



**COLD SPRING HARBOR LABORATORY**

Consolidated Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

The Board of Trustees  
Cold Spring Harbor Laboratory:

We have audited the accompanying consolidated financial statements of Cold Spring Harbor Laboratory (the Laboratory), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### **Report on Summarized Comparative Information**

We have previously audited the Cold Spring Harbor Laboratory's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*KPMG LLP*

April 12, 2013

# COLD SPRING HARBOR LABORATORY

## Consolidated Balance Sheet

December 31, 2012

(with comparative financial information as of December 31, 2011)

Assets:	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 75,471,404	58,055,329
Grants receivable	10,012,401	5,733,104
Contributions receivable, net (note 5)	145,289,626	163,144,645
Publications inventory	2,767,427	3,292,898
Investments (notes 3 and 4)	296,611,329	269,786,326
Restricted use assets (note 6)	3,597,846	2,882,590
Other assets (notes 4, 7, and 9)	15,891,942	15,027,787
Land, buildings, and equipment, net (note 8)	<u>240,625,332</u>	<u>241,828,796</u>
Total assets	<u>\$ 790,267,307</u>	<u>759,751,475</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable and accrued expenses (note 16)	\$ 10,456,412	11,135,584
Deferred revenue	5,258,525	5,467,566
Interest rate swap (note 9)	35,556,347	37,726,697
Bonds payable (note 9)	<u>97,200,000</u>	<u>97,200,000</u>
Total liabilities	<u>148,471,284</u>	<u>151,529,847</u>
Commitments and contingencies (note 16)		
Net assets:		
Unrestricted (note 12)	243,281,390	205,967,407
Temporarily restricted (notes 10 and 12)	293,464,158	298,351,339
Permanently restricted (notes 11 and 12)	<u>105,050,475</u>	<u>103,902,882</u>
Total net assets	<u>641,796,023</u>	<u>608,221,628</u>
Total liabilities and net assets	<u>\$ 790,267,307</u>	<u>759,751,475</u>

See accompanying notes to consolidated financial statements.

## COLD SPRING HARBOR LABORATORY

### Consolidated Statement of Activities

Year ended December 31, 2012

(with summarized financial information for the year ended December 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenue and other support:					
Public support - contributions and nonfederal grant awards	\$ 19,618,621	40,079,983	1,147,593	60,846,197	113,684,017
Federal grant awards	28,711,510	-	-	28,711,510	34,490,267
Indirect cost allowances (note 2)	24,445,726	-	-	24,445,726	25,623,148
Investment return utilized (notes 12 and 13)	23,396,825	-	-	23,396,825	22,585,474
Program fees	8,049,856	-	-	8,049,856	6,963,110
Publications sales	10,957,863	-	-	10,957,863	9,848,446
Dining services	4,614,691	-	-	4,614,691	4,309,694
Rooms and apartments	3,770,473	-	-	3,770,473	3,345,273
Miscellaneous	2,527,870	-	-	2,527,870	3,745,958
Net assets released from restrictions	<u>58,423,282</u>	<u>(58,423,282)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>184,516,717</u>	<u>(18,343,299)</u>	<u>1,147,593</u>	<u>167,321,011</u>	<u>224,595,387</u>
Expenses: (note 14)					
Research	88,821,283	-	-	88,821,283	91,848,784
Educational programs	17,815,388	-	-	17,815,388	16,117,941
Publications	10,092,372	-	-	10,092,372	9,323,927
Banbury Center conferences	1,389,048	-	-	1,389,048	1,409,384
DNA Learning Center programs	1,578,211	-	-	1,578,211	1,857,078
Watson School of Biological Sciences programs	3,356,033	-	-	3,356,033	3,584,716
General and administrative	16,860,891	-	-	16,860,891	15,596,163
Dining services	<u>5,642,788</u>	<u>-</u>	<u>-</u>	<u>5,642,788</u>	<u>5,717,278</u>
Total expenses	<u>145,556,014</u>	<u>-</u>	<u>-</u>	<u>145,556,014</u>	<u>145,455,271</u>
Excess (deficiency) of revenue and other support over (under) expenses	38,960,703	(18,343,299)	1,147,593	21,764,997	79,140,116
Other changes in net assets:					
Investment (loss) return excluding amount utilized (notes 12 and 13)	(3,817,070)	13,456,118	-	9,639,048	(22,610,255)
Change in fair value of interest rate swap (note 9)	<u>2,170,350</u>	<u>-</u>	<u>-</u>	<u>2,170,350</u>	<u>(21,287,538)</u>
Increase (decrease) in net assets	37,313,983	(4,887,181)	1,147,593	33,574,395	35,242,323
Net assets at beginning of year	<u>205,967,407</u>	<u>298,351,339</u>	<u>103,902,882</u>	<u>608,221,628</u>	<u>572,979,305</u>
Net assets at end of year	<u>\$ 243,281,390</u>	<u>293,464,158</u>	<u>105,050,475</u>	<u>641,796,023</u>	<u>608,221,628</u>

See accompanying notes to consolidated financial statements.

## COLD SPRING HARBOR LABORATORY

### Consolidated Statement of Cash Flows

Year ended December 31, 2012

(with comparative financial information for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 33,574,395	35,242,324
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swap	(2,170,350)	21,287,538
Depreciation and amortization	15,422,891	14,697,263
Net (appreciation) depreciation in fair value of investments	(29,322,335)	4,173,189
Contributions restricted for long-term investment	(10,527,878)	(13,475,213)
Changes in assets and liabilities:		
Grants receivable	(4,279,297)	1,992,555
Contributions receivable, net of financing activities	25,176,987	(53,517,765)
Publications inventory	525,471	262,295
Other assets	(912,934)	(5,008,296)
Restricted use assets	(715,256)	(302,119)
Accounts payable and accrued expenses, net of financing activities	(139,990)	1,835,064
Deferred revenue	(209,041)	(2,743,102)
Net cash provided by operating activities	<u>26,422,663</u>	<u>4,443,733</u>
Cash flows from investing activities:		
Capital expenditures	(14,219,427)	(17,748,180)
Proceeds from sales and maturities of investments	73,005,504	33,325,960
Purchases of investments	(70,508,172)	(30,860,745)
Net change in investment in employee residences	48,779	(97,394)
Net cash used in investing activities	<u>(11,673,316)</u>	<u>(15,380,359)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	1,147,593	1,600,563
Contributions restricted for investment in capital	9,380,285	11,874,650
Increase in contributions receivable	(7,321,968)	(5,354,289)
(Decrease) increase in accounts payable relating to capital expenditures	(539,182)	104,669
Net cash provided by financing activities	<u>2,666,728</u>	<u>8,225,593</u>
Net increase (decrease) in cash and cash equivalents	17,416,075	(2,711,033)
Cash and cash equivalents at beginning of year	<u>58,055,329</u>	<u>60,766,362</u>
Cash and cash equivalents at end of year	<u>\$ 75,471,404</u>	<u>58,055,329</u>
Supplemental disclosure:		
Interest paid	<u>\$ 3,683,436</u>	<u>3,614,370</u>
Noncash investing and financing activity:		
Contributed property	<u>\$ 50,000</u>	<u>1,095,000</u>

See accompanying notes to consolidated financial statements.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (1) Description of Business

#### (a) Discussion of Operations

Cold Spring Harbor Laboratory (the 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, genomics, 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.

The Laboratory operates a graduate education program and confers the degrees of Doctor of Philosophy, Master of Science, and Doctor of Science, Honorary. The program was approved by the Board of Regents of the State of New York and operates under the name "Cold Spring Harbor Laboratory, Watson School of Biological Sciences"(WSBS). Funding has been provided through the establishment of an endowment dedicated to the graduate school.

The consolidated financial statements of the Laboratory include two wholly owned subsidiaries. The first, the Robertson Research Fund, Inc. (Robertson), is a not-for-profit organization incorporated in Delaware 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. Robertson is administered by a nine-member board of trustees, five of whom represent the Laboratory. The Laboratory is entitled to receive all of the income of Robertson. In years when the distribution has been less than the total annual income of the fund, the difference has been reinvested along with the principal of the fund to offset the effects of inflation and to provide for future programs at the Laboratory.

The second, Cold Spring Harbor Asia (SIP) Ltd. (CSH Asia), is a wholly owned for-profit subsidiary established in Suzhou, People's Republic of China, in 2008. CSH Asia was created to expand the educational outreach of the Laboratory with the creation of a meetings and conferences program at a state-of-the-art conference center, owned by a private company, located in Suzhou. CSH Asia has an exclusive license to conduct scientific conferences and training courses in academic life sciences and applied biological sciences at the conference center for a term of ten years beginning with the opening of the conference center, which occurred in 2010. The license is renewable for an additional five-year term.

All intercompany accounts and transactions have been eliminated in consolidation.

#### (b) Tax Status

The Laboratory and Robertson are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, they are not subject to income taxes except to the extent there is taxable income from activities that are not related to the exempt purposes. The Laboratory recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. CSH Asia was established as a taxable organization where the Laboratory has begun efforts to convert the organization to a not-for-profit organization in China. Provisions for unrelated business income taxes are included in accounts payable and accrued expenses in the 2012 and 2011 consolidated balance sheets.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Presentation

The Laboratory prepares its financial statements on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. Those standards require the classification of activities and net assets into one of the three classes of net assets 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 by either 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 investment-related income from which is available to support research, education, and training. Realized and unrealized gains (losses) are added to (subtracted from) permanently restricted net assets if so required by the donor. Absent specific donor requirements, gains are available to support research and educational activities.

#### (b) Cash Equivalents

Cash equivalents consist principally of short-term money market funds earmarked for operations and other uses. Cash equivalents approximated \$61,629,000 and \$33,893,000 at December 31, 2012 and 2011, respectively.

#### (c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions include the valuation of alternative investments, collectability of receivables, the interest rate swap liability, the determination of medical and prescription benefit costs and the related liability, and the allocation of expenses to their functional classification.



# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (2) Summary of Significant Accounting Policies (Continued)

#### (d) Fair Value Measurements

The Laboratory classifies its assets and liabilities measured at fair value into three levels based on the inputs used to measure them:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments, as well as certain alternative investments which do not have a readily determinable fair value and are measured at net asset value per share, which are redeemable at or near the balance sheet date.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and certain alternative investments which are not redeemable at or near the balance sheet date.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the asset or liability, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset or the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

#### (e) Investments

Investments are stated at fair value. Contributions of investment securities are recorded at their fair value at the date of the gift. Publicly traded investments are valued at the last reported sales price on the date of valuation, as quoted on major securities exchanges. Securities that are not traded on major securities exchanges are valued based on quotations received from leading vendors. Pooled investments are funds that are not held at the Laboratory's custodian bank. These funds are part of multiple investors' commingled funds that are invested in one or more asset classes by a fund manager. The Laboratory invests in limited partnerships, limited liability corporations, and offshore investment funds for the purpose of earning returns from alternative investment strategies. These investments are presented, under procedures established by the Trustees, at net asset value or its equivalent, which generally represents the Laboratory's proportionate share of the net assets of the investment managers, as reported by them and reviewed by management for reasonableness.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (2) Summary of Significant Accounting Policies (Continued)

The Laboratory's proportionate share of net assets subject to the investment manager's estimates of fair value may differ significantly, due to the inherent uncertainty of the valuations, from the values that would have been used had a ready market existed. The Laboratory's proportionate share of the change in fair values of the investment managers is recorded as an increase or a decrease in unrealized appreciation (depreciation) of investments in the consolidated statement of activities.

Included in investments are stocks that do not have a readily determinable fair value, which 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.

#### (f) Publications Inventory

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

#### (g) Contributions Receivable

Contributions receivable are recorded at their estimated net realizable value (discounted to present value at a risk-adjusted rate), less a reserve for bad debts.

#### (h) 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. 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 permanently impaired are written down to fair value.

#### (i) Derivative Instrument

The Laboratory measures its derivative instrument (interest rate swap) at fair value. The fair value of the derivative held is based upon values provided by third-party financial institutions. It is not held for speculation purposes.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (2) Summary of Significant Accounting Policies (Continued)

#### (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) Revenues

The Laboratory receives grants and contributions from a number of sources including the federal government, foreign governments, private foundations, and other donors. Grants are evaluated as to whether they qualify as exchange transactions or contributions as defined by GAAP. Grants that are treated as exchange transactions are reported as unrestricted revenue when expenses are incurred in accordance with the terms of the agreement. The excess of amounts received in exchange transactions over the amount of expenditures incurred are classified as deferred revenue on the consolidated balance sheet.

Contributions that are considered non-exchange transactions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

#### (l) 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 2011, the Laboratory negotiated a new agreement establishing predetermined rates for the years 2011 through 2013. As a result, the Laboratory should not, except for unforeseen changes in federal regulations, be subject to revisions of its predetermined indirect cost rate through the end of 2013. For nongovernment grants, indirect cost recoveries are accrued at various rates as allowed by the grantor.

#### (m) Recently Adopted Accounting Standard

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic entities to provide quantitative information about significant unobservable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. The Laboratory adopted the provisions of the ASU in 2012. The adoption of ASU 2011-04 did not have a material effect on the Laboratory's consolidated financial statements. These provisions are illustrated further in note 4.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (2) Summary of Significant Accounting Policies (Continued)

#### (n) Comparative Financial Statements

The accompanying consolidated statement of activities is presented with certain 2011 summarized comparative information in the aggregate and not displayed by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Laboratory's 2011 consolidated financial statements from which the summarized comparative information was derived.

#### (o) Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

### (3) Investments

Fair value of investments at December 31 is as follows:

	<u>2012</u>	<u>2011</u>
Mutual funds:		
Large/mid cap growth	\$ 38,080,445	59,318,747
Diversified fixed income	69,585,085	50,983,838
Stocks	12,428,494	11,217,810
Alternative investments:		
Multi-strategy, fund of funds, and absolute return	80,771,847	76,635,193
Long/short equity	34,110,210	21,367,805
International equity	41,237,285	33,642,296
Emerging markets	13,970,443	10,169,876
Aggressive fixed income	6,047,116	6,064,692
Private equity	380,404	386,069
	<u>\$ 296,611,329</u>	<u>269,786,326</u>

Stocks principally include publicly traded common stock holdings in both domestic and international organizations. Also included is the Laboratory's investment in biotechnology companies, as discussed in note 2, which have a fair value at December 31, 2012 and 2011 of approximately \$178,000 and \$69,000, respectively, net of a valuation allowance of approximately \$606,000 and \$620,000, respectively.

The alternative investment portfolio includes limited partnerships, limited liability corporations, and offshore investment funds. The underlying investments include, among other financial instruments, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments involve varying degrees of off-balance sheet risk. All investments are exposed to various risks such as interest rate, market, and credit risks.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (3) Investments (Continued)

Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and such changes could materially affect the consolidated balance sheet.

The Laboratory's alternative investments are diversified across six basic investment strategies as follows (amounts included are as of December 31, 2012):

**Multi-strategy, fund of funds, and absolute return** (\$80,771,847) – represent investments in a broad range of investment strategies that seek to exploit opportunities as they occur in the markets due to temporary dislocations or structural inefficiencies. This category includes managers that utilize a fund of funds philosophy.

**Long/short equity** (\$34,110,210) – primarily investments in funds that, in turn, invest in liquid marketable securities, attempting to realize gains through the identification of mispriced securities, involving buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value.

**International equity** (\$41,237,285) – consists of a trust that invests in the equity securities of companies located outside the United States. The portfolio can invest up to 10% of its assets in emerging markets. The fund is permitted to utilize a wide range of equity instruments, convertible investment-grade instruments, and to a limited extent, options and warrants on equity securities. The fund is also permitted to invest in physical currencies and spot and forward currency contracts.

**Emerging markets** (\$13,970,443) – an absolute return focused investment in debt and equity securities in emerging markets. Debt securities include both dollar-denominated and local currency sovereign debt, corporate debt, and inflation-protected securities.

**Aggressive fixed income** (\$6,047,116) – an investment in global fixed income arbitrage strategies exploiting opportunities within specific sub-strategies, with tight risk controls, seeking to add excess return over a specified client-designated benchmark.

**Private equity** (\$380,404) – consists of a limited partnership that was formed for the purpose of investing in private equity funds including venture capital, buyouts and growth capital, international private equity, and other private equity investments.

Alternative investments contain various redemption restrictions with required written notice ranging from 45 to 90 days. In addition, certain of these investments are restricted by initial lockup periods. As of December 31, 2012, the following table summarizes the composition of the alternative investments at fair value of such investments by the various redemption provisions and lockup periods:

<u>Redemption period</u>	<u>Amount</u>
0 – 3 Months	\$ 122,260,190
Semiannual	1,558,100
Annual	43,961,439
No redemptions	1,206,326
Lockup expiring 2013	5,000,000
Lockup expiring 2014	2,531,250
	<u>\$ 176,517,305</u>

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (4) Fair Value of Financial Assets and Liabilities

The following tables present the Laboratory's fair value hierarchy for those assets measured at fair value on an annual basis as of December 31, 2012 and 2011:

Financial assets	2012			
	Fair value	Level 1	Level 2	Level 3
Investment in employee residences	\$ 4,298,157	-	-	4,298,157
Limited liability partnership	246,000	-	-	246,000
Mutual funds:				
Large/mid cap growth	38,080,445	38,080,445	-	-
Diversified fixed income	69,585,085	69,585,085	-	-
Stocks	12,428,494	12,250,086	-	178,408
Alternative investments:				
Multi-strategy, fund of funds, and absolute return	80,771,847	-	72,414,675	8,357,172
Long/short equity	34,110,210	-	34,110,210	-
International equity	41,237,285	-	41,237,285	-
Emerging markets	13,970,443	-	13,970,443	-
Aggressive fixed income	6,047,116	-	6,047,116	-
Private equity	380,404	-	-	380,404
	<u>\$ 301,155,486</u>	<u>119,915,616</u>	<u>167,779,729</u>	<u>13,460,141</u>

Financial assets	2011			
	Fair value	Level 1	Level 2	Level 3
Investment in employee residences	\$ 4,346,936	-	-	4,346,936
Limited liability partnership	500,000			500,000
Mutual funds:				
Large/mid cap growth	59,318,747	59,318,747	-	-
Diversified fixed income	50,983,838	50,983,838	-	-
Stocks	11,217,810	11,148,926	-	68,884
Alternative investments:				
Multi-strategy, fund of funds, and absolute return	76,635,193	-	66,032,693	10,602,500
Long/short equity	21,367,805	-	21,367,805	-
International equity	33,642,296	-	33,642,296	-
Emerging markets	10,169,876	-	10,169,876	-
Aggressive fixed income	6,064,692	-	6,064,692	-
Private equity	386,069	-	-	386,069
	<u>\$ 274,633,262</u>	<u>121,451,511</u>	<u>137,277,362</u>	<u>15,904,389</u>

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (4) Fair Value of Financial Assets and Liabilities (Continued)

The following tables present the changes in Level 3 investments as of December 31, 2012 and 2011:

	2012					Level 3 end of year
	Level 3 beginning of year	Transfers (out of)/into Level 3	Net (depreciation) / appreciation in fair value	Purchases	Sales	
Investment in						
employee residences	\$ 4,346,936	-	-	-	(48,779)	4,298,157
Limited liability partnership	500,000	-	(254,000)	-	-	246,000
Restricted biotech stocks	68,884	-	109,524	-	-	178,408
Alternative investments:						
Multi-strategy						
and absolute return	10,602,500	(10,602,500)	281,250	7,250,000	-	7,531,250
Fund of funds	-	825,922	-	-	-	825,922
Private equity	386,069	-	11,092	-	(16,757)	380,404
	<u>\$ 15,904,389</u>	<u>(9,776,578)</u>	<u>147,866</u>	<u>7,250,000</u>	<u>(65,536)</u>	<u>13,460,141</u>

	2011					Level 3 end of year
	Level 3 beginning of year	Transfers out of Level 3	Net depreciation in fair value	Purchases	Sales	
Investment in						
employee residences	\$ 4,249,542	-	(885)	200,000	(101,721)	4,346,936
Limited liability partnership	-	-	-	500,000	-	500,000
Restricted biotech stocks	68,884	-	-	-	-	68,884
Alternative investments:						
Multi-strategy, fund of funds,						
and absolute return	31,158,249	(25,423,149)	(132,600)	5,000,000	-	10,602,500
Long/short equity	15,726,203	(15,726,203)	-	-	-	-
Aggressive fixed income	5,471,576	(5,471,576)	-	-	-	-
Private equity	493,911	-	(55,691)	5,000	(57,151)	386,069
	<u>\$ 57,168,365</u>	<u>(46,620,928)</u>	<u>(189,176)</u>	<u>5,705,000</u>	<u>(158,872)</u>	<u>15,904,389</u>

The amounts reported as reclassifications out of Level 3 investments in both 2012 and 2011 represent transfers into Level 2 assets due to expiration of lockup provisions. Due to liquidity constraints imposed upon a redemption request in 2012, an alternative investment fund of funds balance has been reclassified to a Level 3 investment.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

**(4) Fair Value of Financial Assets and Liabilities (Continued)**

The following table presents the change in unrealized gains or losses of Level 3 assets at December 31, 2012:

<u>Financial assets</u>	<u>Amount</u>
Investment in employee residences	\$ -
Limited liability partnership	(254,000)
Restricted biotech stocks	109,524
Alternative investments:	
Multi-strategy, fund of funds, and absolute return	180,143
Private equity	11,092
	<u>\$ 46,759</u>

The fair value of all other financial instruments, other than 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 that reflect approximate market rates for loans with similar characteristics, maturities, and credit quality.

**(5) Contributions Receivable, net**

Contributions receivable, net, consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Contributions receivable	\$ 152,159,929	172,930,776
Less: Discount to present value at rates ranging from 0.12% to 4.93%	(6,522,303)	(8,532,131)
Reserve for bad debts	(348,000)	(1,254,000)
Contributions receivable, net	<u>\$ 145,289,626</u>	<u>163,144,645</u>

Contributions receivable are expected to be collected as follows:

	<u>2012</u>	<u>2011</u>
Within one year	\$ 57,092,228	62,592,320
One to five years	90,765,116	99,112,384
More than five years	4,302,585	11,226,072
	<u>\$ 152,159,929</u>	<u>172,930,776</u>

Contributions receivable at December 31, 2012 include forty-six individual pledges, ten of which represent approximately 79% of the amount due, with a total of \$87 million due from a single donor.



# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (5) Contributions Receivable, net (Continued)

Also 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 \$2,054,000 and \$1,998,800 at December 31, 2012 and 2011, respectively.

### (6) Restricted Use Assets

The Laboratory has two supplemental executive retirement plans (SERP) for certain members of its management and scientific staff. The Laboratory has established two grantor trusts, whereby the assets and income of the trusts are assets and income of the Laboratory. At December 31, 2012 and 2011, the fair value of the assets in the trusts was \$3,353,205 and \$2,703,577, respectively.

In 2005, the Laboratory started a charitable gift annuity program. At December 31, 2012 and 2011, the fair value of segregated assets was \$244,641 and \$178,936, respectively.

### (7) Investment in Employee Residences

Included in other assets are investments in employee residences, which consist of (a) notes receivable collateralized by mortgages on residential properties owned by several senior employees and (b) the Laboratory's percentage ownership in residences inhabited by employees. Upon sale of these residences, the Laboratory will either share in market value fluctuations of the real estate in proportion to its ownership in the residence, or receive reimbursement of the outstanding mortgage balance. These investments were authorized by the Trustees to enable such employees to purchase local residences. All costs of property ownership, including real estate taxes, are borne by the employees.

### (8) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31 consist of the following:

	2012	2011
Land and land improvements	\$ 16,458,289	16,099,029
Buildings	263,084,672	249,947,097
Furniture, fixtures, and equipment	24,195,150	21,709,466
Laboratory equipment	58,527,844	53,133,206
Library books and periodicals	365,630	365,630
Construction in progress	1,139,750	9,284,160
	363,771,335	350,538,588
Less accumulated depreciation and amortization	<u>(123,146,003)</u>	<u>(108,709,792)</u>
Land, buildings, and equipment, net	<u>\$ 240,625,332</u>	<u>241,828,796</u>

Construction in progress represents the cost of various campus renovations ongoing at the Laboratory. In 2012, the Laboratory opened the newly reconstructed Hershey Building with accumulated costs of approximately \$6.7 million reported at December 31, 2011.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (9) Bonds Payable

On April 1, 1999, the Laboratory executed an agreement to obtain \$42.2 million of bond financing through the Nassau County Industrial Development Agency (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 (0.12% as of December 31, 2012), and are secured by a revolving letter-of-credit agreement issued by a financial institution scheduled to expire on June 24, 2015. The interest rate is negotiated with the bondholders by the remarketing agent. The agreements contain certain covenants, including those relating to net worth as defined, capital expenditures, restrictions of additional liens on certain Laboratory property, and assumption of additional debt. The Laboratory is in compliance with the required covenants as of December 31, 2012 and expects to renew the agreement upon expiration.

On June 27, 2006, the Laboratory executed an agreement to obtain \$55 million of bond financing through the NCIDA for the purpose of paying a portion of the cost of construction, installation, and equipping of six research buildings, and a chiller building consisting of approximately 120,000 square feet of space on the Laboratory's main campus in Laurel Hollow. The bonds, originally issued as auction rate securities, bore interest at a seven-day auction rate, which was payable on a weekly basis, and was insured by a financial guarantee insurance policy issued by Financial Guarantee Insurance Company. On June 25, 2008, the interest rate mode on the bonds was converted to a variable daily rate. The insurance policy, originally used as credit support for the bonds, was terminated. On June 19, 2012, the interest rate mode on the bonds was converted to a bank purchase rate of 75% of the sum of the LIBOR Rate, the rate equal to the British Bankers Association thirty day LIBOR Rate (1-month LIBOR), plus a spread. The entire outstanding principal amount was purchased by a single financial institution under an agreement which terminates on June 19, 2019, unless extended. The agreement contains certain covenants, including those relating to net worth as defined, capital expenditures, restrictions of additional liens on certain Laboratory property, and assumption of additional debt. The Laboratory is in compliance with the required covenants as of December 31, 2012. Upon termination of the agreement the bonds may thereafter be converted in whole or in part to bear interest at any of the acceptable rates of interest under the bond documents until maturity on January 1, 2042. The bonds require annual principal payments beginning January 1, 2035. Interest is payable the first business day of each month and the interest rate resets at the end of each month (0.74512% as of December 31, 2012).

In April 2006, the Laboratory entered into an interest rate swap agreement with a notional principal amount of \$97,200,000 to mitigate the risk of interest rates associated with the Series 1999 and Series 2006 bond issues. Under the terms of the original agreement, the Laboratory paid interest at a predetermined fixed rate of 3.805% and received 68% of 1-month LIBOR on the notional principal amount. The swap agreement had an effective date of October 1, 2006 and a termination date of January 1, 2042. On December 10, 2008, the swap agreement was amended and the Laboratory now pays interest at a predetermined fixed rate of 3.802% and receives 68% of 3-month LIBOR on the notional principal amount.

The fair value of the interest rate swap was a liability of \$35,556,347 and \$37,726,697 at December 31, 2012 and 2011, respectively. The fair value of the interest rate swap was determined using pricing models developed based on the LIBOR swap rate and other observable market data (Level 2 inputs). The change in fair value is reported as other changes in net assets in the accompanying consolidated statement of activities. According to the agreement with JPMorgan Chase Bank, N.A., when the fair value

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

**(9) Bonds Payable (Continued)**

of the liability exceeds \$40 million, the Laboratory is required to post collateral equal to the amount in excess.

In connection with the bond issues, financing costs of approximately \$2,357,000 were capitalized and are being amortized over the life of the bond issues. The financing costs are included in other assets in the accompanying consolidated balance sheet. Financing costs, net of amortization, were \$1,789,900 and \$1,856,169 at December 31, 2012 and 2011, respectively.

Interest expense on bonds outstanding during 2012 and 2011 was \$3,701,744 and \$3,572,543, respectively. The effective average interest rate on all of the bonds outstanding during 2012 and 2011 approximated 3.81% and 3.68%, respectively.

**(10) Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31 are available for the following purposes:

	2012	2011
Capital projects	\$ 18,388,226	18,751,507
Research programs	46,678,658	62,284,535
Research start-up	1,716,256	3,130,910
Educational programs	603,072	1,146,200
Time restricted	100,157,545	100,499,445
Unappropriated income on endowment funds:		
Primary program services	103,030,542	93,806,328
Watson School of Biological Sciences programs	9,209,130	6,021,946
Operation and improvement of Banbury Center facilities	13,680,729	12,710,468
	\$ 293,464,158	298,351,339

**(11) Permanently Restricted Net Assets**

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

	2012	2011
Primary program services	\$ 63,079,700	62,060,107
Watson School of Biological Sciences programs	40,458,971	40,330,971
Operation and improvement of Banbury Center facilities	1,511,804	1,511,804
	\$ 105,050,475	103,902,882

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (12) Endowment Funds

The Laboratory's endowment consists of approximately 140 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by GAAP, net assets associated with the endowment funds, including funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Laboratory's management and investment of donor-restricted endowment funds has historically been subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline for states to use in enacting legislation. Among UPMIFA's most significant changes was the elimination of UMIFA's important concept of historic dollar-value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA), the provisions of which apply to funds existing on or established after that date. The Laboratory adopted NYPMIFA as of December 31, 2010 for all institutional endowment assets. The Laboratory and Robertson have interpreted the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Laboratory classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the explicit direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Laboratory in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The Laboratory's investment policy for its endowment and similar funds emphasizes long-term capital appreciation as a primary source of return while balancing the dual objectives of growth in capital and principal preservation. Investments are expected to earn long-term returns sufficient to maintain or grow the purchasing power of assets, net of spending and investment expenses, within acceptable risk parameters. The portfolio is invested in domestic and international equities, private equity, and other nontraditional investments, broadly diversified fixed income and cash equivalents. The portfolio is expected to earn returns higher than the "market" as represented by a benchmark constructed as a blended rate of indices. The portfolio oversight rests with the Investment Committee of the Board of Trustees, including the selection of external managers, the allocation of investments, and the type of investments.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (12) Endowment Funds (Continued)

The Laboratory considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Laboratory and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Laboratory
- (7) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure
- (8) The investment policies of the Laboratory

In accordance with the Laboratory's spending rate policy, the Trustees authorized a 5% spend-down on endowment funds based on a 12-quarter moving average of the market value of endowment investments. If interest, dividends, and gains are not sufficient to support the current year drawdown, the balance is provided from prior year earnings. If investment return is in excess of the authorized spending level, the balance is reinvested.

In accordance with the above spending policies, \$15,379,799 and \$13,898,319 were made available to support operations of the Laboratory for the years ended December 31, 2012 and 2011, respectively. In addition, the Trustees also authorized the use of \$7,958,471 and \$7,973,218 in support of research start-up expenses for the years ended December 31, 2012 and 2011, respectively. The total planned appropriation for expenditure for the year ending December 31, 2013 is approximately \$15,150,000 representing only the amount available from the spend-down on endowment. The funds needed for startup expenses are expected to be paid from unrestricted current funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Laboratory to maintain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,388,049 and \$2,863,433 at December 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Trustees. Amounts included in reported deficiencies, \$1,636,028 in 2012 and \$1,469,657 in 2011, resulted from specific language of the gift instrument requiring appropriation regardless of fund balance. Funds with deficiencies are included in the unrestricted portion of donor-restricted endowment funds, in the following tables.

The following table presents endowment net asset composition by type of fund as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted	\$ (2,388,049)	125,920,401	105,050,475	228,582,827
Board-designated	<u>94,098,346</u>	<u>-</u>	<u>-</u>	<u>94,098,346</u>
Total endowment funds	<u>\$ 91,710,297</u>	<u>125,920,401</u>	<u>105,050,475</u>	<u>322,681,173</u>

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (12) Endowment Funds (Continued)

The following table presents the changes in endowment net assets for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 76,182,118	112,538,742	103,902,882	292,623,742
Investment income	1,242,345	2,551,477	-	3,793,822
Net appreciation (realized and unrealized)	<u>18,373,564</u>	<u>10,904,641</u>	<u>-</u>	<u>29,278,205</u>
Total investment return	19,615,909	13,456,118	-	33,072,027
Contributions	3,212,150	(74,459)	1,147,593	4,285,284
Appropriation of endowment assets for expenditure	(23,338,270)	-	-	(23,338,270)
Transfer to board- designated endowment	<u>16,038,390</u>	<u>-</u>	<u>-</u>	<u>16,038,390</u>
Endowment net assets at end of year	<u>\$ 91,710,297</u>	<u>125,920,401</u>	<u>105,050,475</u>	<u>322,681,173</u>

Included in permanently restricted endowment amounts above is approximately \$8.2 million in pledges receivable.

The following table presents endowment net asset composition by type of fund as of December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted	\$ (2,863,433)	112,538,742	103,902,882	213,578,191
Board-designated	<u>79,045,551</u>	<u>-</u>	<u>-</u>	<u>79,045,551</u>
Total endowment funds	<u>\$ 76,182,118</u>	<u>112,538,742</u>	<u>103,902,882</u>	<u>292,623,742</u>

## COLD SPRING HARBOR LABORATORY

### Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

#### (12) Endowment Funds (Continued)

The following table presents the changes in endowment net assets for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 85,113,773	122,161,903	102,535,111	309,810,787
Investment income	982,595	2,443,362	-	3,425,957
Net depreciation (realized and unrealized)	<u>(1,237,730)</u>	<u>(2,828,756)</u>	<u>-</u>	<u>(4,066,486)</u>
Total investment loss	(255,135)	(385,394)	-	(640,529)
Contributions	600	232,792	1,367,771	1,601,163
Appropriation of endowment assets for expenditure	(12,400,978)	(9,470,559)	-	(21,871,537)
Transfer to board- designated endowment	<u>3,723,858</u>	<u>-</u>	<u>-</u>	<u>3,723,858</u>
Endowment net assets at end of year	<u>\$ 76,182,118</u>	<u>112,538,742</u>	<u>103,902,882</u>	<u>292,623,742</u>

Included in permanently restricted endowment amounts above is approximately \$8.1 million in pledges receivable.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (13) Investment Return Utilized

Investment return utilized includes amounts reimbursed from board-designated funds relating to certain board-authorized expenses as reported in note 12, amounts appropriated from donor-restricted endowment funds, and investment return on working capital funds. The following tables summarize the Laboratory's total investment return for the years ended December 31:

	2012		
	Unrestricted	Temporarily restricted	Total
Interest and dividends on investments	\$ 1,336,513	2,551,477	3,887,990
Net appreciation of investments	<u>18,243,242</u>	<u>10,904,641</u>	<u>29,147,883</u>
Total investment return	19,579,755	13,456,118	33,035,873
Investment return utilized	<u>(23,396,825)</u>	<u>-</u>	<u>(23,396,825)</u>
Investment (loss) return excluding amount utilized	<u>\$ (3,817,070)</u>	<u>13,456,118</u>	<u>9,639,048</u>

	2011		
	Unrestricted	Temporarily restricted	Total
Interest and dividends on investments	\$ 1,571,499	2,443,361	4,014,860
Net depreciation of investments	<u>(1,210,885)</u>	<u>(2,828,756)</u>	<u>(4,039,641)</u>
Total investment return (loss)	360,614	(385,395)	(24,781)
Investment return utilized	<u>(13,114,916)</u>	<u>(9,470,558)</u>	<u>(22,585,474)</u>
Investment loss excluding amount utilized	<u>\$ (12,754,302)</u>	<u>(9,855,953)</u>	<u>(22,610,255)</u>



# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### (14) Expenses

Expenses are reported in the accompanying consolidated statement of activities by their functional classifications. 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 \$1,403,800 and \$1,463,600 of fund-raising expenses in 2012 and 2011, respectively.

The Laboratory allocates certain types of expenses that relate to more than one program or supporting activity. Expenses of this nature include, but are not limited to, depreciation, interest, operations and maintenance of plant, library, direct research support, and information technology. Amounts have been allocated to the programs and services using methods such as square footage, usage, and other financial methods.

	2012			2011		
	Direct functional expenses	Allocated expenses	Total	Direct functional expenses	Allocated expenses	Total
Research	\$ 54,202,479	34,618,804	88,821,283	58,037,760	33,811,024	91,848,784
Educational programs	14,471,271	3,344,117	17,815,388	13,135,997	2,981,944	16,117,941
Publications	9,579,115	513,257	10,092,372	8,815,719	508,208	9,323,927
Banbury Center conferences	588,942	800,106	1,389,048	660,487	748,897	1,409,384
DNA Learning Center programs	1,158,930	419,281	1,578,211	1,384,002	473,076	1,857,078
WSBS programs	2,946,631	409,402	3,356,033	3,183,771	400,945	3,584,716
General and administrative	13,746,298	3,114,593	16,860,891	12,712,313	2,883,850	15,596,163
Dining services	4,121,093	1,521,695	5,642,788	4,258,362	1,458,916	5,717,278
	\$ 100,814,759	44,741,255	145,556,014	102,188,411	43,266,860	145,455,271

### (15) Retirement Plan

The Laboratory's employees are covered under a 401(a) defined-contribution retirement plan (the Plan). The Laboratory remits contributions to the Plan at Fidelity Investments based on a predetermined percentage of the participants' salaries. Total contributions under the Plan approximated \$3,853,000 and \$3,631,000 for the years ended December 31, 2012 and 2011, respectively.

### (16) Commitments and Contingencies

On November 21, 2008, the Laboratory entered into a ten-year noncancelable operating lease beginning on January 1, 2009 for property located at 50 Gordon Drive, Syosset, New York. The monthly rental is \$21,295, or approximately \$2,555,000, over the lease term.

# COLD SPRING HARBOR LABORATORY

## Notes to Consolidated Financial Statements

December 31, 2012

(with comparative financial information as of and for the year ended December 31, 2011)

### **(16) Commitments and Contingencies (Continued)**

The Laboratory is self-insured for employee medical and prescription benefits beginning January 1, 2008. Under the provisions of this plan, an insurance carrier provides claims processing and administration functions, as well as stop-loss coverage over a stipulated level of claims for the twelve-month period ended December 31, 2012. The expense for the program was approximately \$8,878,000 and \$7,603,000 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012, the Laboratory had accrued approximately \$1,025,000 for liabilities, relating to claims incurred but not reported, which are included in accounts payable and accrued expenses.

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 materially adverse effect upon the Laboratory's financial condition or liquidity.

The Laboratory evaluated events subsequent from December 31, 2012 through April 12, 2013, the date on which the consolidated financial statements were issued.