Consolidated Financial Statements and
Report of Independent Certified Public Accountants

COLD SPRING HARBOR LABORATORY

For the years ended December 31, 2018 and 2017

COLD SPRING HARBOR LABORATORY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Cold Spring Harbor Laboratory:

We have audited the accompanying consolidated financial statements of Cold Spring Harbor Laboratory (the "Laboratory"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years 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 accounting principles generally accepted in the United States of America; 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Melville, New York
April 30, 2019

COLD SPRING HARBOR LABORATORY
Consolidated Balance Sheets
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 121,078,957	$ 64,179,016
Grants receivable	7,730,792	8,948,017
Contributions receivable, net	70,177,263	74,760,266
Investments	535,006,949	531,826,534
Investment in employee residences	6,811,348	6,348,606
Restricted use assets	1,975,292	4,070,570
Other assets	6,186,059	11,190,405
Land, buildings and equipment, net	249,420,636	235,245,898
Total assets	$ 998,387,296	$ 936,569,312
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 12,948,173	$ 15,888,844
Deferred revenue	81,386,316	5,601,953
Interest rate swap	25,281,037	31,345,495
Bonds payable	95,807,696	95,741,427
Total liabilities	215,423,222	148,577,719
Commitments and contingencies		
NET ASSETS		
Without donor restrictions	426,827,607	403,766,549
With donor restrictions	356,136,467	384,225,044
Total net assets	782,964,074	787,991,593
Total liabilities and net assets	$ 998,387,296	$ 936,569,312

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

COLD SPRING HARBOR LABORATORY
Consolidated Statements of Activities
For the years ended December 31, 2018 and 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenue and other support				
Public support - contributions and nonfederal grant awards	$ 20,329,363	$ 42,493,880	$ 62,823,243	$ 84,901,067
Federal grant awards	44,976,944	-	44,976,944	34,668,573
Indirect cost allowances	36,554,683	-	36,554,683	31,719,355
Investment return utilized	22,641,750	-	22,641,750	21,297,672
Royalty and license revenue	17,005,951	-	17,005,951	13,399,961
Program fees	7,990,826	-	7,990,826	8,741,475
Publications sales	9,564,563	-	9,564,563	9,411,102
Dining services	4,898,093	-	4,898,093	4,993,409
Rooms and apartments	3,739,034	-	3,739,034	3,922,034
Miscellaneous	751,769	-	751,769	663,437
Net assets released from restrictions	45,768,002	(45,768,002)	-	-
Total revenue and other support	214,220,978	(3,274,122)	210,946,856	213,718,085
Expenses				
Research	106,880,122	-	106,880,122	96,658,762
Educational programs	18,950,499	-	18,950,499	18,392,576
Publications	8,768,554	-	8,768,554	9,223,370
Banbury Center conferences	2,301,320	-	2,301,320	2,407,363
DNA Learning Center programs	3,860,017	-	3,860,017	4,044,790
Watson School of Biological Sciences programs	3,199,759	-	3,199,759	3,111,700
General and administrative	30,841,520	-	30,841,520	22,149,504
Total expenses	174,801,791	-	174,801,791	155,988,065
Excess (deficiency) of revenue and other support over expenses	39,419,187	(3,274,122)	36,145,065	57,730,020
Other changes in net assets				
Investment (loss) return (including) excluding amount utilized	(24,246,892)	(22,990,150)	(47,237,042)	44,890,565
Change in fair value of interest rate swap	6,064,458	-	6,064,458	1,368,278
Reclassification to implement ASU 2016-14	1,824,305	(1,824,305)	-	-
Increase (decrease) in net assets	23,061,058	(28,088,577)	(5,027,519)	103,988,863
Net assets at beginning of year	403,766,549	384,225,044	787,991,593	684,002,730
Net assets at end of year	$ 426,827,607	$ 356,136,467	$ 782,964,074	$ 787,991,593

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

COLD SPRING HARBOR LABORATORY
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
(Decrease) increase in net assets	$ (5,027,519)	$ 103,988,863
Adjustments to reconcile (decrease) increase in net assets		
to net cash provided by operating activities		
Change in fair value of interest rate swap	(6,064,458)	(1,368,278)
Depreciation and amortization	13,140,747	13,441,446
Amortization of deferred bond costs	66,269	66,270
Net depreciation (appreciation) in fair value of investments	29,986,414	(62,254,634)
Contributions restricted for long-term investment	(18,810,536)	(12,059,874)
Changes in assets and liabilities		
Grants receivable	1,217,225	(881,047)
Contributions receivable, net	20,118,950	(23,650,821)
Restricted use assets	2,095,278	(548,515)
Other assets	5,004,346	(4,866,945)
Accounts payable and accrued expenses, net of financing activities	(6,994,843)	3,746,487
Deferred revenue	75,784,363	(3,523,528)
Net cash provided by operating activities	110,516,236	12,089,424
Cash flows from investment activities		
Capital expenditures	(27,315,485)	(19,593,684)
Proceeds from sales and maturities of investments	108,718,791	100,074,927
Purchases of investments	(141,885,620)	(96,669,733)
Net changes in investment in employee residences	(462,742)	(347,757)
Net cash used in investment activities	(60,945,056)	(16,536,247)
Cash flows from financing activities		
Contributions restricted for long-term investment	900,022	4,065,789
Contributions restricted for investment in capital	17,910,514	7,994,085
Increase in contributions receivable	(15,535,947)	(3,755,827)
Decrease in accounts payable relating to capital expenditures	4,054,172	2,112,316
Net cash provided by financing activities	7,328,761	10,416,363
Net increase in cash and cash equivalents	56,899,941	5,969,540
Cash and cash equivalents at beginning of year	64,179,016	58,209,476
Cash and cash equivalent at end of year	$ 121,078,957	$ 64,179,016
Supplemental disclosure:		
Interest paid	$ 3,762,449	$ 3,886,138

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

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. The license, originally a ten year term expiring in 2018, was renewed for an additional ten year term through December 31, 2028.

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 receives income from unrelated activities including advertising income on its journals and various alternative investment vehicles. 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.

1. DESCRIPTION OF BUSINESS (CONTINUED)

Provisions for both local and unrelated business income taxes are included in accounts payable and accrued expenses in the 2018 and 2017 consolidated balance sheets. The Laboratory estimates unrelated business income tax expense of $200,000 in 2018 and paid $120,932 in 2017.

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 two classes of net assets as follows:

Net assets without donor restrictions - 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 gifts without restrictions, 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 gifts with restrictions whose donor-imposed restrictions were met in the year received, through the passage of time, or through fulfillment of the restricted purpose.

Net assets with donor restrictions - 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 donor restrictions on net assets are reported as net assets released from restrictions in the accompanying consolidated statement of activities. This category also includes 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) these 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. Cash equivalents approximated $111,763,000 and $51,320,000 at December 31, 2018 and 2017, 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, amortization of deferred revenue, the determination of medical and prescription benefit costs and the related liability, and the allocation of expenses to their functional classification.

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 5):

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, 2018 or 2017.

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 and are sold as soon as practicable following receipt. 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.

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 investment return, in other changes in net assets, 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 charges in 2018 and 2017.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

On June 12, 2018, the Laboratory entered into a royalty purchase agreement for the right, title and interest in, and to, the future sales ("Purchased Receivables") associated with a drug created based upon Laboratory technology. The Laboratory received a $127,500,000 upfront payment. The payment was distributed in accordance with the Laboratory's Commercial Relations Policy. The Laboratory accounted for the retained portion of the sale of the Purchased Receivables in accordance with ASC 470-10-25, *Sales of Future Revenues or Various Other Measures of Income*, which resulted in the deferral of revenue recognition over the life of the patent using the units of revenue method. Future revenues require amortization for the period being calculated by computing a ratio of the proceeds received to the total payments expected to be made over the term of the agreement, and then applying that ratio to the period's cash payment. For the year ending December 31, 2018, the Laboratory recognized approximately $9,100,000 in royalty revenue pertaining to the Purchased Receivables. The retained cash proceeds received from the investor were designated by the Trustees to function as an endowment, whereby the income generated from such funds will be used to support ongoing research programs.

Deferred revenue also includes 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 revenue without donor restrictions 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and recognized by the Laboratory is recorded on the consolidated statement of activities as royalty and license revenue.

Recently Adopted Accounting Standards

In August 2016, the Financial Accounting Standards Board ("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"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The Laboratory adopted ASU 2016-14, as required, on January 1, 2018. The significant changes to the financial statements include:

- Requiring the presentation of two net asset classes classified as "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and,
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

Net assets reclassified from assets without donor restrictions to assets with donor restrictions resulting from the adoption of ASU 2016-14 totaled $1,824,305.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606"). The Laboratory adopted ASC 606 on January 1, 2018. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

a. Step 1: Identify the contract(s) with a customer.

b. Step 2: Identify the performance obligations in the contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Step 3: Determine the transaction price.

d. Step 4: Allocate the transaction price to the performance obligations in the contract.

e. Step 5: Recognize revenue when (or as) the Laboratory satisfies a performance obligation.

The Laboratory recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the Laboratory expects to be entitled to in exchange for those goods or services. ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Laboratory has identified royalty and license revenue (excluding the Purchased Receivables), program fees, publication sales, dining services, and rooms and apartments, as revenue categories subject to the adoption of ASC 606. The Laboratory recognizes contracts with customers, other than royalties and licenses, as goods or services transferred or provided in accordance with ASC 606.

The results of applying ASC 606 using the modified retrospective approach did not have a material impact on the consolidated balance sheets, statements of activities, cash flows, business processes, controls or systems of the Laboratory.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"). 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, 2019. 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 June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 requires the Laboratory to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the Laboratory is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. The provisions of ASU No. 2018-08 are effective for the Laboratory for the year ended December 31, 2019. The Laboratory is currently evaluating the impact this standard will have on the consolidated financial statements.

Reclassifications

Certain reclassifications were made to the 2017 consolidated financial statements to conform to the 2018 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as previously reflected in the 2017 consolidated financial statements.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Laboratory regularly monitors the availability of resources required to meet operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Laboratory considers all expenditures related to its ongoing activities of research, educational programs and publications, as well as, the conduct of services to support those activities.

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure were as follows:

	2018
Financial assets due within one year:	
Cash and cash equivalents	$ 121,078,957
Grants receivable, net	7,730,792
Contributions receivable due within one year	41,094,818
Investments	535,006,949
	704,911,516
Less:	
Amounts unavailable for general expenditures within one year due to:	
Donor restricted gifts for research programs	25,165,607
Donor restricted gifts for capital projects	36,695,298
Donor restricted gifts for educational programs	1,962,863
Restricted by donor in perpetuity	118,962,688
Unappropriated accumulated endowment gains	137,880,798
Total amounts unavailable due to donor restrictions or law	320,667,254
Total financial assets available to management for general expenditure before amounts subject to the Trustee's approval	384,244,262
Less board designated funds:	
Quasi-endowment	284,223,891
Cash held for future investment	60,720,041
Reserve for recruiting	11,480,791
	356,424,723
Total financial assets available for general expenditure before endowment draw	27,819,539
Plus:	
Amounts authorized for appropriation within one year	23,602,174
Total financial assets available for general expenditure within one year	$ 51,421,713

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (CONTINUED)

The Laboratory's Trustees have designated a portion of its net assets without donor restrictions for endowment and other purposes. These amounts are identified in the table above as board designated funds. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Trustees.

In addition to financial assets available to meet general expenditures over the next 12 months, the Laboratory operates with a balanced budget and anticipates collecting sufficient revenue, including federal funds, to cover general expenditures not covered by donor-restricted resources. The Laboratory typically generates positive cash flows from operations, as evidenced by the statement of cash flows for calendar years 2018 and 2017.

4. INVESTMENTS

Fair value of investments at December 31 is as follows:

	2018	2017
Mutual funds:		
Money market	$ 62,681,412	$ 45,287,123
Large/mid cap growth	81,102,331	82,711,404
Diversified fixed income	20,869,139	20,670,448
Stocks - domestic	17,782,564	21,095,491
Alternative investments:		
Multi-strategy, fund of funds, and absolute return	130,375,107	152,559,306
Long/short equity	124,926,688	114,141,916
International equity	87,299,009	87,301,848
Emerging markets	4,133,367	4,812,101
Private equity	5,837,332	3,246,897
	$ 535,006,949	$ 531,826,534

Money market mutual funds represent cash held for investment 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 $663,000 and $608,000 for the years ended December 31, 2018 and 2017, respectively, net of a valuation allowance of approximately $2,445,000 and $2,637,000, respectively, on the shares that do not have a readily determinable fair value.

4. INVESTMENTS (CONTINUED)

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.

The Laboratory's alternative investments are diversified across five basic investment strategies as follows (amounts included are as of December 31, 2018):

Multi-strategy, fund of funds, and absolute return ($130,375,107) - 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 ($124,926,688) - 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 ($87,299,009) - 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 ($4,133,367) - 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 ($5,837,332) - consists of investments in private equity funds including buyouts and growth capital, international private equity, and other stressed and distressed opportunities. At December 31, 2018, the Laboratory had outstanding commitments of $6,972,005.

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.

4. INVESTMENTS (CONTINUED)

As of December 31, 2018, the following table summarizes the composition of the alternative investments at fair value of such investments by the various redemption provisions and lockup periods:

Weekly-Monthly	$ 122,312,517
2-3 Months	92,910,803
Semiannual	29,255,993
Annual	67,358,905
No redemptions	5,945,471
Lockups expiring 2020 - 2022	34,787,814
	$ 352,571,503

5. 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:

	2018			
Financial Assets	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investment in employee residences	$ 6,811,348	$ -	$ -	$ 6,811,348
Limited liability partnership (1)	246,000	-	-	246,000
Investments:				
Mutual funds:				
Money market	62,681,412	62,681,412	-	-
Large/mid cap growth	81,102,331	81,102,331	-	-
Diversified fixed income	20,869,139	20,869,139	-	-
Stocks - domestic	17,782,564	17,119,810	-	662,754
Subtotal	182,435,446	181,772,692	-	662,754
Investments at NAV:				
Alternative investments:				
Multi-strategy, fund of funds, and absolute return	130,375,107	-	-	-
Long/short equity	124,926,688	-	-	-
International equity	87,299,009	-	-	-
Emerging markets	4,133,367	-	-	-
Private equity	5,837,332	-	-	-
Subtotal	352,571,503	-	-	-
Total investments	535,006,949	181,772,692	-	662,754
Total assets at fair value	$ 542,064,297	$ 181,772,692	$ -	$ 7,720,102

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

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

	2017			
Financial Assets	**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:				
Mutual funds:				
Money market	45,287,123	45,287,123	-	-
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 sheets.

6. CONTRIBUTIONS RECEIVABLE, NET

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

	2018	2017
Contributions receivable	$ 81,008,349	$ 87,404,094
Less: Discount to present value at rates ranging from 1.26% to 3.76%	(9,775,086)	(11,043,828)
Reserve for bad debts	(1,056,000)	(1,600,000)
Contributions receivable, net	$ 70,177,263	$ 74,760,266

6. CONTRIBUTIONS RECEIVABLE, NET (CONTINUED)

Contributions receivable are expected to be collected as follows:

	2018	2017
Within one year	$ 41,094,818	$ 22,431,350
One to five years	22,490,000	46,612,716
More than five years	17,423,531	18,360,028
	$ 81,008,349	$ 87,404,094

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, 2018 included twenty-nine individual pledges, five of which represent approximately 76% of the amount due, with a total of $43 million due from two donors, and $6 million due from Trustees.

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 $4,865,000 and $4,578,000 at December 31, 2018 and 2017, respectively.

7. 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, 2018 and 2017, the fair value of the assets in the trusts was $1,627,603 and $3,692,042, respectively.

8. INVESTMENT IN EMPLOYEE RESIDENCES

Investment in employee residences consists 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.

9. LAND, BUILDINGS, AND EQUIPMENT

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

	2018	2017
Land and land improvements	$ 17,276,912	$ 17,093,272
Buildings	286,819,491	284,190,301
Furniture, fixtures, and equipment	27,497,386	26,515,487
Laboratory equipment	73,958,831	68,891,096
Library books and periodicals	365,630	365,630
Construction in progress	27,592,061	10,485,590
	433,510,311	407,541,376
Less accumulated depreciation and amortization	(184,089,675)	(172,295,478)
Land, buildings, and equipment, net	$ 249,420,636	$ 235,245,898

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 $23.4 million and $8.4 million reported at December 31, 2018 and 2017, respectively. Anticipated completion of the project is scheduled for June 2019.

10. 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 require principal payments only at maturity on January 1, 2034, bear interest at a variable daily rate, which is payable on a monthly basis (1.48% as of December 31, 2018), and are secured by a revolving letter-of-credit agreement issued by a financial institution scheduled to expire on June 24, 2021. 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 was in compliance with the required covenants as of December 31, 2018 and 2017, and expects to renew the agreement upon expiration.

10. BONDS PAYABLE (CONTINUED)

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 was in compliance with the required covenants as of December 31, 2018 and 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 (2.162% as of December 31, 2018).

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 paid interest at a predetermined fixed rate of 3.802% and received 68% of 3-month LIBOR on the notional principal amount. On October 18, 2018, the swap agreement was amended, effective October 1, 2018. The Laboratory now pays interest at a predetermined fixed rate of 3.802% and receives 68% of the federal funds rate (reported daily as H.15), plus a spread on the notional principal amount.

The fair value of the interest rate swap was a liability of $25,281,037 and $31,345,495 at December 31, 2018 and 2017, respectively. The fair value of the interest rate swap was determined using pricing models developed based on the federal funds 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 statements 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, 2018 and 2017. Financing costs, net of amortization, were $1,392,304 and $1,458,573 at December 31, 2018 and 2017, respectively.

Interest expense on bonds outstanding during 2018 and 2017 was $3,723,100 and $3,889,900, respectively. The effective average interest rate on all of the bonds outstanding during 2018 and 2017 approximated 3.83% and 4.00%, respectively.

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31 are available for the following purposes or periods as follows:

	2018	2017
Net assets subject to expenditure for specified purposes or time periods:		
Capital projects	$ 13,751,959	$ 12,930,029
Research programs	37,616,347	41,852,856
Educational programs	1,962,863	1,760,239
Time restricted	45,961,812	46,990,410
Total subject to expenditure for specified purposes or time periods	99,292,981	103,533,534
Endowments subject to the Laboratory's spending policy:		
Donor contributions to be maintained in perpetuity:		
Primary program services	76,030,451	75,258,080
Watson School of Biological Sciences programs	41,420,433	41,292,782
Operation and improvement of Banbury Center facilities	1,511,804	1,511,804
Total donor contributions to be maintained in perpetuity	118,962,688	118,062,666
Unappropriated income on endowment funds available to support:		
Primary program services	111,982,261	130,222,782
Watson School of Biological Sciences programs	11,166,665	16,353,505
Operation and improvement of Banbury Center facilities	14,731,872	16,052,557
Total unappropriated income on endowment funds	137,880,798	162,628,844
Total endowment subject to appropriation under the Laboratory's spending policy	256,843,486	280,691,510
Total net assets with donor restrictions	$ 356,136,467	$ 384,225,044

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

	2018	2017
Purpose restrictions accomplished	$ 21,388,002	$ 13,016,781
Time restriction expired	24,380,000	5,185,750
	$ 45,768,002	$ 18,202,531

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 (loss) for the years ended December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends on investments	$ 3,210,523	$ 2,000,846	$ 5,211,369
Net depreciation of investments	(16,236,316)	(13,570,345)	(29,806,661)
Total investment loss	(13,025,793)	(11,569,499)	(24,595,292)
Investment return utilized	(11,221,099)	(11,420,651)	(22,641,750)
Investment loss including amount utilized	$ (24,246,892)	$ (22,990,150)	$ (47,237,042)

	2017		
	Without Donor Restrictions	With Donor Restrictions	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

13. ENDOWMENT FUNDS

The Laboratory's endowment consists of approximately 160 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

13. ENDOWMENT FUNDS (CONTINUED)

December 31, 2010 for all institutional endowment assets. The Laboratory and Robertson have interpreted the law as not 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 endowment funds within net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets with donor restrictions within the endowment fund are those net assets that have not yet been 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 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

In 2018 and 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, \$21,253,919 and \$20,028,629 were made available to support operations of the Laboratory for the years ended December 31, 2018 and 2017, respectively. The total planned appropriation for expenditure for the year ending December 31, 2019 is \$23,602,174.

13. ENDOWMENT FUNDS (CONTINUED)

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 are reported in net assets with donor restrictions and totaled $2,587,217 and $1,824,305 at December 31, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-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 $2,110,477 and $1,545,503 at December 31, 2018 and 2017, respectively.

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

	2018				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total	Total Endowment Funds
Donor-restricted:					
Underwater	$ -	$ 12,505,299	$ (2,587,217)	$ 9,918,082	$ 9,918,082
Other	-	106,457,389	140,468,015	246,925,404	246,925,404
Board-designated	284,223,891	-	-	-	284,223,891
Total endowment funds	$ 284,223,891	$ 118,962,688	$ 137,880,798	$ 256,843,486	$ 541,067,377

13. ENDOWMENT FUNDS (CONTINUED)

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

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets at beginning of year	$ 254,033,229	$ 280,691,510	$ 534,724,739
Investment income	2,592,887	2,000,847	4,593,734
Net depreciation (realized and unrealized)	(17,006,511)	(13,570,346)	(30,576,857)
Total investment return	(14,413,624)	(11,569,499)	(25,983,123)
Contributions	-	966,431	966,431
Appropriation of endowment assets for expenditure	(9,833,268)	(11,420,651)	(21,253,919)
Transfer to board-designated endowment	52,613,249	-	52,613,249
Reclassification to implement ASU 2016-14	1,824,305	(1,824,305)	-
Endowment net assets at end of year	$ 284,223,891	$ 256,843,486	$ 541,067,377

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

13. ENDOWMENT FUNDS (CONTINUED)

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

	2017				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total	Total Endowment Funds
Donor-restricted:					
Underwater	$ (1,824,305)	$ 8,407,731	$ -	$ 8,407,731	$ 6,583,426
Other	-	109,654,935	162,628,844	272,283,779	272,283,779
Board-designated	255,857,534	-	-	-	255,857,534
Total endowment funds	$ 254,033,229	$ 118,062,666	$ 162,628,844	$ 280,691,510	$ 534,724,739

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

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	$ 224,182,004	$ 254,060,534	$ 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	-	4,125,083	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	$ 254,033,229	$ 280,691,510	$ 534,724,739

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

14. ALLOCATED EXPENSES

Expenses are reported in the accompanying consolidated statement of activities by their program classifications. The Laboratory's primary program services are research, education, instructional training through meetings, courses and conferences, and publications. Expenses reported as general and administrative are incurred in support of these primary program services.

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 specific programs and support services using methods such as square footage, usage, and other financial methods determined by management and are consistently applied.

	2018			2017		
	Direct Program Expenses	Allocated Expenses	Total	Direct Program Expenses	Allocated Expenses	Total
Research	$ 72,588,480	$ 34,291,642	$ 106,880,122	$ 61,563,797	$ 35,094,965	$ 96,658,762
Educational programs	15,373,823	3,576,676	18,950,499	14,764,921	3,627,655	18,392,576
Publications	8,203,432	565,122	8,768,554	8,575,007	648,363	9,223,370
Banbury Center conferences	1,571,995	729,325	2,301,320	1,546,663	860,700	2,407,363
DNA Learning Center programs	3,478,948	381,069	3,860,017	3,532,966	511,824	4,044,790
WSBS programs	3,179,749	20,010	3,199,759	2,781,770	329,930	3,111,700
General and administrative	24,881,261	5,960,259	30,841,520	17,748,291	4,401,213	22,149,504
	$ 129,277,688	$ 45,524,103	$ 174,801,791	$ 110,513,415	$ 45,474,650	$ 155,988,065

15. FUNCTIONAL EXPENSES

Beginning in 2018, the Laboratory adopted ASU 2016-14 as described in Note 2, which includes the requirement for all not-for-profits to present an analysis of expenses by function and nature in a separate statement or in the notes to the financial statements. The following table represents functional expenses by natural category reported for research, educational, and publication categories, including direct conduct or management of those programs. In addition, general and administrative and fundraising costs are included as categories as required by ASU 2016-14. Included in general and administrative costs are all other unallocated costs associated with administration, accounting, human resources, sponsored programs, public affairs and dining. The salary and benefits of the Chief Executive Officer are allocated 50% to research programs, 40% to general and administrative costs and 10% to fundraising based on estimated effort throughout the year. These allocations are determined by management to be of a reasonable basis and are consistently applied.

15. FUNCTIONAL EXPENSES (CONTINUED)

The following table presents the functional expenses for the year ended December 31, 2018:

	Research	Educational Programs	Publications	General and Administrative	Fundraising	Total
Salaries, benefits and taxes	$ 49,799,596	$ 13,701,753	$ 4,470,296	$ 16,770,969	$ 1,319,014	$ 86,061,628
Supplies and office expense	19,218,040	2,268,475	178,099	2,200,070	60,043	23,924,727
Service contracts and repairs	15,583,709	772,803	14,980	313,563	347	16,685,402
Professional services	748,879	2,209,197	908,839	5,302,574	91,020	9,260,509
Printing and publications	1,700,384	352,870	2,566,401	210,292	28,653	4,858,600
Software licensing	1,067,433	440,008	77,896	216,809	334	1,802,480
Travel	741,907	1,299,834	140,514	72,774	5,410	2,260,439
Conferences	132,414	3,864,406	-	17,279	-	4,014,099
Occupancy	3,936,027	923,627	124,799	1,566,179	-	6,550,632
Interest	3,067,883	255,799	110,662	705,908	-	4,140,252
Depreciation	10,178,802	1,281,491	145,096	1,535,358	-	13,140,747
Miscellaneous	705,048	941,332	30,972	252,246	172,678	2,102,276
	$ 106,880,122	$ 28,311,595	$ 8,768,554	$ 29,164,021	$ 1,677,499	$ 174,801,791

16. 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 $4,516,000 and $4,301,000 for the years ended December 31, 2018 and 2017, respectively.

17. 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 $1,590,435, 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, 2018. The expense for the program was approximately $10,606,000 and $9,889,000 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

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.

18. SUBSEQUENT EVENTS

The Laboratory evaluated events subsequent to December 31, 2018 through April 30, 2019, the date on which the consolidated financial statements were issued and determined there were no subsequent events to disclose.