

Consolidated Financial Statements and
Report of Independent Certified Public Accountants

COLD SPRING HARBOR LABORATORY

For the years ended December 31, 2021 and 2020

COLD SPRING HARBOR LABORATORY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Cold Spring Harbor Laboratory

Report on the financial statements**Opinion**

We have audited the consolidated financial statements of Cold Spring Harbor Laboratory (the "Laboratory"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Laboratory as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Laboratory and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Laboratory's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Laboratory's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Melville, New York
April 29, 2022

COLD SPRING HARBOR LABORATORY
Consolidated Balance Sheets
As of December 31, 2021 and 2020

ASSETS	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 110,039,037	\$ 108,990,728
Grants receivable	11,023,970	8,898,818
Contributions receivable, net	109,223,435	112,118,879
Investments	785,156,520	730,782,048
Investment in employee residences	6,366,321	6,420,336
Restricted use assets	3,391,191	3,709,586
Other assets	7,585,315	6,831,860
Land, buildings, and equipment, net	<u>286,004,083</u>	<u>266,300,564</u>
Total assets	<u>\$ 1,318,789,872</u>	<u>\$ 1,244,052,819</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 11,290,659	\$ 17,736,905
Deferred revenue	42,817,598	54,961,017
Interest rate swap	33,914,521	41,196,290
Bonds payable	<u>96,006,502</u>	<u>95,940,233</u>
Total liabilities	<u>184,029,280</u>	<u>209,834,445</u>
Commitments and contingencies		
Net assets		
Without donor restrictions	695,295,250	598,160,188
With donor restrictions	<u>439,465,342</u>	<u>436,058,186</u>
Total net assets	<u>1,134,760,592</u>	<u>1,034,218,374</u>
Total liabilities and net assets	<u>\$ 1,318,789,872</u>	<u>\$ 1,244,052,819</u>

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, 2021 and 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenue and other support				
Public support - contributions and nonfederal grant awards	\$ 40,759,409	\$ 30,186,155	\$ 70,945,564	\$ 47,238,038
Federal grant awards	38,821,308	-	38,821,308	41,310,029
Indirect cost allowances	30,972,451	-	30,972,451	32,496,274
Investment return utilized	32,860,963	-	32,860,963	35,260,137
Royalty and license revenue	14,066,754	-	14,066,754	14,063,144
Program fees	6,177,475	-	6,177,475	6,027,763
Publications sales	9,193,214	-	9,193,214	9,665,668
Dining services	416,061	-	416,061	301,592
Rooms and apartments	1,036,749	-	1,036,749	1,162,678
Miscellaneous	996,292	-	996,292	945,231
Net assets released from restrictions	<u>58,910,562</u>	<u>(58,910,562)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>234,211,238</u>	<u>(28,724,407)</u>	<u>205,486,831</u>	<u>188,470,554</u>
Expenses				
Research	110,705,498	-	110,705,498	107,061,748
Educational programs	13,781,654	-	13,781,654	13,907,463
Publications	9,555,000	-	9,555,000	9,611,376
Banbury Center conferences	1,327,685	-	1,327,685	1,418,130
DNA Learning Center programs	5,414,845	-	5,414,845	4,467,315
School of Biological Sciences programs	2,966,837	-	2,966,837	2,973,914
General and administrative	<u>24,888,774</u>	<u>-</u>	<u>24,888,774</u>	<u>25,309,666</u>
Total expenses	<u>168,640,293</u>	<u>-</u>	<u>168,640,293</u>	<u>164,749,612</u>
Excess (deficiency) of revenue and other support over expenses	65,570,945	(28,724,407)	36,846,538	23,720,942
Other changes in net assets				
Investment return excluding amount utilized	24,282,348	32,131,563	56,413,911	45,901,739
Change in fair value of interest rate swap	<u>7,281,769</u>	<u>-</u>	<u>7,281,769</u>	<u>(8,128,837)</u>
Increase in net assets	97,135,062	3,407,156	100,542,218	61,493,844
Net assets at beginning of year	<u>598,160,188</u>	<u>436,058,186</u>	<u>1,034,218,374</u>	<u>972,724,530</u>
Net assets at end of year	<u>\$ 695,295,250</u>	<u>\$ 439,465,342</u>	<u>\$ 1,134,760,592</u>	<u>\$ 1,034,218,374</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Increase in net assets	\$ 100,542,218	\$ 61,493,844
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swap	(7,281,769)	8,128,837
Depreciation and amortization	16,065,677	14,740,266
Amortization of deferred bond costs	66,268	66,268
Net appreciation in fair value of investments	(73,881,062)	(75,871,001)
Contributions restricted for long-term investment	(3,810,763)	(3,911,559)
Changes in assets and liabilities:		
Grants receivable	(2,125,152)	(298,771)
Contributions receivable, net	13,930,309	20,319,211
Restricted use assets	318,395	(1,274,339)
Other assets	(753,454)	(971,593)
Accounts payable and accrued expenses	(6,446,246)	5,129,727
Deferred revenue	(12,143,419)	(13,170,825)
Net cash provided by operating activities	<u>24,481,002</u>	<u>14,380,065</u>
Cash flows from investing activities		
Capital expenditures	(35,769,196)	(25,994,841)
Proceeds from sales and maturities of investments	123,699,817	256,049,061
Purchases of investments	(104,193,227)	(236,146,835)
Net change in investment in employee residences	54,015	546,411
Net cash used in investing activities	<u>(16,208,591)</u>	<u>(5,546,204)</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	123,296	154,116
Contributions restricted for investment in capital	3,687,467	3,757,443
(Increase) decrease in contributions receivable	(11,034,865)	3,632,367
Net cash (used in) provided by financing activities	<u>(7,224,102)</u>	<u>7,543,926</u>
Net increase in cash and cash equivalents	1,048,309	16,377,787
Cash and cash equivalents at beginning of year	<u>108,990,728</u>	<u>92,612,941</u>
Cash and cash equivalents at end of year	<u>\$ 110,039,037</u>	<u>\$ 108,990,728</u>
Supplemental disclosure:		
Interest paid	<u>\$ 3,773,160</u>	<u>\$ 3,860,777</u>
Purchases of capital expenditures in accounts payable	<u>\$ 1,167,068</u>	<u>\$ 1,974,654</u>
Lease liability of right of use asset	<u>\$ 647,449</u>	<u>\$ 944,193</u>

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

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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, School of Biological Sciences” (“SBS”). 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 10-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.

In 2021, Cold Spring Harbor Laboratory continued to experience the negative effects of the COVID-19 pandemic. The possibility of an adverse impact on the Laboratory’s financial activities was first expressed in the Laboratory’s consolidated financial statements for the year ended December 31, 2019. Then, in 2020, the Laboratory saw revenues decline in federal programs, indirect cost revenues, and program fees including dining, and rooms and apartments, associated with the cancellation of nearly all of its in-person programs. These declines were a direct result of the impact of the pandemic, including federal and state travel restrictions, required social distancing, and maintaining a reduced on-site workforce through 2020 and 2021. During this time, however, the Laboratory maintained a robust research operation; while operating at reduced on-site staff levels, working both remotely, and seeing an increase in grant submissions. Many in-person education programs were able to successfully pivot to virtual programs during 2020 and were transforming to a hybrid model of both in-person and virtual by the end of 2021. Efforts put in place to reduce operating and capital expenses and preserve capital in 2020 were continued into 2021.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

1. DESCRIPTION OF BUSINESS (CONTINUED)

fund-raising and endowment support, assisted the Laboratory in generating a modest surplus of revenues over expenses in 2021, which it had also achieved in 2020.

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 their 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.

Provisions for both local and unrelated business income taxes are included in accounts payable and accrued expenses in the 2021 and 2020 consolidated balance sheets. The Laboratory estimates unrelated business income tax expense of \$30,000 in 2021 and paid \$4,156 in 2020.

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 \$83,837,900 and \$95,205,000 at December 31, 2021 and 2020, respectively.

COLD SPRING HARBOR LABORATORY
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2021 or 2020.
- 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.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or Robertson'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 and Robertson invest 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 or Robertson's proportionate share of the net assets of the investment managers, as reported by them and reviewed by Laboratory management for reasonableness.

The 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 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

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2021 or 2020.

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.

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 patented 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 Accounting Standards Codification (“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. 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. For the years ending December 31, 2021 and 2020, the Laboratory recognized approximately \$12 and \$13 million a year, respectively, in royalty revenue pertaining to the Purchased Receivables.

A significant portion of the Laboratory’s revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Laboratory has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue (refundable advances) in the consolidated balance sheets. The Laboratory received advanced payments of approximately \$370,400 and \$290,200 for the years ended December 31, 2021 and 2020, respectively, recognized in the consolidated balance sheets as a refundable advance. Deferred revenue also includes amounts received for publication subscriptions and fees received but not yet earned. Revenue is recognized in future periods as fees are earned and publications are shipped or made available to the subscriber.

Revenue

The Laboratory receives grants and contributions from a number of sources, including the federal government, foreign governments, private foundations, and other donors in support of primary programs of research and education. In 2019, the Laboratory adopted Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarified and improved the scope and the accounting guidance for contributions received and made, including guidance to help an entity evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether a contribution is conditional.

COLD SPRING HARBOR LABORATORY
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Laboratory recognizes government and private contracts and grants as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal, in accordance with ASU 2018-08. For contributions, revenue is recognized when a contribution becomes unconditional, that is, when the conditions on which they depend are substantially met. Grants are evaluated as to whether they qualify as exchange transactions or contributions. 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 sheets.

If a contract or grant agreement contains a right of return or right of release from the respective obligation provision on the part of the grantor and the agreement also contains a barrier to be overcome, the Laboratory recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome. Funds received in advance of conditions being met are reported as deferred revenue within the accompanying consolidated balance sheets. The Laboratory's conditional contributions, representing reimbursable federal contracts totaled approximately \$954,500 at December 31, 2020 which was recognized as revenues in 2021 as conditions were met.

In addition, the Laboratory receives payments from customers for goods or services associated with the educational programs offered by the Laboratory. Educational programs include programs through the Banbury Conference Center, DNA Learning Center, and the Meetings and Courses program. These programs generate revenues through program fees, dining services, and rooms and apartment fees. In accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Laboratory recognizes revenue when control of 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.

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 2021 the Laboratory negotiated a new agreement establishing an unadjusted final rate for the year ended December 31, 2020 and establishing a provisional rate for the calendar years 2021 thru 2023. As required under the agreement, an indirect cost proposal for the year ended December 31, 2021 is due on June 30, 2022. The Laboratory believes that, except for unforeseen changes in the federal regulations, the Laboratory should not be subject to a revision of its indirect cost rate through the end of 2023. 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 and recognized by the Laboratory is recorded on the consolidated statements of activities as royalty and license revenue.

COLD SPRING HARBOR LABORATORY

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards Update

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which became effective for the Laboratory year ended December 31, 2020. The Laboratory adopted ASU 2016-02 through a cumulative-effect adjustment and recognized the lease for the property located at 50 Gordon Drive, Syosset, New York. This standard requires lessees to record on the balance sheet a right-of-use (ROU) asset and lease liability based on the value of the discounted future lease payments. In adopting ASU 2016-02, the Laboratory elected to use practical expedients, including but not limited to, not reassessing past lease accounting and not recording assets or liabilities for leases with terms of one year or less. The commitment of this lease is further described in Note 17 – Commitments and Contingencies.

In March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contracts and other transactions that reference the London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued as a result of reference rate reform. The provisions of ASU No. 2020-04 are effective for certain reference rate-related contract modifications that occur during the period March 12, 2020 through December 31, 2022. The Laboratory adopted ASU 2020-04 during fiscal 2020 and applied the practical expedient under the ASU permitting adopters to change the designated benchmark interest rate. As a result, the adoption did not have a material impact on the Laboratory’s financial statements. The change of the designated benchmark interest rate is further discussed in Note 10 – Bonds Payable.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase the transparency of contributed nonfinancial assets. The new guidance requires contributed nonfinancial assets to be presented as a separate line item on the consolidated statement of activities, apart from cash and other financial asset contributions. This guidance also requires disclosure of the types of contributed nonfinancial assets and, whether the assets were monetized or utilized, a description of the policies for such assets, a description of donor-imposed restrictions on the contributions, and a description of the valuation techniques used to arrive at a fair value measure at initial recognition. ASU No. 2020-07 will be effective for the Laboratory for year ending December 31, 2022. The Laboratory is in the process of evaluating the impact this standard will have on the 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.

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 below 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.

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3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (CONTINUED)

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 statements of cash flows for 2021 and 2020.

As of December 31, 2021, financial assets and liquidity resources available within one year for general expenditure were as follows:

	<u>2021</u>
Financial assets due within one year:	
Cash and cash equivalents	\$ 110,039,037
Grants receivable, net	11,023,970
Contributions receivable due within one year	30,405,649
Investments	<u>785,156,520</u>
	<u>936,625,176</u>
Less:	
Amounts unavailable for general expenditures within one year due to:	
Donor-restricted gifts for research programs	22,511,908
Donor-restricted gifts for capital projects	1,825,000
Donor-restricted gifts for educational programs	1,916,517
Restricted by donor in perpetuity	119,489,763
Unappropriated accumulated endowment gains	<u>215,826,095</u>
Total amounts unavailable due to donor restrictions or law	<u>361,569,283</u>
Total financial assets available to management for general expenditure before amounts subject to the Trustees' approval	<u>575,055,893</u>
Less board designated funds:	
Quasi-endowment	451,942,397
Reserve for recruiting	5,165,303
Reserve for capital expansion	<u>80,110,891</u>
	<u>537,218,591</u>
Total financial assets available for general expenditure before endowment draw	37,837,302
Plus:	
Amounts authorized for appropriation within one year	<u>30,821,617</u>
Total financial assets available for general expenditure within one year	<u>\$ 68,658,919</u>

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3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (CONTINUED)

As of December 31, 2020, financial assets and liquidity resources available within one year for general expenditure were as follows:

	<u>2020</u>
Financial assets due within one year:	
Cash and cash equivalents	\$ 108,990,728
Grants receivable, net	8,898,818
Contributions receivable due within one year	34,633,833
Investments	<u>730,782,048</u>
	<u>883,305,427</u>
Less:	
Amounts unavailable for general expenditures within one year due to:	
Donor-restricted gifts for research programs	24,419,988
Donor-restricted gifts for capital projects	11,786,205
Donor-restricted gifts for educational programs	1,882,873
Restricted by donor in perpetuity	119,366,467
Unappropriated accumulated endowment gains	<u>183,694,533</u>
Total amounts unavailable due to donor restrictions or law	<u>341,150,066</u>
Total financial assets available to management for general expenditure before amounts subject to the Trustees' approval	<u>542,155,361</u>
Less board designated funds:	
Quasi-endowment	418,937,403
Reserve for recruiting	8,545,109
Reserve for capital expansion	<u>59,574,159</u>
	<u>487,056,671</u>
Total financial assets available for general expenditure before endowment draw	55,098,690
Plus:	
Amounts authorized for appropriation within one year	<u>28,439,346</u>
Total financial assets available for general expenditure within one year	<u>\$ 83,538,036</u>

COLD SPRING HARBOR LABORATORY
Notes to Consolidated Financial Statements
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4. INVESTMENTS

Fair value of investments at December 31 is as follows:

	<u>2021</u>	<u>2020</u>
Mutual funds:		
Money market	\$ 51,163,410	\$ 57,785,135
Large/mid cap growth	90,830,923	95,687,938
Diversified fixed income	34,387,995	29,502,240
Stocks - domestic	2,834,308	3,749,469
Alternative investments:		
Multi-strategy, fund of funds, and absolute return	137,690,996	132,976,272
Long/short equity	322,531,042	283,855,142
Global/international equity	109,620,035	96,199,814
Emerging markets	28,856,099	21,232,539
Private investments	7,241,712	9,793,499
	<u>\$ 785,156,520</u>	<u>\$ 730,782,048</u>

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 Committees of the Laboratory or of Robertson, as applicable.

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 \$532,000 for years ended December 31, 2021 and 2020, net of a valuation allowance of approximately \$2,088,000 and \$2,093,000, respectively, 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 but 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 sheets.

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4. INVESTMENTS (CONTINUED)

Alternative investments are diversified across five basic investment strategies as follows (amounts included are as of December 31, 2021):

Multi-strategy, fund of funds, and absolute return (\$137,690,996) - 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 (\$322,531,042) - 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.

Global/international equity (\$109,620,035) - 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. At December 31, 2021, the Laboratory had outstanding commitments of \$14,200,000.

Emerging markets (\$28,856,099) - 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 investments (\$7,241,712) - consists of investments in private funds, including buyouts and growth capital, international private equity, and other stressed and distressed opportunities. At December 31, 2021, the Laboratory had outstanding commitments of \$10,670,000.

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

As of December 31, 2021, 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	\$ 250,466,981
Two to three months	148,859,727
Semiannual	27,958,629
Annual	107,288,264
Lockups expiring 2023-2024	64,075,552
No redemptions	<u>7,290,731</u>
	<u>\$ 605,939,884</u>

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5. FAIR VALUE OF FINANCIAL ASSETS

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	2021			
	Fair Value	Level 1	Level 2	Level 3
Investment in employee residences	\$ 6,366,321	\$ -	\$ -	\$ 6,366,321
Limited liability partnership (1)	246,000	-	-	246,000
Investment in trust assets (2)	18,213,275	-	-	18,213,275
Investments:				
Mutual funds:				
Money market	51,163,410	51,163,410	-	-
Large/mid cap growth	46,875,547	46,875,547	-	-
Diversified fixed income	78,343,371	78,343,371	-	-
Stocks - domestic	2,834,308	2,302,316	-	531,992
Subtotal	<u>179,216,636</u>	<u>178,684,644</u>	<u>-</u>	<u>531,992</u>
Investments at net asset value ("NAV"):				
Alternative investments:				
Multi-strategy, fund of funds, and absolute return	137,690,996	-	-	-
Long/short equity	322,531,042	-	-	-
Global/international equity	109,620,035	-	-	-
Emerging markets	28,856,099	-	-	-
Private investments	7,241,712	-	-	-
Subtotal	<u>605,939,884</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>785,156,520</u>	<u>178,684,644</u>	<u>-</u>	<u>531,992</u>
Total assets at fair value	<u>\$ 809,982,116</u>	<u>\$ 178,684,644</u>	<u>\$ -</u>	<u>\$ 25,357,588</u>

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

(2) Included in contributions receivable on the consolidated balance sheets.

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5. FAIR VALUE OF FINANCIAL ASSETS (CONTINUED)

Financial Assets	2020			
	Fair Value	Level 1	Level 2	Level 3
Investment in employee residences	\$ 6,420,336	\$ -	\$ -	\$ 6,420,336
Limited liability partnership (1)	246,000	-	-	246,000
Investments:				
Mutual funds:				
Money market	57,785,135	57,785,135	-	-
Large/mid cap growth	95,687,938	95,687,938	-	-
Diversified fixed income	29,502,240	29,502,240	-	-
Stocks - domestic	3,749,469	3,216,954	-	532,515
Subtotal	<u>186,724,782</u>	<u>186,192,267</u>	<u>-</u>	<u>532,515</u>
Investments at net asset value ("NAV"):				
Alternative investments:				
Multi-strategy, fund of funds, and absolute return	132,976,272	-	-	-
Long/short equity	283,855,142	-	-	-
Global/international equity	96,199,814	-	-	-
Emerging markets	21,232,539	-	-	-
Private investments	9,793,499	-	-	-
Subtotal	<u>544,057,266</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>730,782,048</u>	<u>186,192,267</u>	<u>-</u>	<u>532,515</u>
Total assets at fair value	<u>\$ 737,448,384</u>	<u>\$ 186,192,267</u>	<u>\$ -</u>	<u>\$ 7,198,851</u>

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

6. CONTRIBUTIONS RECEIVABLE, NET

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

	2021	2020
Contributions receivable	\$ 93,917,225	\$ 112,250,974
In-kind receivable	<u>21,120,414</u>	<u>21,881,510</u>
	115,037,639	134,132,484
Less: discount to present value at rates ranging from 0.13% to 3.83%	(4,838,204)	(20,973,605)
Reserve for bad debts	<u>(976,000)</u>	<u>(1,040,000)</u>
Contributions receivable, net	<u>\$ 109,223,435</u>	<u>\$ 112,118,879</u>

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6. CONTRIBUTIONS RECEIVABLE, NET (CONTINUED)

Contributions receivable are expected to be collected as follows:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 30,405,648	\$ 34,633,833
One to five years	39,064,384	57,579,384
More than five years	<u>45,567,607</u>	<u>41,919,267</u>
	<u>\$ 115,037,639</u>	<u>\$ 134,132,484</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, 2021 included twenty-five individual pledges, four of which represent approximately 78% of the amount due, with a total of \$50 million due from a single donor, and \$61.3 million due from Trustees.

A donor has established and funded a gift instrument which is administered by the donor’s investment firm. Under the terms of this agreement, the Laboratory has the irrevocable right to receive all the assets at the end of the agreement in 2040. The Laboratory does not control the assets. The Laboratory records the value of the assets as increases in net assets with donor restrictions at the fair value of the assets. Adjustments to the assets to reflect changes in the fair value are reported in the consolidated statement of activities as investment return excluding amount utilized. The change in fair value reported in 2021 was \$14,935,774.

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 \$10,595,000 and \$9,695,000 at December 31, 2021 and 2020, respectively.

On October 1, 2019, the Laboratory entered into a lease agreement with a third-party to open the DNA Learning Center at City Tech in Brooklyn, New York. The agreement provides for the Laboratory to make below market rental payments through September 30, 2049. The Laboratory is recording this lease as an in-kind pledge receivable. For the years ended December 31, 2021, and 2020, the net fair market value of the in-kind lease pledge is valued at \$12,393,400 and \$12,642,224, respectively.

7. RESTRICTED USE ASSETS

Restricted use assets principally include a supplemental executive retirement plan (“SERP”) established by the Laboratory for certain members of its management and scientific staff. The Laboratory has established a grantor trust, whereby the assets and income of the trust are assets and income of the Laboratory. At December 31, 2021 and 2020, the fair value of the assets in the trust was \$2,913,542 and \$2,411,965, respectively.

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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:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 18,785,953	\$ 18,710,029
Buildings	351,062,364	330,334,516
Furniture, fixtures, and equipment	33,323,779	29,995,174
Laboratory equipment	76,455,532	81,036,935
Library books and periodicals	365,630	365,630
Construction in progress	<u>22,014,676</u>	<u>14,235,111</u>
	502,007,934	474,677,395
Less accumulated depreciation and amortization	<u>(216,003,851)</u>	<u>(208,376,831)</u>
Land, buildings, and equipment, net	<u>\$ 286,004,083</u>	<u>\$ 266,300,564</u>

Construction in progress at December 31, 2021 represents the cost of various campus renovations ongoing at the Laboratory, of which, three are large multi-year construction projects. The first, a renovation of the six housing cabins, had approximately \$5.5 million in construction in progress and was completed in February 2022. Second, is a renovation of the Laboratory's seawall which has an expected completion date of December 2022. At December 31, 2021, \$4.7 million was included in construction in progress. The third, is the beginning of the Hillside Expansion project; which is a multi-year major expansion adding multiple buildings to the campus to support the research, education and housing programs. There was \$7.3 million included in construction in progress for this project at December 31, 2021. Also in 2021, the Laboratory completed and placed in service the renovation of the DNA Learning Center, at City Tech, and capitalized approximately \$17.4 million.

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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 \$15 million of the proceeds were used to finance the purchase and renovation of a building located in Woodbury, New York. 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 (0.09% as of December 31, 2021); and are secured by a liquidity facility agreement issued by a financial institution scheduled to expire on June 24, 2026. The interest rate is negotiated with the bondholders by the remarketing agent. The agreement contains certain covenants, including those relating to net worth as defined, 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, 2021 and 2020.

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 LIBOR, the rate equal to the British Bankers Association 30-day LIBOR Rate (one-month LIBOR), plus a spread. On April 2, 2020, the bank purchase rate was converted to a fixed percent of the sum of the federal funds rate (reported daily as H.15), plus a spread. The entire outstanding principal amount was purchased by a single financial institution under an agreement that terminates on June 19, 2025, unless extended. The agreement contains certain covenants, including those relating to net worth as defined, 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, 2021 and 2020. Upon termination of the agreement, the bonds may thereafter be converted in whole or in part to bear interest at any of the acceptable rates of interest under the bond documents until maturity on January 1, 2042. The bonds require annual principal payments beginning January 1, 2035. Interest is payable the first business day of each month, and the interest rate resets at the end of each month (0.66% as of December 31, 2021).

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 3.81% and received 68% of one-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 3.80% and received 68% of 3-month LIBOR on the notional principal amount. On October 18, 2018, the swap agreement was amended, and the Laboratory now pays interest at a predetermined fixed rate of 3.80% 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 \$33,914,521 and \$41,196,290 at December 31, 2021 and 2020, 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.

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10. BONDS PAYABLE (CONTINUED)

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, 2021 and 2020. Financing costs, net of amortization, were \$1,193,497 and \$1,259,767 at December 31, 2021 and 2020, respectively. Interest expense on bonds outstanding during 2021 and 2020 was approximately \$3,764,200 and \$3,882,800, respectively. The effective average interest rate on all of the bonds outstanding during 2021 and 2020 approximated 3.87% and 3.99%, 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:

	<u>2021</u>	<u>2020</u>
Net assets subject to expenditure for specified purposes or time periods:		
Capital projects	\$ 2,223,047	\$ 12,084,056
Research programs	24,163,893	26,613,061
Educational programs	14,309,917	14,525,097
Time restricted	<u>63,452,627</u>	<u>79,774,972</u>
Total subject to expenditure for specified purposes or time periods	<u>104,149,484</u>	<u>132,997,186</u>
Endowments subject to the Laboratory's spending policy:		
Donor contributions to be maintained in perpetuity:		
Primary program services	75,737,527	76,214,231
School of Biological Sciences programs	42,240,432	41,640,432
Operation and improvement of Banbury Center facilities	<u>1,511,804</u>	<u>1,511,804</u>
Total donor contributions to be maintained in perpetuity	<u>119,489,763</u>	<u>119,366,467</u>
Unappropriated income on endowment funds available to support:		
Primary program services	172,537,154	145,078,647
School of Biological Sciences programs	24,848,098	21,251,834
Operation and improvement of Banbury Center facilities	<u>18,440,843</u>	<u>17,364,052</u>
Total unappropriated income on endowment funds	<u>215,826,095</u>	<u>183,694,533</u>
Total endowment subject to appropriation under the Laboratory's spending policy	<u>335,315,858</u>	<u>303,061,000</u>
Total net assets with donor restrictions	<u>\$ 439,465,342</u>	<u>\$ 436,058,186</u>

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11. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished	\$ 26,584,639	\$ 14,473,868
Time restriction expired	<u>32,325,923</u>	<u>31,063,318</u>
	<u>\$ 58,910,562</u>	<u>\$ 45,537,186</u>

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:

	<u>2021</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net investment expense	\$ (610,681)	\$ (638,642)	\$ (1,249,323)
Net appreciation of investments	<u>57,753,992</u>	<u>32,770,205</u>	<u>90,524,197</u>
Total investment gain	57,143,311	32,131,563	89,274,874
Investment return utilized	<u>(32,860,963)</u>	<u>-</u>	<u>(32,860,963)</u>
Investment return excluding amount utilized	<u>\$ 24,282,348</u>	<u>\$ 32,131,563</u>	<u>\$ 56,413,911</u>

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12. INVESTMENT RETURN UTILIZED (CONTINUED)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Net interest and dividends	\$ 1,407,164	\$ 598,200	\$ 2,005,364
Net appreciation of investments	<u>61,700,242</u>	<u>17,456,270</u>	<u>79,156,512</u>
Total investment gain	63,107,406	18,054,470	81,161,876
Investment return utilized	<u>(35,260,137)</u>	<u>-</u>	<u>(35,260,137)</u>
Investment return excluding amount utilized	<u>\$ 27,847,269</u>	<u>\$ 18,054,470</u>	<u>\$ 45,901,739</u>

13. ENDOWMENT FUNDS

The Laboratory’s endowment, including Robertson, 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 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, 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

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13. ENDOWMENT FUNDS (CONTINUED)

with the Investment Committees of the Laboratory and Robertson, including the selection of external managers, the allocation of investments, and the type of investments.

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

In accordance with the spending policies of the Laboratory and Robertson, 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, \$28,439,435 and \$26,389,108 were made available to support operations of the Laboratory for the years ended December 31, 2021 and 2020, respectively. The total planned appropriation for expenditure for the year ending December 31, 2022 is \$30,821,617.

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 \$1,013,162 and \$1,359,965 at December 31, 2021 and 2020, 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 \$688,755 and \$1,041,943 at December 31, 2021 and 2020, respectively.

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13. ENDOWMENT FUNDS (CONTINUED)

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

	2021				Total Endowment Funds
	Without Restrictions	With Donor Restrictions		Total	
		Original Gift	Accumulated Gains (Losses)		
Donor-restricted:					
Underwater	\$ -	\$ 8,407,732	\$ (1,013,162)	\$ 7,394,570	\$ 7,394,570
Other	-	111,082,030	216,839,259	327,921,289	327,921,289
Board-designated	<u>451,942,397</u>	-	-	-	<u>451,942,397</u>
Total endowment funds	<u>\$ 451,942,397</u>	<u>\$ 119,489,762</u>	<u>\$ 215,826,097</u>	<u>\$ 335,315,859</u>	<u>\$ 787,258,256</u>

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 418,937,403	\$ 303,061,000	\$ 721,998,403
Net investment expense	(920,528)	(638,642)	(1,559,170)
Net appreciation (realized and unrealized)	<u>53,642,312</u>	<u>32,770,205</u>	<u>86,412,517</u>
Total investment return	52,721,784	32,131,563	84,853,347
Contributions	-	123,296	123,296
Appropriation of endowment assets for expenditure	(28,439,435)	-	(28,439,435)
Transfer to board-designated endowment	<u>8,722,645</u>	<u>-</u>	<u>8,722,645</u>
Endowment net assets at end of year	<u>\$ 451,942,397</u>	<u>\$ 335,315,859</u>	<u>\$ 787,258,256</u>

Included in amounts above is approximately \$18.6 million in pledges receivable.

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13. ENDOWMENT FUNDS (CONTINUED)

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

	2020				Total Endowment Funds
	Without Restrictions	With Donor Restrictions		Total	
		Original Gift	Accumulated Gains (Losses)		
Donor-restricted:					
Underwater	\$ -	\$ 8,407,732	\$ (1,359,965)	\$ 7,047,767	\$ 7,047,767
Other	-	110,958,735	185,054,498	296,013,233	296,013,233
Board-designated	<u>418,937,403</u>	-	-	-	<u>418,937,403</u>
Total endowment funds	<u>\$ 418,937,403</u>	<u>\$ 119,366,467</u>	<u>\$ 183,694,533</u>	<u>\$ 303,061,000</u>	<u>\$ 721,998,403</u>

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 385,625,719	\$ 284,769,109	\$ 670,394,828
Net investment income	850,523	598,200	1,448,723
Net appreciation (realized and unrealized)	<u>53,385,853</u>	<u>17,456,271</u>	<u>70,842,124</u>
Total investment return	54,236,376	18,054,471	72,290,847
Contributions	-	237,420	237,420
Appropriation of endowment assets for expenditure	(26,389,108)	-	(26,389,108)
Transfer to board-designated endowment	<u>5,464,416</u>	<u>-</u>	<u>5,464,416</u>
Endowment net assets at end of year	<u>\$ 418,937,403</u>	<u>\$ 303,061,000</u>	<u>\$ 721,998,403</u>

Included in amounts above is approximately \$4.3 million in pledges receivable.

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14. ALLOCATED EXPENSES

Expenses are reported in the accompanying consolidated statements 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.

	2021			2020		
	Direct Program Expenses	Allocated Expenses	Total	Direct Program Expenses	Allocated Expenses	Total
Research	\$ 74,074,302	\$ 36,631,196	\$ 110,705,498	\$ 71,015,717	\$ 36,046,031	\$ 107,061,748
Educational programs	9,860,650	3,921,004	13,781,654	10,027,017	3,880,446	13,907,463
Publications	8,621,736	933,264	9,555,000	8,703,268	908,108	9,611,376
Banbury Center conferences	672,475	655,210	1,327,685	820,046	598,084	1,418,130
DNA Learning Center programs	4,689,142	725,703	5,414,845	4,085,211	382,104	4,467,315
SBS programs	2,944,594	22,243	2,966,837	2,953,247	20,667	2,973,914
General and administrative	18,834,886	6,053,888	24,888,774	19,506,125	5,803,541	25,309,666
	<u>\$ 119,697,785</u>	<u>\$ 48,942,508</u>	<u>\$ 168,640,293</u>	<u>\$ 117,110,631</u>	<u>\$ 47,638,981</u>	<u>\$ 164,749,612</u>

15. FUNCTIONAL EXPENSES

The Laboratory adopted ASU 2016-14, 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, communications 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 time and effort throughout the year. These allocations are determined by management to be of a reasonable basis and are consistently applied.

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15. FUNCTIONAL EXPENSES (CONTINUED)

The following table presents the functional expenses for the year ended December 31, 2021:

	Educational Programs/			General and		Fundraising	Total
	Research	Conferences	Publications	Administrative			
Salaries, benefits and taxes	\$ 51,500,263	\$ 12,719,359	\$ 4,973,113	\$ 15,618,673	\$ 1,461,951	\$ 86,273,359	
Supplies and office expense	18,239,314	3,373,853	113,596	922,782	36,272	22,685,817	
Third party costs	13,828,729	-	-	-	-	13,828,729	
Service contracts and repairs	3,495,912	191,257	52,837	266,451	109	4,006,566	
Professional services	1,077,431	502,101	108,836	1,370,644	51,741	3,110,753	
Printing and publications	1,387,987	138,675	2,548,100	129,155	26,349	4,230,266	
Software licensing	1,381,932	615,137	117,053	284,495	-	2,398,617	
Travel	72,011	110,833	12,084	12,408	1,348	208,684	
Conferences	72,621	1,510,670	302	9,350	100	1,593,043	
Occupancy	4,360,332	1,721,167	245,348	765,218	-	7,092,065	
Interest	2,966,599	247,599	107,345	683,232	-	4,004,775	
Depreciation	12,069,255	1,879,111	189,732	1,927,579	-	16,065,677	
Miscellaneous	253,112	481,259	1,086,654	1,295,282	25,635	3,141,942	
	<u>\$ 110,705,498</u>	<u>\$ 23,491,021</u>	<u>\$ 9,555,000</u>	<u>\$ 23,285,269</u>	<u>\$ 1,603,505</u>	<u>\$ 168,640,293</u>	

The following table presents the functional expenses for the year ended December 31, 2020:

	Educational Programs/			General and		Fundraising	Total
	Research	Conferences	Publications	Administrative			
Salaries, benefits and taxes	\$ 50,276,505	\$ 13,133,754	\$ 4,929,901	\$ 15,913,583	\$ 1,554,834	\$ 85,808,577	
Supplies and office expense	18,131,895	2,962,057	122,851	733,971	43,737	21,994,511	
Third party costs	13,177,001	-	-	-	-	13,177,001	
Service contracts and repairs	2,667,816	76,012	47,300	281,521	190	3,072,839	
Professional services	836,048	550,432	560,941	1,525,078	97,131	3,569,630	
Printing and publications	1,455,809	69,113	2,452,443	292,713	18,469	4,288,547	
Software licensing	1,236,711	444,601	102,122	282,313	5,000	2,070,747	
Travel	270,336	234,429	40,393	23,239	2,566	570,963	
Conferences	104,917	1,429,728	349	13,948	-	1,548,942	
Occupancy	4,250,617	1,690,980	239,493	750,137	-	6,931,227	
Interest	3,084,846	257,857	112,158	711,456	-	4,166,317	
Depreciation	11,272,115	1,486,556	178,469	1,803,126	-	14,740,266	
Miscellaneous	297,132	431,303	824,956	1,244,357	12,297	2,810,045	
	<u>\$ 107,061,748</u>	<u>\$ 22,766,822</u>	<u>\$ 9,611,376</u>	<u>\$ 23,575,442</u>	<u>\$ 1,734,224</u>	<u>\$ 164,749,612</u>	

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 \$5,021,600 and \$4,921,000 for the years ended December 31, 2021 and 2020, respectively.

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17. COMMITMENTS AND CONTINGENCIES

The Laboratory has an operating lease for office space at 50 Gordon Drive, Syosset, New York. The lease does not contain any material residual value guarantees or material restrictive covenants and has a remaining lease term of two years. The right-of-use asset and lease liability were recognized at the lease commencement date based on the present value of the lease payments over the lease term. A risk adjusted rate of 2.69% was used to determine the present value of the lease payments, which are recognized on a straight-line basis over the lease term. The operating lease cost was approximately \$317,800 and \$308,600 for the years ended December 31, 2021 and 2020, respectively. Additionally, the lease arrangement requires the Laboratory to make variable payments outside of the regular rent payment, to cover such things as property taxes, utilities and property maintenance. Included in the consolidated balance sheet at December 31, 2021 are a right-of-use asset of approximately \$535,800, reported in other assets, and the related lease liability, reported in accounts payable and accrued expenses, of approximately \$647,500. The future minimum rental payments required under the lease as of December 31, 2021 are approximately \$327,300 and \$337,100 for the remaining two years through December 31, 2023.

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, 2021. The expense for the program was approximately \$12,310,000 and \$10,753,000 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020.

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, 2021 through April 29, 2022, the date on which the consolidated financial statements were issued and noted the following.

The COVID-19 pandemic continued to disrupt commercial and financial markets around the world through the end of 2021. Fortunately, by the end of 2021, the vaccination rates and the spread of the virus had diminished enough for programs at the Laboratory to begin a comeback. While the economic outlook for a full recovery is still uncertain, the Laboratory has planned on a significant recovery of operating revenues while managing expenses to achieve a balanced budget. The Laboratory will continue to make every effort to mitigate the current and future impacts of COVID-19, as there is expected to still be short- and longer-term implications for the operations of the Laboratory. Accordingly, the extent to which COVID-19 may impact the consolidated financial position and changes in net assets and cash flows in 2022 is uncertain and the accompanying consolidated financial statements include no adjustments relating to the anticipated future effects of this pandemic.