash provided by financing activities	<u>12,660,007</u>	<u>7,338,863</u>
Net increase in cash and cash equivalents	11,773,232	12,972,235
Cash and cash equivalents at beginning of year	28,971,185	15,998,950
Cash and cash equivalents at end of year	<u>\$ 40,744,417</u>	<u>28,971,185</u>
Supplemental disclosures:		
Interest paid	<u>\$ 780,758</u>	<u>1,014,956</u>

See accompanying notes to consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

Cold Spring Harbor Laboratory ("Laboratory") is organized as an educational corporation under the laws of New York State. The Laboratory's primary objectives are to conduct research in cancer, neurobiology, bioinformatics, plants, and related subjects, to disseminate information, and to provide instruction and training through courses, meetings, publications, and a wide range of other educational activities. A substantial portion of the Laboratory's revenues are derived from Federal Government grants, which are awarded on a competitive basis. If there were a significant cutback in Federal Government research funding, it could have a material impact on the operations and cash flows of the Laboratory.

On September 18, 1998, the Laboratory received approval from the Board of Regents of the State of New York to operate a graduate education program and confer the degrees of Doctor of Philosophy, Master of Science, and Doctor of Science, Honorary. The program operates under the name, "Cold Spring Harbor Laboratory, Watson School of Biological Sciences." The first-year class began in September 1999. Funding has been provided through the establishment of an endowment dedicated to the graduate school.

(b) Basis of Presentation

The Laboratory's net assets and its revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets:

Net assets that are not subject to donor imposed restrictions including the carrying value of all land, buildings and equipment. Items that affect this net asset category include revenue and expenses associated with the primary objectives of the Laboratory, as well as unrestricted gifts, including those designated by the Board of Trustees of the Laboratory ("Trustees") to function as endowments. In addition, changes to this category of net assets include restricted gifts whose donor-imposed restrictions were met in the year received, through the passage of time, or through fulfillment of the restricted purpose.

Temporarily restricted net assets:

Net assets subject to donor-imposed restrictions that will be met either by the actions of the Laboratory or the passage of time. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions in the accompanying consolidated statement of activities.

Permanently restricted net assets:

Net assets subject to donor-imposed restrictions to be maintained permanently by the Laboratory, the income from which investments is expendable to support research, education and training. Realized and unrealized gains (losses) are added (subtracted) to permanently restricted net assets if so restricted by the donor. Otherwise, gains are expendable to support research and educational activities.

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Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(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 14. 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 \$40,739,000 and \$28,942,000 at December 31, 2004 and 2003, 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 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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Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(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, 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) (Deficiency) Excess of Revenue and Other Support over Expenses

The consolidated statement of activities presents the (deficiency) 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 2003 summarized comparative information presented in the aggregate and not displayed by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Laboratory's 2003 financial statements from which the summarized comparative information was derived.

(n) Reclassification

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(2) Investments

Investments at December 31, 2004 and 2003 were as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Bonds	\$ 9,711,628	9,682,546	7,993,804	7,995,895
Mutual Funds				
Equity	45,034,697	68,647,082	45,531,193	59,979,003
Fixed Income	57,334,855	57,318,651	56,745,196	56,980,162
Stocks	49,486,998	75,646,087	49,019,232	73,741,105
	<u>\$ 161,568,178</u>	<u>211,294,366</u>	<u>159,289,425</u>	<u>198,696,165</u>

Included in the stocks above are the Laboratory's investment in biotechnology companies, which have a fair value (net of a valuation allowance) of approximately \$2,147,000 and \$6,952,000 and a cost of \$276,600 and \$306,100 at December 31, 2004 and 2003, respectively. A valuation allowance of approximately \$1,711,000 and \$1,712,000 at December 31, 2004 and 2003, respectively, has been applied to these investments in light of (i) regulatory or contractual restrictions on the Laboratory's ability to sell the investments, (ii) the significance of the Laboratory's ownership to the stock's trading volume, and (iii) the volatility of the stocks.

Through 2004, the Laboratory has invested \$650,000 in a limited partnership, which is included in stocks above. Under the terms of the limited partnership agreement, the Laboratory is obligated to advance up to \$350,000 in additional funding for investment.

(3) Fair Value of Financial Instruments

The fair value of all financial instruments, other than investments and bonds payable, approximates carrying value because of the short-term maturity of the instruments. The fair value of bonds payable approximates carrying value as these financial instruments bear interest at rates which reflect current market rates for loans with similar characteristics, maturities and credit quality.

(4) Contributions Receivable

Contributions receivable consist of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Contributions receivable	\$ 14,805,559	14,593,278
Less: discount to present value at rates ranging from 2.8% to 6.5%	(2,312,872)	(3,140,287)
	<u>\$ 12,492,687</u>	<u>11,452,991</u>

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

Contributions receivable are expected to be collected as follows:

	<u>2004</u>	<u>2003</u>
Within one year	\$ 3,710,000	3,491,250
One to five years	6,989,831	6,493,750
More than five years	4,105,728	4,608,278
	<u>\$ 14,805,559</u>	<u>14,593,278</u>

Included in contributions receivable is the Laboratory's interest in charitable remainder unitrusts. In accordance with the terms of the trusts, the Laboratory will receive a defined interest upon the death of the designated beneficiaries. The Laboratory's interest, net of the present value discount, approximated \$2,462,000 and \$2,579,000 at December 31, 2004 and 2003, respectively.

(5) Investment in Employee Residences

Investment in employee residences consists of (a) notes receivable collateralized by mortgages on residential properties owned by several key employees, and (b) the Laboratory's percentage ownership in residences inhabited by employees. Upon sale of these residences, the Laboratory will share in market value fluctuations of the real estate in proportion to its ownership in the residence. These investments were authorized by the Board of Trustees to enable such employees to purchase local residences. All costs of property ownership, including real estate taxes, are borne by the employees.

(6) Restricted Use Assets

In 2002, the Laboratory recorded a gift of a residence in Oyster Bay, New York valued at \$840,000. Under the terms of the contribution, the donor and current occupant will continue to reside at the residence. Upon the death of the life tenant, the Laboratory will enter into a lease with the occupant for up to twelve months. At the end of the lease term the Laboratory will be entitled to occupancy of the residence.

In 2001, the Laboratory received a gift of a residence in Mill Neck, New York valued at \$1,400,000. Under the terms of the contribution, the donor will continue to reside at the residence. The Laboratory will be entitled to occupancy upon the death of the donor.

The Laboratory has a supplemental executive retirement plan (SERP) for certain members of its management and scientific staff. The Laboratory has established a grantor trust, whereby the assets and income of the trust are assets and income of the Laboratory. At December 31, 2004 and 2003, the fair value of the assets in the trust was \$664,923 and \$469,576, respectively.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(7) Land, Buildings and Equipment

Land, buildings and equipment at December 31, 2004 and 2003 consists of:

	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 14,881,302	14,846,964
Buildings	114,580,213	112,480,066
Furniture, fixtures and equipment	12,021,846	11,161,342
Laboratory equipment	19,141,687	19,188,780
Library books and periodicals	365,630	365,630
Construction in progress	<u>6,233,113</u>	<u>2,814,398</u>
	167,223,791	160,857,180
Less accumulated depreciation and amortization	<u>(56,466,768)</u>	<u>(51,603,772)</u>
Land, buildings and equipment, net	<u>\$ 110,757,023</u>	<u>109,253,408</u>

At December 31, 2004 construction in progress principally includes the cost 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, 2005. The facility bears interest at prime plus .5%. At December 31, 2004 and 2003, there were no borrowings outstanding. The Laboratory expects to renew the facility upon expiration.

(9) 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.

On April 1, 1999, the Laboratory executed an agreement to obtain \$42.2 million of bond financing through the NCIDA. Approximately \$5 million of the proceeds were used to reimburse the Laboratory for the purchase of property and a building located in Woodbury, New York. Approximately \$10 million of the proceeds were used, together with other available funds, to finance renovation, equipping and furnishing of the building. The property, purchased on June 1, 1998, houses additional research facilities and the editorial offices of the Cold Spring Harbor Laboratory Press. The remaining \$27 million of the proceeds were used to refund \$20 million 1989 Series bonds and \$7 million 1993 Series bonds issued through the NCIDA. The bonds, which mature on January 1, 2034, bear interest at a variable daily rate which is payable on a monthly basis, and are secured by a revolving line of credit agreement issued by a financial institution. The effective average interest rate on all of the bonds outstanding during 2004 and 2003 approximated 1.4% and 2.0%, respectively. The rate is negotiated with the bondholders by the remarketing agent. The agreements contain certain covenants including

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

those relating to liquidity, net worth as defined, capital expenditures, restrictions of additional liens on certain Laboratory property and assumption of additional debt.

In connection with the bond issues, financing costs of approximately \$730,000 were capitalized and are being amortized over the life of the bond issues. Financing costs, net of amortization, were \$573,711 and \$595,312 at December 31, 2004 and 2003, respectively, and are included in prepaid expenses and other assets.

(10) Unrestricted Net Assets

Unrestricted net assets at December 31, 2004 and 2003 consist of:

	<u>2004</u>	<u>2003</u>
General operating	\$ 11,501,236	9,924,282
Designated by Board for endowment	107,446,924	104,579,035
Net investment in plant	<u>65,449,248</u>	<u>63,912,450</u>
	<u>\$ 184,397,408</u>	<u>178,415,767</u>

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2004 and 2003 consist of gifts restricted by the donors as follows:

	<u>2004</u>	<u>2003</u>
Capital projects	\$ 18,745,325	6,397,530
Research programs	3,742,220	4,493,135
Restricted use assets (Note 6)	2,240,000	2,240,000
Educational programs	<u>691,511</u>	<u>1,092,644</u>
	<u>\$ 25,419,056</u>	<u>14,223,309</u>

(12) Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2004 and 2003 are restricted in perpetuity with investment return available to support the following activities:

	<u>2004</u>	<u>2003</u>
Primary program services	\$ 92,170,237	84,941,049
Watson School of Biological Sciences programs	26,974,560	25,825,209
Operation and improvement of Banbury Center facilities	<u>11,460,993</u>	<u>10,500,144</u>
	<u>\$ 130,605,790</u>	<u>121,266,402</u>

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Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(13) 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 2002, the Laboratory negotiated a new agreement establishing predetermined rates for each of the years 2003 through 2005. As a result, the Laboratory should not, except for unforeseen changes in Federal regulations, be subject to revisions of its predetermined indirect cost rates through the end of 2005. During 2005, the Laboratory will be negotiating a new agreement for indirect cost reimbursement for years beginning 2006. For non-government grants, indirect cost recoveries are accrued at various rates as allowed by the grantor.

(14) Robertson Research Fund, Inc.

The Corporation is administered by a nine member board of trustees, five of whom represent the Laboratory. The Corporation is composed of two funds; the Robertson Research Fund ("Research Fund") and the Robertson Maintenance Fund ("Maintenance Fund").

The Research Fund was established in 1972 to provide income to the Laboratory in support of educational facilities, basic scientific research and public dissemination of the results thereof, scholarship and fellowship awards, and auxiliary services, among other purposes.

The Maintenance Fund was established in 1976 to provide income exclusively for the improvement and operation of the Robertson house and appurtenant buildings and grounds at the Banbury Center of the Laboratory.

The Laboratory is entitled to receive all of the income of the Research and Maintenance Funds. In years when the distribution has been less than the total annual income of each fund, the difference has been reinvested along with the principal of the funds to offset the effects of inflation and to provide for future programs at the Laboratory.

(15) Retirement Plan

The Laboratory's employees are covered under a defined-contribution retirement plan by the Teachers Insurance and Annuity Association/College Retirement Equities Fund Plan. The Laboratory remits contributions to the Plan based on a predetermined percentage of the participants' salaries. Total expenditures under the plan approximated \$2,548,000 and \$2,337,000 for the years ended December 31, 2004 and 2003, respectively.

(16) Contingencies

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 financial condition or liquidity.

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Notes to Consolidated Financial Statements
December 31, 2004

(with comparative financial information as of and for the year ended December 31, 2003)

(17) Expenses

Expenses are reported in the statement of activities by their functional classifications as required by Statement of Financial Accounting Standards (SFAS) No. 117. 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 \$1,120,000 and \$1,031,600 of fund-raising expenses in 2004 and 2003, 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>2004</u>			<u>2003</u>		
	Direct			Direct		
	Functional Expenses	Allocated Expenses	Total	Functional Expenses	Allocated Expenses	Total
Research	\$ 39,064,467	12,985,399	52,049,866	32,784,394	12,835,413	45,619,807
Educational programs	11,265,214	1,973,552	13,238,766	10,970,082	1,947,103	12,917,185
Publications	8,994,745	386,088	9,380,833	10,233,884	397,450	10,631,334
Banbury Center conferences	625,162	534,337	1,159,499	559,958	576,201	1,136,159
Dolan DNALC programs	1,025,929	585,396	1,611,325	1,255,881	553,293	1,809,174
WSBS programs	1,880,340	383,178	2,263,518	1,768,823	260,452	2,029,275
General and administrative	10,346,816	2,161,952	12,508,768	9,844,891	2,131,827	11,976,718
Dining services	3,201,182	1,035,353	4,236,535	3,225,354	1,037,161	4,262,515
	<u>\$ 76,403,855</u>	<u>20,045,255</u>	<u>96,449,110</u>	<u>70,643,267</u>	<u>19,738,900</u>	<u>90,382,167</u>

Comparative Operating History

2000 - 2004

(Dollars in Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenue:					
Main Lab:					
Grants and contracts	\$ 30,345	34,716	37,872	41,749	48,208
Indirect cost allowances	12,718	14,134	14,987	17,869	18,910
Other	10,618	12,528	10,918	10,524	11,611
CSHL Press	8,684	9,941	9,051	10,053	9,744
Banbury Center	1,856	1,666	1,763	1,729	1,779
Dolan DNA Learning Center	1,471	1,878	2,978	2,564	2,314
Watson School of Biological Sciences	682	927	1,496	1,769	1,889
Total revenue	<u>66,374</u>	<u>75,790</u>	<u>79,065</u>	<u>86,257</u>	<u>94,455</u>
Expenses:					
Main Lab:					
Research and training	30,345	34,716	37,872	41,749	48,208
Operation and maintenance of plant	6,589	7,027	8,661	8,702	8,606
General and administrative	6,162	6,492	6,395	7,507	7,836
Other	7,075	9,505	8,550	8,959	9,410
CSHL Press	8,186	9,515	8,962	10,234	8,995
Banbury Center	1,702	1,536	1,597	1,616	1,642
Dolan DNA Learning Center	1,362	1,801	2,780	2,257	2,066
Watson School of Biological Sciences	682	927	1,496	1,769	1,880
Total expenses excluding depreciation	<u>62,103</u>	<u>71,519</u>	<u>76,313</u>	<u>82,793</u>	<u>88,643</u>
Excess before depreciation and (designation) release of funds	4,271	4,271	2,752	3,464	5,812
Depreciation	(3,974)	(4,620)	(5,165)	(5,459)	(5,770)
(Designation) release of funds (2)	<u>(297)</u>	<u>349</u>	<u>1,848</u>	<u>-</u>	<u>-</u>
Net operating excess (deficit)	<u>\$ -</u>	<u>-</u>	<u>(565)</u>	<u>(1,995)</u>	<u>42</u>

(1) The above amounts are presented on a combined basis for all funds for which Cold Spring Harbor Laboratory prepares operating budgets.

(2) Funds designated to underwrite future direct and indirect expenses of new research program