

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

COLD SPRING HARBOR LABORATORY

For the years ended December 31, 2017 and 2016

COLD SPRING HARBOR LABORATORY

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Grant Thornton LLP
445 Broad Hollow Road, Suite 300
Melville, NY 11747-3601
T 631.249.6001
F 631.249.6144
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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 consolidated 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 Laboratory'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 Laboratory'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, 2017, 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.

Other Matters

The consolidated financial statements of the Laboratory as of and for the year ended December 31, 2016 (not presented herein) were audited by other auditors. Those auditors expressed an unmodified opinion on those 2016 financial statements in their report dated May 22, 2017. In our opinion, the accompanying summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the consolidated financial statements audited by other auditors from which it has been derived.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Melville, New York
June 7, 2018

COLD SPRING HARBOR LABORATORY

Consolidated Balance Sheet

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 64,179,016	\$ 58,209,476
Grants receivable	8,948,017	8,066,970
Contributions receivable, net (Note 5)	74,760,266	47,353,618
Investments (Notes 3 and 4)	531,826,534	472,977,094
Investment in employee residences (Notes 4 and 7)	6,348,606	6,000,849
Restricted use assets (Note 6)	4,070,570	3,522,055
Other assets (Notes 4 and 9)	11,190,405	6,323,460
Land, buildings and equipment, net (Note 8)	<u>235,245,898</u>	<u>229,093,660</u>
Total assets	<u>\$ 936,569,312</u>	<u>\$ 831,547,182</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses (Notes 6 and 16)	\$ 15,888,844	\$ 10,030,041
Deferred revenue	5,601,953	9,125,481
Interest rate swap (Note 9)	31,345,495	32,713,773
Bonds payable (Note 9)	<u>95,741,427</u>	<u>95,675,157</u>
Total liabilities	<u>148,577,719</u>	<u>147,544,452</u>
Commitments and contingencies (Note 16)		
NET ASSETS		
Unrestricted (Note 13)	403,766,549	364,233,745
Temporarily restricted (Notes 10 and 13)	266,162,378	205,772,108
Permanently restricted (Notes 11 and 13)	<u>118,062,666</u>	<u>113,996,877</u>
Total net assets	<u>787,991,593</u>	<u>684,002,730</u>
Total liabilities and net assets	<u>\$ 936,569,312</u>	<u>\$ 831,547,182</u>

The accompanying notes are an integral part of these consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Consolidated Statement of Activities

December 31, 2017 (with summarized comparative financial information for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Revenue and other support					
Public support - contributions and nonfederal grant awards	\$ 24,748,370	\$ 56,086,908	\$ 4,065,789	\$ 84,901,067	\$ 69,813,418
Federal grant awards	34,668,573	-	-	34,668,573	32,371,500
Indirect cost allowances	31,719,355	-	-	31,719,355	29,781,859
Investment return utilized (Notes 12 and 13)	21,297,672	-	-	21,297,672	18,455,646
Royalty and license revenue	13,399,961	-	-	13,399,961	3,290,181
Program fees	8,741,475	-	-	8,741,475	7,444,287
Publications sales	9,411,102	-	-	9,411,102	9,567,069
Dining services	4,993,409	-	-	4,993,409	4,596,996
Rooms and apartments	3,922,034	-	-	3,922,034	3,801,520
Miscellaneous	663,437	-	-	663,437	687,760
Net assets released from restrictions	18,202,531	(18,202,531)	-	-	-
Total revenue and other support	<u>171,767,919</u>	<u>37,884,377</u>	<u>4,065,789</u>	<u>213,718,085</u>	<u>179,810,236</u>
Expenses (Note 14)					
Research	96,658,762	-	-	96,658,762	90,381,188
Educational programs	18,392,576	-	-	18,392,576	18,449,272
Publications	9,223,370	-	-	9,223,370	8,880,801
Banbury Center conferences	1,598,803	-	-	1,598,803	1,545,507
DNA Learning Center programs	2,169,075	-	-	2,169,075	2,385,791
Watson School of Biological Sciences programs	3,111,700	-	-	3,111,700	2,949,461
General and administrative	18,362,195	-	-	18,362,195	17,879,756
Dining services	6,471,584	-	-	6,471,584	5,949,534
Total expenses	<u>155,988,065</u>	<u>-</u>	<u>-</u>	<u>155,988,065</u>	<u>148,421,310</u>
Excess of revenue and other support over expenses	15,779,854	37,884,377	4,065,789	57,730,020	31,388,926
Other changes in net assets					
Investment return excluding amount utilized (Notes 12 and 13)	22,384,672	22,505,893	-	44,890,565	2,738,316
Change in fair value of interest rate swap (Note 9)	1,368,278	-	-	1,368,278	1,338,359
Increase in net assets	39,532,804	60,390,270	4,065,789	103,988,863	35,465,601
Net assets at beginning of year	<u>364,233,745</u>	<u>205,772,108</u>	<u>113,996,877</u>	<u>684,002,730</u>	<u>648,537,129</u>
Net assets at end of year	<u>\$ 403,766,549</u>	<u>\$ 266,162,378</u>	<u>\$ 118,062,666</u>	<u>\$ 787,991,593</u>	<u>\$ 684,002,730</u>

The accompanying notes are an integral part of these consolidated financial statements.

COLD SPRING HARBOR LABORATORY
Consolidated Statement of Cash Flows
December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Increase in net assets	\$ 103,988,863	\$ 35,465,601
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in fair value of interest rate swap	(1,368,278)	(1,338,359)
Depreciation and amortization	13,441,446	13,694,691
Amortization of deferred bond costs	66,270	66,270
Net appreciation in fair value of investments	(62,254,634)	(18,048,396)
Contributions restricted for long-term investment	(12,059,874)	(10,453,798)
Changes in assets and liabilities		
Grants receivable	(881,047)	1,478,385
Contributions receivable, net	(23,650,821)	(10,729,807)
Restricted use assets	(548,515)	1,890,048
Other assets	(4,866,945)	3,947,423
Accounts payable and accrued expenses, net of financing activities	3,746,487	481,895
Deferred revenue	(3,523,528)	1,120,839
Net cash provided by operating activities	<u>12,089,424</u>	<u>17,574,792</u>
Cash flows from investment activities		
Capital expenditures	(19,593,684)	(12,168,371)
Proceeds from sales and maturities of investments	100,074,927	40,841,045
Purchases of investments	(96,669,733)	(45,837,750)
Net changes in investment in employee residences	(347,757)	160,554
Net cash used in investment activities	<u>(16,536,247)</u>	<u>(17,004,522)</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	4,065,789	883,150
Contributions restricted for investment in capital	7,994,085	9,570,648
Increase in contributions receivable	(3,755,827)	(6,523,768)
Increase (decrease) in accounts payable relating to capital expenditures	2,112,316	(500,000)
Net cash provided by financing activities	<u>10,416,363</u>	<u>3,430,030</u>
Net increase in cash and cash equivalents	5,969,540	4,000,300
Cash and cash equivalents at beginning of year	<u>58,209,476</u>	<u>54,209,176</u>
Cash and cash equivalent at end of year	<u>\$ 64,179,016</u>	<u>\$ 58,209,476</u>
Supplemental disclosure:		
Interest paid	<u>\$ 3,886,138</u>	<u>\$ 3,816,392</u>

The accompanying notes are an integral part of these consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

1. DESCRIPTION OF BUSINESS

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 revenue is 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.

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 in China. Provisions for both local and unrelated business income taxes are included in accounts payable and accrued expenses in the 2017 and 2016 consolidated balance sheets.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Laboratory prepares its consolidated 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.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of short-term money market funds earmarked for operations and other uses, except cash and cash equivalents held for investment (see Note 3). Cash equivalents approximated \$51,320,000 and \$37,180,000 at December 31, 2017 and 2016, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“U.S. 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 revenue 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, 2017 (with comparative financial information for the year ended December 31, 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (see Note 4):

- 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 may include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. The Laboratory did not possess any Level 2 assets at December 31, 2017 or 2016.
- 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.

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.

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 fund management, 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 Laboratory management for reasonableness.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

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 common and preferred 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 start-up 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.

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.

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. There were no impairment changes in 2017 and 2016.

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, 2017 (with comparative financial information for the year ended December 31, 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue

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 U.S. 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 revenue 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.

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 2016, the Laboratory negotiated a new agreement establishing predetermined rates for the years 2017 through 2019 and a provisional rate beginning 2020 until amended. 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 2019. For nongovernment grants, indirect cost recoveries are accrued at various rates as allowed by the grantor.

Royalty and License Revenue

Royalty and license revenues result from the transfer of intellectual property rights developed by Laboratory employees. In accordance with the Laboratory's policy, royalty and license revenues are distributed to the inventor, author or collaborator, and the Laboratory using an income sharing formula. The portion retained by the Laboratory is recorded on the consolidated statement of activities as royalty and license revenues.

Recently Adopted Accounting Standards

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 will change certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and make reporting less complex for not-for-profits. The provisions of ASU 2016-14 are effective for the Laboratory for the year ended December 31, 2018. Early application is permitted for all entities. The Laboratory is in the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The core principle of ASU 2016-02 is that lessees will recognize assets and liabilities for most leases as either finance or operating leases. The guidance in ASU 2016-02 supersedes the FASB's current lease guidance in ASC Topic 840, Leases, and most industry-specific guidance. The provisions of ASU 2016-02 are effective for the Laboratory for the year ended December 31, 2020. Early application is permitted for all entities. The Laboratory is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 will clarify the principles for recognizing revenue and improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. This standard, as amended, is effective for the Laboratory for the year ended December 31, 2018, including interim periods within that reporting period. Early application is not permitted. The standard will be applied using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of net assets at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. The Laboratory is in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Comparative Financial Statements

The accompanying consolidated statement of activities is presented with certain 2016 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Laboratory's 2016 consolidated financial statements from which the summarized comparative information was derived.

Reclassifications

Certain reclassifications were made to the 2016 consolidated financial statements to conform to the 2017 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as previously reflected in the 2016 consolidated financial statements.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

3. INVESTMENTS

Fair value of investments at December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents held for investment	\$ 45,287,123	\$ 64,040,453
Mutual funds		
Large/mid cap growth	82,711,404	63,817,104
Diversified fixed income	20,670,448	24,556,206
Stocks - domestic	21,095,491	18,728,704
Alternative investments		
Multi-strategy, fund of funds, and absolute return	152,559,306	149,852,341
Long/short equity	114,141,916	77,544,798
International equity	87,301,848	64,848,416
Emerging markets	4,812,101	7,676,204
Aggressive fixed income	-	1,840,893
Private equity	3,246,897	71,975
	<u>\$ 531,826,534</u>	<u>\$ 472,977,094</u>

Cash and cash equivalents held for investment represents money market funds that are held on a short-term basis as part of the investment portfolio, which will be invested upon the direction of the Investment Committee of the Trustees.

Stocks principally include publicly traded common stock holdings in domestic organizations. Also included are the Laboratory's investments in common and preferred stock holdings in biotechnology companies principally received for Laboratory-developed intellectual property, as discussed in Note 2. The biotechnology companies have a fair value of approximately \$608,000 and \$508,000 for the years ended December 31, 2017 and 2016, respectively, net of a valuation allowance of approximately \$2,637,000, on the shares that do not have a readily determinable fair value.

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.

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.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2017 (with comparative financial information for the year ended December 31, 2016)

3. INVESTMENTS (CONTINUED)

The Laboratory's alternative investments are diversified across five basic investment strategies as follows (amounts included are as of December 31, 2017):

Multi-strategy, fund of funds, and absolute return (\$152,559,306) - 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 (\$114,141,916) - 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 (\$87,301,848) - consists of investments in both growth and value oriented equity securities of companies located outside the United States. Investment instruments include convertible investment grade securities, options, warrants, physical currencies, spot and forward currency contracts.

Emerging markets (\$4,812,101) - 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.

Private equity (\$3,246,897) - consists of investments in private equity funds including buyouts and growth capital, international private equity, and other stressed and distressed opportunities. At December 31, 2017, the Laboratory had outstanding commitments of \$12,217,307.

Alternative investments contain various redemption restrictions with required written notice ranging from 5 to 90 days. In addition, certain of these investments are restricted by initial lockup periods.

As of December 31, 2017, 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>
Weekly-Monthly	\$ 114,390,525
2-3 Months	140,653,573
Semiannual	21,649,726
Annual	67,282,805
No redemptions	3,437,028
Lockup expiring 2019	5,295,938
Lockup expiring 2020	9,352,473
	<u>\$ 362,062,068</u>

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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:

Financial Assets	2017			
	Fair Value	Level 1	Level 2	Level 3
Investment in employee residences	\$ 6,348,606	\$ -	\$ -	\$ 6,348,606
Limited liability partnership (1)	246,000	-	-	246,000
Investments				
Money market funds	45,287,123	45,287,123	-	-
Mutual funds				
Large/mid cap growth	82,711,404	82,711,404	-	-
Diversified fixed income	20,670,448	20,670,448	-	-
Stocks - domestic	21,095,491	20,487,906	-	607,585
Subtotal	169,764,466	169,156,881	-	607,585
Investments at NAV				
Alternative investments				
Multi-strategy, fund of funds, and absolute return	152,559,306	-	-	-
Long/short equity	114,141,916	-	-	-
International equity	87,301,848	-	-	-
Emerging markets	4,812,101	-	-	-
Private equity	3,246,897	-	-	-
Subtotal	362,062,068	-	-	-
Total investments	531,826,534	169,156,881	-	607,585
Total assets at fair value	\$ 538,421,140	\$ 169,156,881	\$ -	\$ 7,202,191

(1) Included in other assets on the consolidated balance sheet.

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4. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial Assets	2016			
	Fair Value	Level 1	Level 2	Level 3
Investment in employee residences	\$ 6,000,849	\$ -	\$ -	\$ 6,000,849
Limited liability partnership (1)	246,000	-	-	246,000
Investments				
Money market funds	64,040,453	64,040,453	-	-
Mutual funds				
Large/mid cap growth	63,817,104	63,817,104	-	-
Diversified fixed income	24,556,206	24,556,206	-	-
Stocks - domestic	18,728,704	18,221,109	-	507,595
Subtotal	171,142,467	170,634,872	-	507,595
Investments at NAV				
Alternative investments				
Multi-strategy, fund of funds, and absolute return	149,852,341	-	-	-
Long/short equity	77,544,798	-	-	-
International equity	64,848,416	-	-	-
Emerging markets	7,676,204	-	-	-
Aggressive fixed income	1,840,893	-	-	-
Private equity	71,975	-	-	-
Subtotal	301,834,627	-	-	-
Total investments	472,977,094	170,634,872	-	507,595
Total assets at fair value	\$ 479,223,943	\$ 170,634,872	\$ -	\$ 6,754,444

(1) Included in other assets on the consolidated balance sheet.

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Notes to Consolidated Financial Statements

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5. CONTRIBUTIONS RECEIVABLE, NET

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

	<u>2017</u>	<u>2016</u>
Contributions receivable	\$ 87,404,094	\$ 58,631,137
Less: Discount to present value at rates ranging from 0.00% to 3.76%	(11,043,828)	(10,371,519)
Reserve for bad debts	(1,600,000)	(906,000)
Contributions receivable, net	<u>\$ 74,760,266</u>	<u>\$ 47,353,618</u>

Contributions receivable are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
Within one year	\$ 22,431,350	\$ 10,919,718
One to five years	46,612,716	29,253,000
More than five years	18,360,028	18,458,419
	<u>\$ 87,404,094</u>	<u>\$ 58,631,137</u>

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue. Contributions receivable at December 31, 2017 included twenty-five individual pledges, five of which represent approximately 71% of the amount due, with a total of \$36 million due from two donors and \$6 million due from board members.

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 \$4,578,000 and \$5,293,000 at December 31, 2017 and 2016, respectively.

6. RESTRICTED USE ASSETS

Restricted use assets principally include two supplemental executive retirement plans (SERP) established by the Laboratory 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, 2017 and 2016, the fair value of the assets in the trusts was \$3,692,042 and \$3,170,241, respectively.

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7. INVESTMENT IN EMPLOYEE RESIDENCES

Investments in employee residences 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:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 17,093,272	\$ 16,925,453
Buildings	284,190,301	281,762,894
Furniture, fixtures, and equipment	26,515,487	26,559,453
Laboratory equipment	68,891,096	65,593,194
Library books and periodicals	365,630	365,630
Construction in progress	10,485,590	2,444,362
	<u>407,541,376</u>	<u>393,650,986</u>
Less accumulated depreciation and amortization	(172,295,478)	(164,557,326)
Land, buildings, and equipment, net	<u>\$ 235,245,898</u>	<u>\$ 229,093,660</u>

Construction in progress represents the cost of various campus renovations ongoing at the Laboratory. In 2016, the Laboratory began a renovation of the Demerec Laboratory Center for Therapeutic Research with accumulated costs of approximately \$8.4 million and \$1.2 million reported at December 31, 2017 and 2016, respectively. Anticipated completion of the project is scheduled for December 2018.

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 (1.60% as of December 31, 2017), and are secured

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9. BONDS PAYABLE (CONTINUED)

by a revolving letter-of-credit agreement issued by a financial institution scheduled to expire on June 24, 2018. 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, 2017 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. On June 25, 2008, the interest rate mode on the bonds was converted to a variable daily rate. On June 19, 2012, the interest rate mode on the bonds was converted to a bank purchase rate consisting of a fixed percent 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, 2025, 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 believes it is in compliance with the required covenants as of December 31, 2017. 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 (1.4722% as of December 31, 2017).

In April 2006, the Laboratory entered into an interest rate swap agreement with a notional principal amount of \$97.2 million 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 \$31,345,495 and \$32,713,773 at December 31, 2017 and 2016, 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 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 bonds payable as a direct deduction to the outstanding balance of \$97.2 million at December 31, 2017 and 2016. Financing costs, net of amortization, were \$1,458,573 and \$1,524,843 at December 31, 2017 and 2016, respectively.

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9. BONDS PAYABLE (CONTINUED)

Interest expense on bonds outstanding during 2017 and 2016 was \$3,889,900 and \$3,810,170, respectively. The effective average interest rate on all of the bonds outstanding during 2017 and 2016 approximated 4.00% and 3.92%, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Capital projects	\$ 12,930,029	\$ 12,756,853
Research programs	41,852,856	23,364,039
Educational programs	1,760,239	1,913,939
Time restricted	46,990,410	27,673,620
Unappropriated income on endowment funds		
Primary program services	130,222,782	113,983,189
Watson School of Biological Sciences programs	16,353,505	11,442,804
Operation and improvement of Banbury Center facilities	16,052,557	14,637,664
	<u>\$ 266,162,378</u>	<u>\$ 205,772,108</u>

The following table summarizes the net assets released from restrictions for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Purpose restrictions accomplished	\$ 13,016,781	\$ 18,191,645
Time restriction expired	5,185,750	9,473,795
	<u>\$ 18,202,531</u>	<u>\$ 27,665,440</u>

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:

	<u>2017</u>	<u>2016</u>
Primary program services	\$ 75,258,080	\$ 71,203,791
Watson School of Biological Sciences programs	41,292,782	41,281,282
Operation and improvement of Banbury Center facilities	1,511,804	1,511,804
	<u>\$ 118,062,666</u>	<u>\$ 113,996,877</u>

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Notes to Consolidated Financial Statements

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12. INVESTMENT RETURN UTILIZED

Investment return utilized includes amounts appropriated from donor-restricted endowment funds, as reported in Note 13, and investment return on working capital funds. The following tables summarize the Laboratory's total investment return for the years ended December 31:

	2017		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends on investments	\$ 3,506,377	\$ 1,112,622	\$ 4,618,999
Net appreciation of investments	40,175,967	21,393,271	61,569,238
Total investment return	43,682,344	22,505,893	66,188,237
Investment return utilized	(21,297,672)	-	(21,297,672)
Investment return excluding amount utilized	\$ 22,384,672	\$ 22,505,893	\$ 44,890,565

	2016		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends on investments	\$ 3,194,267	\$ 69,774	\$ 3,264,041
Net appreciation of investments	17,929,921	-	17,929,921
Total investment return	21,124,188	69,774	21,193,962
Investment return utilized	(18,455,646)	-	(18,455,646)
Investment return excluding amount utilized	\$ 2,668,542	\$ 69,774	\$ 2,738,316

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13. ENDOWMENT FUNDS

The Laboratory's endowment consists of approximately 150 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 U.S. 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 are subject to the provisions of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). 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.

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

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13. ENDOWMENT FUNDS (CONTINUED)

In 2017, in accordance with the Laboratory's spending rate policy, the Trustees authorized a 4.5% 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, \$20,028,629 and \$18,330,066 were made available to support operations of the Laboratory for the years ended December 31, 2017 and 2016, respectively. The total planned appropriation for expenditure for the year ending December 31, 2018 is approximately \$21,600,000.

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 U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,824,305 and \$2,140,712 at December 31, 2017 and 2016, 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, which resulted from specific language of the gift instrument requiring appropriation regardless of fund balance were \$1,545,503 and \$2,099,847 at December 31, 2017 and 2016, respectively.

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ (1,824,305)	\$ 162,628,844	\$ 118,062,666	\$ 278,867,205
Board-designated	255,857,534	-	-	255,857,534
Total endowment funds	\$ 254,033,229	\$ 162,628,844	\$ 118,062,666	\$ 534,724,739

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13. ENDOWMENT FUNDS (CONTINUED)

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year	\$ 224,182,004	\$ 140,063,657	\$ 113,996,877	\$ 478,242,538
Investment income	3,187,695	1,112,622	-	4,300,317
Net appreciation (realized and unrealized)	39,225,606	21,393,271	-	60,618,877
Total investment return	42,413,301	22,505,893	-	64,919,194
Contributions	-	59,294	4,065,789	4,125,083
Appropriation of endowment assets for expenditure	(20,028,629)	-	-	(20,028,629)
Transfer to board-designated endowment	7,466,553	-	-	7,466,553
Endowment net assets at end of year	<u>\$ 254,033,229</u>	<u>\$ 162,628,844</u>	<u>\$ 118,062,666</u>	<u>\$ 534,724,739</u>

Included in amounts above is approximately \$4.7 million in pledges receivable.

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted	\$ (2,140,712)	\$ 140,063,657	\$ 113,996,877	\$ 251,919,822
Board-designated	226,322,716	-	-	226,322,716
Total endowment funds	<u>\$ 224,182,004</u>	<u>\$ 140,063,657</u>	<u>\$ 113,996,877</u>	<u>\$ 478,242,538</u>

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13. ENDOWMENT FUNDS (CONTINUED)

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 203,798,288	\$ 139,940,950	\$ 114,113,727	\$ 457,852,965
Investment income	3,129,536	69,774	-	3,199,310
Net appreciation (realized and unrealized)	17,869,072	-	-	17,869,072
Total investment return	20,998,608	69,774	-	21,068,382
Contributions	5,020	52,933	883,150	941,103
Appropriation of endowment assets for expenditure	(18,330,066)	-	-	(18,330,066)
Transfer to board-designated endowment	16,710,154	-	-	16,710,154
Contribution reclassification due to change in donor intent	1,000,000	-	(1,000,000)	-
Endowment net assets at end of year	\$ 224,182,004	\$ 140,063,657	\$ 113,996,877	\$ 478,242,538

Included in amounts above is approximately \$6.3 million in pledges receivable.

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, and publications. Expenses reported as general and administrative, and dining services, are incurred in support of these primary program services. General and administrative expenses include approximately \$1,565,000 and \$1,763,000 of fund-raising expenses in 2017 and 2016, 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.

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14. EXPENSES (CONTINUED)

	2017			2016		
	Direct Functional Expenses	Allocated Expenses	Total	Direct Functional Expenses	Allocated Expenses	Total
Research	\$ 61,563,797	\$ 35,094,965	\$ 96,658,762	\$ 56,395,179	\$ 33,986,009	\$ 90,381,188
Educational programs	14,764,921	3,627,655	18,392,576	14,847,627	3,601,645	18,449,272
Publications	8,575,007	648,363	9,223,370	8,238,548	642,253	8,880,801
Banbury Center conferences	738,103	860,700	1,598,803	705,852	839,655	1,545,507
DNA Learning Center programs	1,657,251	511,824	2,169,075	1,863,892	521,899	2,385,791
WSBS programs	2,781,770	329,930	3,111,700	2,646,922	302,539	2,949,461
General and administrative	15,477,171	2,885,024	18,362,195	15,022,500	2,857,256	17,879,756
Dining services	4,955,395	1,516,189	6,471,584	4,446,615	1,502,919	5,949,534
	<u>\$ 110,513,415</u>	<u>\$ 45,474,650</u>	<u>\$ 155,988,065</u>	<u>\$ 104,167,135</u>	<u>\$ 44,254,175</u>	<u>\$ 148,421,310</u>

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 \$4,301,000 and \$4,196,000 for the years ended December 31, 2017 and 2016, respectively.

16. COMMITMENTS AND CONTINGENCIES

On November 21, 2008, the Laboratory entered into a ten-year non-cancelable operating lease beginning on January 1, 2009 for property located at 50 Gordon Drive, Syosset, New York. On June 27, 2014, the Laboratory extended the lease through December 31, 2023. The average monthly rental is \$24,508, or approximately \$1,881,495, over the remaining lease term.

The Laboratory is self-insured for employee medical and prescription benefits beginning January 1, 2008. Under the provisions of this plan, an insurance carrier provided 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, 2017. The expense for the program was approximately \$9,889,000 and \$9,330,000 for the years ended December 31, 2017 and 2016, respectively. The Laboratory accrued approximately \$1.2 million for liabilities relating to claims incurred but not reported which are included in accounts payable and accrued expenses for both the years ended December 31, 2017 and 2016.

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.

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17. SUBSEQUENT EVENTS

The Laboratory evaluated events subsequent to December 31, 2017 through June 7, 2018, the date on which the consolidated financial statements were issued and determined there were no subsequent events to disclose.