



*Certified Public Accountants
and Business Advisors*

*Financial Statements &
Independent Auditors' Report*

MC LAUGHLIN RESEARCH INSTITUTE FOR
BIOMEDICAL SCIENCES, INC.
GREAT FALLS, MONTANA
JUNE 30, 2008

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
TABLE OF CONTENTS

	<u>Pages</u>
Independent auditors' report	1-2
Financial statements	
Statement of financial position	3-4
Statement of activities	5
Statement of functional expenses	6
Statement of cash flows	7-8
Notes to financial statements	9-17
Supplementary schedule	
Schedule of expenditures of federal awards	18
Notes to schedule of expenditures of federal awards	19
Internal control and compliance reports	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	20-21
Independent auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	22-23
Schedule of findings and questioned costs	24
Schedule of prior audit comments	25

INDEPENDENT AUDITORS' REPORT

BOARD OF TRUSTEES
McLAUGHLIN RESEARCH INSTITUTE
FOR BIOMEDICAL SCIENCES, INC.
GREAT FALLS, MONTANA

We have audited the accompanying statement of financial position of McLaughlin Research Institute for Biomedical Sciences, Inc. (a non-profit organization) as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of McLaughlin Research Institute for Biomedical Sciences, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 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 financial statements referred to above present fairly, in all material respects, the financial position of McLaughlin Research Institute for Biomedical Sciences, Inc. as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2008, on our consideration of McLaughlin Research Institute for Biomedical Sciences, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of McLaughlin Research Institute for Biomedical Sciences, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hamilton Misfeldt & Company, P.C.

HAMILTON MISFELDT & COMPANY, P.C.

August 22, 2008

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,004,718	\$ 956,855
Accounts receivable	2,861	16,076
Grants receivable	3,793,905	1,046,618
Current portion of contributions receivable	572,849	1,000
Prepaid expenses and inventories	59,674	79,020
	5,434,007	2,099,569
RESTRICTED CASH AND INVESTMENTS		
Cash restricted for building expansion	91,000	90,000
Certificates of deposit	100,000	499,000
Other investments	2,033,355	1,078,041
Annuities	296,796	253,661
Long-term investments - endowment	2,243,825	3,490,963
	4,764,976	5,411,665
PROPERTY AND EQUIPMENT		
Land	25,000	25,000
Building	6,730,000	6,730,000
Building improvements	493,043	493,043
Equipment	2,558,526	2,279,412
Construction in progress	124,615	-
	9,931,184	9,527,455
Accumulated depreciation	(3,656,248)	(3,271,664)
	6,274,936	6,255,791
NON-CURRENT ASSETS		
Contributions receivable, net of current portion	442,225	63,564
Other assets	7,149	6,886
	449,374	70,450
 Total assets	 \$ 16,923,293	 \$ 13,837,475

See accompanying notes to financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
STATEMENT OF FINANCIAL POSITION (Continued)
June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of capital lease obligation	\$ 3,778	\$ -
Current portion of long-term debt	43,502	66,948
Accounts payable	835,151	111,059
Accrued vacation	54,441	54,838
Other liabilities	43,012	48,565
Deferred contractual grant revenue	2,733,595	1,049,612
	3,713,479	1,331,022
 LONG-TERM LIABILITIES		
Annuity obligations	142,282	113,308
Capital lease obligation, net of current portion	6,710	-
Notes payable, net of current portion	311,458	354,786
	460,450	468,094
 Total liabilities	 4,173,929	 1,799,116
 NET ASSETS		
Unrestricted		
Undesignated	6,240,925	8,264,266
Designated	1,844,958	713,199
Temporarily restricted	2,346,197	774,607
Permanently restricted	2,317,284	2,286,287
	12,749,364	12,038,359
 Total liabilities and net assets	 \$ 16,923,293	 \$ 13,837,475

See accompanying notes to financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008
(With Comparative Totals for 2007)

	2008			Total	2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUES, GAINS AND SUPPORT					
Grants and research revenue	\$ 3,487,057	\$ -	\$ -	\$ 3,487,057	\$ 3,483,657
Contributions	356,972	1,624,582	30,997	2,012,551	642,482
Special event	3,000	-	-	3,000	291,159
Investment income	364,969	12,777	-	377,746	279,886
Net unrealized and realized gains (losses) on investments	(520,922)	(24,696)	-	(545,618)	324,355
Change in value of split-interest agreements	-	4,336	-	4,336	(153)
Gain from sale of equipment	-	-	-	-	2,441
Miscellaneous income	4,879	-	-	4,879	4,763
Net assets released from restrictions	45,409	(45,409)	-	-	-
 Total revenues, gains and support	 <u>3,741,364</u>	 <u>1,571,590</u>	 <u>30,997</u>	 <u>5,343,951</u>	 <u>5,028,590</u>
EXPENSES					
Scientific research	2,817,847	-	-	2,817,847	2,860,414
Research support					
Management and general	1,652,115	-	-	1,652,115	1,635,434
Fundraising	162,984	-	-	162,984	311,697
 Total expenses	 <u>4,632,946</u>	 <u>-</u>	 <u>-</u>	 <u>4,632,946</u>	 <u>4,807,545</u>
 CHANGE IN NET ASSETS	 (891,582)	 1,571,590	 30,997	 711,005	 221,045
 Net assets at beginning of year	 <u>8,977,465</u>	 <u>774,607</u>	 <u>2,286,287</u>	 <u>12,038,359</u>	 <u>11,817,314</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 8,085,883</u>	 <u>\$ 2,346,197</u>	 <u>\$ 2,317,284</u>	 <u>\$ 12,749,364</u>	 <u>\$ 12,038,359</u>

See accompanying notes to financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2008
(With Comparative Totals for 2007)

	2008				2007 Total
	Scientific Research	Research Support		Total	
		Management and General	Fundraising		
Salaries and wages	\$ 1,114,605	\$ 455,663	\$ 74,672	\$ 1,644,940	\$ 1,684,096
Payroll taxes and staff benefits	366,292	139,520	25,444	531,256	550,576
	1,480,897	595,183	100,116	2,176,196	2,234,672
Advertising	-	-	8,664	8,664	8,307
Animal care and services	151,999	-	-	151,999	157,121
Bid and proposal	-	541	-	541	6,549
Board of trustees and committees	-	38,180	4,359	42,539	32,607
Conferences and seminars	-	2,586	-	2,586	1,090
Contracted personnel	23,996	-	4,645	28,641	6,898
Depreciation	114,015	278,598	-	392,613	472,860
Dues	-	5,833	585	6,418	5,679
Fundraising expenses	-	-	32,990	32,990	27,598
Hazardous waste/radiation safety	-	5,855	-	5,855	9,470
Insurance	-	39,613	-	39,613	41,757
Interest on remodel loan	-	4,161	-	4,161	6,438
Internet	-	11,701	-	11,701	10,060
Laundry and cleaning	-	8,453	-	8,453	6,799
Legal and accounting	-	10,733	-	10,733	10,007
Library (including periodicals)	-	10,069	-	10,069	10,100
Licenses and fees	-	4,905	-	4,905	4,637
Liquid nitrogen and other gases	-	30,648	-	30,648	26,380
Miscellaneous expenses	3,947	7,524	1,870	13,341	8,783
Office expenses	-	23,868	2,644	26,512	33,794
Postage and freight	15,170	3,219	4,661	23,050	23,837
Recruiting and relocating	-	31,719	-	31,719	18,642
Repairs and maintenance – bldg	-	54,807	-	54,807	58,080
Repairs and maintenance – equip	-	90,461	-	90,461	76,793
Scholarships	14,500	-	-	14,500	14,225
Small equipment	8,725	23,342	-	32,067	31,501
Special event expenses	-	-	503	503	182,399
Sub-grant expenditures	829,323	-	-	829,323	699,922
Supplies - lab	162,728	-	-	162,728	227,642
Telephone	-	13,019	290	13,309	13,175
Travel	12,547	17,679	1,657	31,883	26,472
Unallowed expenses	-	10,978	-	10,978	11,611
Utilities	-	328,440	-	328,440	301,640
	<u>\$ 2,817,847</u>	<u>\$ 1,652,115</u>	<u>\$ 162,984</u>	<u>\$ 4,632,946</u>	<u>\$ 4,807,545</u>

See accompanying notes to financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 711,005	\$ 221,045
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	392,613	472,860
Net unrealized and realized gains on investments	545,618	(324,355)
Change in value of split-interest agreements	(4,336)	153
Gain (loss) from sale of equipment	-	(2,441)
Change in:		
Accounts receivable	13,215	(15,187)
Grants receivable	(2,747,287)	1,665,354
Contributions receivable	(950,510)	88,999
Prepaid expenses and inventories	19,346	(11,141)
Other assets	(263)	40,084
Accounts payable	724,092	(150,928)
Accrued vacation	(397)	(4,719)
Other liabilities	(5,553)	(1,422)
Deferred contractual grant revenue	1,683,983	(1,501,578)
Annuity obligations	28,974	90,392
Contributions restricted for long-term purposes	(31,997)	(35,111)
	<u>378,503</u>	<u>532,005</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(399,773)	(89,267)
Proceeds from sale of property and equipment	-	5,000
Change in cash restricted for building expansion	(1,000)	-
Purchase of investments	(1,111,861)	(2,843,579)
Proceeds from sale of investments	1,218,268	2,062,616
	<u>(294,366)</u>	<u>(865,230)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(1,497)	-
Borrowings on notes payable	-	90,800
Payments on notes payable	(66,774)	(144,442)
Collections of contributions restricted for building expansion	1,000	-
Collections of contributions restricted for investment in endowment	30,997	35,111
	<u>(36,274)</u>	<u>(18,531)</u>

See accompanying notes to financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended June 30, 2008
(With Comparative Totals for 2007)

	2008	2007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,863	(351,756)
Cash and cash equivalents at beginning of year	956,855	1,308,611
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,004,718	\$ 956,855
 SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	\$ 11,147	\$ 13,792
Noncash financing transaction: acquisition of equipment through capital lease obligation	\$ 11,985	\$ -

See accompanying notes to financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

McLaughlin Research Institute for Biomedical Sciences, Inc. (the Institute) is engaged in biomedical research in the areas of genetics and immunology and in conducting other forms of medical research involving life-threatening diseases. The Institute is supported primarily through federal grants and donor contributions.

Income Tax Status

The Institute is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the Institute have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Institute is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include resources that are not temporarily or permanently restricted by the donor and are available for operations of the Institute without limitation. Unrestricted net assets also include resources restricted by donor-imposed criteria for which the restrictions are met within the same time period as the funds are received.

Temporarily restricted net assets include those resources restricted by grantor-imposed criteria and which either expire with the passage of time or by actions of the Institute.

Permanently restricted net assets include those resources restricted to investment in perpetuity.

Functional Expense Allocations

Expenses relating to more than one function are allocated to scientific research and research support based on employee time estimates or other appropriate usage factors.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2007, from which the summarized information was obtained.

Grants and Contracts

Revenue from grants and contracts is recognized as the related costs are incurred under the grant or contract agreement.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Those restricted and released in the same period are recorded as unrestricted.

Contributions Receivable (Promises to Give)

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated Equipment and Services

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Institute reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the Institute recognizes services requiring specialized skills such as those provided by accountants, attorneys, marketing consultants, and other professionals if the services would need to be purchased if not donated.

During the years ended June 30, 2008 and 2007, the Institute received \$1,160 and \$38,952, respectively, in donated equipment and services.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Grants

During the year ended June 30, 2008, approximately 43% of the Institute's funding was provided from grants from the National Institutes of Health. During the year ended June 30, 2007, approximately 31%, 15%, and 14% of the Institute's funding was provided from grants from the National Institutes of Health, the Department of Defense, and Amgen, respectively.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Institute considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market determined by the first in, first out method.

Investments

The Institute carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Property and Equipment

Land, building and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Assets purchased with federal or matching funds are not capitalized, but expensed in the year of purchase, according to grantor regulations. The Institute's policy is to expense property and equipment with initial costs of less than \$5,000. Estimated useful lives are as follows:

Equipment	3-10 years
Building	40 years

Deferred Contractual Grant Revenue

The Institute reports deferred contractual grant revenue on the Statement of Financial Position. It represents the portion of the grant monies to which the Institute does not yet have a legal claim. When research is performed and qualifying expenses incurred, the liability for deferred contractual grant revenue is reduced and revenue is recognized.

Advertising

The Institute uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. During the years ended June 30, 2008 and 2007, advertising costs totaled \$8,664 and \$8,307, respectively.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are carried at market value and are comprised of the following at June 30:

	2008		2007	
	Cost	Market Value	Cost	Market Value
<u>Unrestricted/</u>				
<u>Temporarily Restricted</u>				
Cash on hand	\$ 177,213	\$ 177,213	\$ 80,024	\$ 80,024
Deposits in bank	605,772	605,772	20,138	20,138
Savings deposits	-	-	340,955	340,955
Repurchase agreements	111,448	111,448	584,343	584,343
Money market funds	13,181	13,181	103,405	103,405
Certificates of deposit	300,000	300,000	499,000	499,000
U.S. Government				
agency obligations	1,054,747	1,084,474	396,286	392,135
Corporate obligations	81,941	82,664	117,178	117,267
Mutual funds	<u>1,186,741</u>	<u>1,151,117</u>	<u>707,381</u>	<u>740,290</u>
Total unrestricted/ temporarily restricted	<u>3,531,043</u>	<u>3,525,869</u>	<u>2,848,710</u>	<u>2,877,557</u>
<u>Endowment</u>				
Cash on hand	10,034	10,034	-	-
Deposits in bank	96,508	96,508	45,899	45,899
Money market funds	-	-	1,183	1,183
U.S. Government				
agency obligations	576,381	595,718	1,028,350	1,013,704
Corporate obligations	-	-	25,168	25,138
Mutual funds	<u>1,444,885</u>	<u>1,541,565</u>	<u>1,700,976</u>	<u>2,405,039</u>
Total endowment	<u>2,127,808</u>	<u>2,243,825</u>	<u>2,801,576</u>	<u>3,490,963</u>
	<u>\$ 5,658,851</u>	<u>\$ 5,769,694</u>	<u>\$ 5,650,286</u>	<u>\$ 6,368,520</u>

Cash, cash equivalents, and investments are presented in the Statement of Financial Position at June 30 as:

	2008	2007
Cash and cash equivalents	\$ 1,004,718	\$ 956,855
Cash restricted for building expansion	91,000	90,000
Certificates of deposit	100,000	499,000
Other investments	2,033,355	1,078,041
Annuities	296,796	253,661
Long-term investments - endowment	<u>2,243,825</u>	<u>3,490,963</u>
	<u>\$ 5,769,694</u>	<u>\$ 6,368,520</u>

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Institute maintains its cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Institute's uninsured cash balances (cash on hand) were \$187,247 and \$80,024 at June 30, 2008 and 2007, respectively. The Institute does not believe that it is exposed to any significant risk in connection with these cash balances.

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to \$30,602 and \$26,299 for the years ended June 30, 2008 and 2007, respectively, and have been netted against investment income in the Statement of Activities.

NOTE 3: CONTRIBUTIONS RECEIVABLE

During the year ended June 30, 2008, the Institute began a fund-raising campaign for funds to expand the building and recruit scientists. The unconditional pledges from the campaign are restricted to either purpose, unless specifically noted by the donor. Uncollectible pledges are expected to be insignificant.

At June 30, contributions receivable are as follows:

	2008	2007
Receivable in less than one year	\$ 572,849	\$ 1,000
Receivable in one to five years	378,661	-
	951,510	1,000
Charitable remainder unitrusts (Note 10)	63,564	63,564
	<u>\$ 1,015,074</u>	<u>\$ 64,564</u>

NOTE 4: CASH SURRENDER VALUE OF LIFE INSURANCE

The Institute is the policy owner of one life insurance policy as of June 30, 2008 and 2007. The insurance investments are carried at the cash surrender value, which approximates fair market value. Cash surrender values at June 30, 2008 and 2007 totaled \$5,258 and \$5,395, respectively. The cash surrender values are included in the Statement of Financial Position as a component of other assets.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5: LINE OF CREDIT

In December 2007, the Institute entered into an agreement with First Interstate Bank for a \$250,000 line of credit. Borrowings under the line of credit are payable on January 1, 2009 with interest payable monthly at the Wall Street Journal prime rate. There were no outstanding balances on this line of credit at June 30, 2008 and 2007.

NOTE 6: CAPITAL LEASE OBLIGATION

In January 2008, the Institute entered into a capital lease for scientific equipment. This agreement requires monthly payments of \$380, including interest at 8.89%, through January 2011. The capitalized cost and accumulated amortization of this equipment at June 30, 2008, was \$11,985 and \$999, respectively.

Future scheduled payments under the capital lease are as follows:

Year ended June 30:			
2009	\$	4,559	
2010		4,559	
2011		<u>2,659</u>	
		11,777	
Amount representing interest		<u>(1,289)</u>	
		10,488	
Current portion of capital lease obligation		<u>(3,778)</u>	
			<u>\$ 6,710</u>

NOTE 7: NOTES PAYABLE

Notes payable at June 30, 2008 and 2007 is summarized as follows:

	2008	2007
Note payable to Montana Board of Investments at approximately 2.0%, with annual payments of \$25,722, secured by equipment. Matures June, 2023.	\$ 330,573	\$ 349,314
Note payable to First Interstate Bank at 8.0%, due in monthly installments of \$4,316, secured by investments. Matures January, 2009.	<u>24,387</u>	<u>72,420</u>
	354,960	421,734
Current portion of long-term debt	<u>(43,502)</u>	<u>(66,948)</u>
	<u>\$ 311,458</u>	<u>\$ 354,786</u>

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7: NOTES PAYABLE (Continued)

Future maturities of long-term debt are as follows:

Year ended June 30:		
2009	\$	43,502
2010		19,498
2011		19,888
2012		20,286
2013		20,691
Thereafter		<u>231,095</u>
		<u>\$ 354,960</u>

NOTE 8: RESTRICTIONS/LIMITATIONS ON NET ASSETS

Unrestricted/Designated Net Assets

The Institute's board of trustees has chosen to place the following limitations on unrestricted net assets at June 30:

	<u>2008</u>	<u>2007</u>
Designated for Genesis Fund (reserve)	\$ 1,755,899	\$ 613,204
Designated for renewals and replacements	<u>89,059</u>	<u>99,995</u>
Unrestricted/designated net assets	<u>\$ 1,844,958</u>	<u>\$ 713,199</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted by the donor and are available for the following purposes at June 30:

	<u>2008</u>	<u>2007</u>
Student scholarships and programs	\$ 37,246	\$ 46,546
Investigator recruitment	125	-
Building expansion	91,000	90,000
MRI expansion	1,568,355	-
Genesis Fund (reserve)	431,280	431,280
Pilot program research	-	-
Cancer research	-	2,185
Parkinson's research	-	280
Prion Diseases research	-	400
MS research	113	-
Charitable gift annuities	154,515	140,353
Charitable remainder unitrusts	<u>63,563</u>	<u>63,563</u>
Temporarily restricted net assets	<u>\$ 2,346,197</u>	<u>\$ 774,607</u>

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8: RESTRICTIONS/LIMITATIONS ON NET ASSETS (Continued)

Permanently Restricted Net Assets

As of June 30, 2008 and 2007, permanently restricted net assets of \$2,317,284 and \$2,286,287, respectively, are restricted to investment in perpetuity, the income from which is expendable to support any activities of the Institute.

NOTE 9: DEFINED CONTRIBUTION MONEY PURCHASE PENSION PLAN

On December 1, 1989, the board of trustees of the Institute approved the implementation of McLaughlin Research Institute's Defined Contribution Money Purchase Pension Plan effective January 1, 1989. An amount equal to 10% of an employee's salary is contributed by the employer. The plan covers all permanent full-time employees on December 1, 1989. For future employees, participation begins on the first of the month following three months employment. If the employee had been previously eligible for coverage by Teachers Insurance and Annuity Association (TIAA), participation begins on the first of the month following employment. This plan is funded through individually owned annuities issued by TIAA, and the College Retirement Equities Fund (CREF). Employees may designate the proportion of contribution to TIAA and CREF. Vesting is full and immediate.

A summary plan description has been provided which describes the plan. Plan contributions of 10% of regular salary means basic annual earnings exclusive of overtime pay and shall include compensation which is not currently includable in gross income by reasons of the application of Internal Revenue Code Sections 125 or 403(b).

Management has elected to contribute \$150,086 and \$149,266 for the 2008 and 2007 plan years, respectively, which is included in payroll taxes and staff benefits on the Statement of Functional Expenses.

NOTE 10: SPLIT-INTEREST AGREEMENTS

Charitable Gift Annuities

The Institute has received several charitable gift annuities in that the donor has contributed assets in exchange for distributions of a fixed amount for a specified period of time. Under these agreements, the assets are contributed from the donor directly to the Institute and are held as general assets of the Institute, and the related annuity liability is recorded as a general obligation of the Institute. Assets received are recorded at fair value on the date the agreement is recognized, and a liability equal to the present value of the future distributions is recorded. The difference between the fair value of the asset and the present value of the distribution is recognized as contribution revenue. Contribution revenue from charitable gift annuities totaled \$31,775 and \$96,437 for the years ended June 30, 2008 and 2007, respectively.

During the year ended June 30, 2008, a charitable gift annuity agreement was terminated due to the death of the donor. The remaining balance of \$10,030 was transferred to the Institute's endowment fund per terms of the agreement.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10: SPLIT-INTEREST AGREEMENTS (Continued)

Charitable Remainder Unitrusts (CRUTs)

The Institute has been named a beneficiary of two charitable remainder unitrusts. The donors establish and fund these trusts and have specified that the Institute receive a stated percentage of the fair market value of the trusts upon termination. The present value attributable to the future interest of the Institute is recorded in the Statement of Activities as a temporarily restricted contribution in the year that the trust is established. In subsequent years, the change in present value is recorded as an increase or (decrease) in temporarily restricted contributions. The CRUTs are included in the Statement of Financial Position as a component of contributions receivable of \$63,564 as of June 30, 2008 and 2007.

NOTE 11: ENDOWMENT FUNDS

The Endowment Fund (the Fund) exists and operates as an integral part of the Institute managed and administered by the board of trustees. The Institute may appropriate for expenditure or accumulate so much of its endowment funds as the Institute determines is prudent for the uses, benefits, purposes, and duration for which the Fund is established. This is subject to the intent of the donor and to any other limitations established by law. An external investment management organization assists the board of trustees with the management of the Fund's assets. The Fund's balance at June 30, 2008 and 2007 was \$2,243,825 and \$3,490,963, respectively.

The Institute is also the beneficiary of funds owned and administered by the Montana Community Foundation (the Foundation). Distributions from this fund shall be made according to the spending policy established by the Foundation's governing board; distributions made to the Institute during the year were minimal. The endowment fund balance at the Foundation at June 30, 2008 and 2007 was \$7,226 and \$7,464, respectively.

NOTE 12: SUBSEQUENT EVENT

On July 1, 2008, the Institute entered into a lease agreement for office space. The year-to-year operating lease will require monthly payments of \$1,042.

SUPPLEMENTARY SCHEDULE

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

<u>Funding Agency</u>	<u>Federal CFDA Number</u>	<u>Program Number</u>	<u>Grant Expenditures Recognized</u>
<u>Department of Health & Human Services</u>			
National Institutes of Health			
Specific Inhibitions of Myosin-Va and -Vb	93.859	5 R01 GM066901-04	\$ 274,286
Functional Genetics of Susceptibility to Prions	93.853	5 P01 NS401997-05	3,988
Genetics of Prion Susceptibility in vitro	93.853	5 P01 NS041997-06A1	1,331,141
Genetic Control of Schwann Cell			
Differentiation	93.853	5 R01 NS040751-06A1	128,174
Genetic Control of Schwann Cell			
Differentiation	93.853	5 R01 NS040751-07	232,742
Unconventional Myosins of the Hair Cell	93.173	5 F32 DC007331-03	12,607
Myosin-Va and Axonal Protein Synthesis	93.989	1 R03 TW007220-01A2	10,177
National Institutes of Health			
Passed through from University of Minnesota			
Biology of Alzheimer's Disease in Transgenic			
Mice	93.866	5 R01 AG026252-04	62,662
Passed through from Massachusetts General			
Hospital			
Anatomical Changes in Tau Transgenic			
Models	93.866	5 R01 AG026249-03	8,507
Anatomical Changes in Tau Transgenic			
Models	93.866	5 R01 AG026249-04	37,741
Passed through from University of Montana			
Center for Structural and Functional			
Neuroscience	93.389	5 P20 RR015583-08	156,796
Center for Structural and Functional			
Neuroscience	93.389	5 P20 RR015583-09	14,025
<u>Department of Defense</u>			
U.S. Army Medical Research Acquisition Activity			
Early Host Responses to Prion Infection and			
Development of an <i>In Vitro</i> Bioassay	12.420	W81XWH-05-1-0584	<u>272,261</u>
			<u>\$ 2,545,107</u>

See accompanying notes to schedule of expenditures of federal awards.

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

NOTE 1: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Institute and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2: SUBRECIPIENTS

The total expenditures reported on the accompanying Schedule of Expenditures of Federal Awards include expenditures totaling \$820,466 passed through to subrecipients for the reporting period.

NOTE 3: RESEARCH AND DEVELOPMENT CLUSTER

All of the programs listed on the accompanying Schedule of Expenditures of Federal Awards are part of the Research and Development Cluster.

INTERNAL CONTROL AND COMPLIANCE REPORTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

BOARD OF TRUSTEES
McLAUGHLIN RESEARCH INSTITUTE
FOR BIOMEDICAL SCIENCES, INC.
GREAT FALLS, MONTANA

We have audited the financial statements of McLaughlin Research Institute for Biomedical Sciences, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated August 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McLaughlin Research Institute for Biomedical Sciences, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McLaughlin Research Institute for Biomedical Sciences, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McLaughlin Research Institute for Biomedical Sciences, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of McLaughlin Research Institute for Biomedical Sciences, Inc.'s in a separate letter dated August 22, 2008.

This report is intended for the information of management, the board of trustees, U.S. Department of Health and Human Services, the National Science Foundation, and the Montana Board of Investments, and is not intended to be and should not be used by anyone other than these specified parties.

Hamilton Misfeldt & Company, P.C.
HAMILTON MISFELDT & COMPANY, P.C.

August 22, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

BOARD OF TRUSTEES
McLAUGHLIN RESEARCH INSTITUTE
FOR BIOMEDICAL SCIENCES, INC.
GREAT FALLS, MONTANA

Compliance

We have audited the compliance of McLaughlin Research Institute for Biomedical Sciences, Inc. with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2008. McLaughlin Research Institute for Biomedical Sciences, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of McLaughlin Research Institute for Biomedical Sciences, Inc.'s management. Our responsibility is to express an opinion on McLaughlin Research Institute for Biomedical Sciences, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, McLaughlin Research Institute for Biomedical Sciences, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of McLaughlin Research Institute for Biomedical Sciences, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered McLaughlin Research Institute for Biomedical Sciences, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McLaughlin Research Institute for Biomedical Sciences, Inc.'s internal control over compliance.

A control deficiency in an Entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the board of trustees, the U.S. Department of Health and Human Services, the National Science Foundation and the Montana Board of Investments, and is not intended to be and should not be used by anyone other than these specified parties.


HAMILTON MISFELDT & COMPANY, P.C.

August 22, 2008

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

SUMMARY OF AUDITOR RESULTS

1. Type of auditor report issued on financial statements:
Unqualified
2. Financial statement significant deficiencies identified:
None
3. Financial statement material noncompliance identified:
None
4. Major program significant deficiencies identified:
None
5. Type of auditor report issued on major program compliance:
Unqualified
6. Audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133:
None
7. Major programs:
Cluster of Research and Development Grants
8. Type A program threshold:
\$300,000 in expenditures (all federal funds are research and development grants)
9. Qualifications as low-risk auditee:
Yes

FINDINGS RELATING TO FINANCIAL STATEMENTS

None

FINDINGS RELATING TO FEDERAL AWARDS

None

McLAUGHLIN RESEARCH INSTITUTE FOR BIOMEDICAL SCIENCES, INC.
SCHEDULE OF PRIOR AUDIT COMMENTS
For the Year Ended June 30, 2008

There were no audit findings in the prior year which required action to be taken by McLaughlin Research Institute for Biomedical Sciences, Inc.