THE JACKSON LABORATORY

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
The Jackson Laboratory:

We have audited the accompanying consolidated financial statements of The Jackson Laboratory (the Laboratory), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of activities and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Jackson Laboratory as of December 31, 2019 and 2018, and the changes in its consolidated net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
May 19, 2020

THE JACKSON LABORATORY

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

Assets		**2019**	**2018**
Cash and equivalents	$	2,533	8,406
Short-term investments, at fair value		197,058	194,234
Accounts receivable, net		46,119	45,190
Contributions receivable, net		2,429	4,457
Other assets		29,911	24,710
Long-term investments, at fair value		306,404	261,889
Long-lived assets, net		527,122	485,875
Total assets	$	1,111,576	1,024,761
Liabilities			
Accounts payable and accrued expenses	$	54,129	56,567
Deposits and deferred revenue		9,335	9,510
Bonds and note payable, net		206,720	213,548
Accrued postretirement obligations		6,088	5,192
Total liabilities		276,272	284,817
Net assets:			
Without donor restrictions		763,438	672,815
With donor restrictions		71,866	67,129
Total net assets		835,304	739,944
Total liabilities and net assets	$	1,111,576	1,024,761

See accompanying notes to consolidated financial statements.

THE JACKSON LABORATORY

Consolidated Statement of Activities

Year ended December 31, 2019

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other support:			
Grants and research contracts	$ 107,626	—	107,626
Contributions	956	1,627	2,583
Genetic resources and clinical and research services	317,789	—	317,789
Long-term investment return utilized	3,650	2,015	5,665
Other investment return	4,714	—	4,714
Other revenue	2,389	—	2,389
Total revenue	437,124	3,642	440,766
Net assets released from restrictions	4,777	(4,777)	—
Total revenue and other support	441,901	(1,135)	440,766
Expenses:			
Research	141,086	—	141,086
Genetic resources and clinical and research services	198,304	—	198,304
Training	8,378	—	8,378
Institutional support	59,162	—	59,162
Total expenses	406,930	—	406,930
Increase (decrease) in net assets from operating activities	34,971	(1,135)	33,836
Nonoperating activities:			
Grants and contributions for capital and long-term investments	19,399	1,466	20,865
Long-term investment gain above amounts utilized	36,337	4,406	40,743
Other, net	(84)	—	(84)
Increase in net assets from nonoperating activities	55,652	5,872	61,524
Increase in net assets	90,623	4,737	95,360
Net assets, beginning of year	672,815	67,129	739,944
Net assets, end of year	$ 763,438	71,866	835,304

See accompanying notes to consolidated financial statements.

THE JACKSON LABORATORY

Consolidated Statement of Activities

Year ended December 31, 2018

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other support:			
Grants and research contracts	$ 96,184	—	96,184
Contributions	1,079	3,218	4,297
Genetic resources and clinical and research services	285,102	—	285,102
Long-term investment return utilized	3,178	1,891	5,069
Other investment return	1,932	—	1,932
Other revenue	2,193	—	2,193
Total revenue	389,668	5,109	394,777
Net assets released from restrictions	4,003	(4,003)	—
Total revenue and other support	393,671	1,106	394,777
Expenses:			
Research	138,642	—	138,642
Genetic resources and clinical and research services	165,051	—	165,051
Training	8,499	—	8,499
Institutional support	54,540	—	54,540
Total expenses	366,732	—	366,732
Increase in net assets from operating activities	26,939	1,106	28,045
Nonoperating activities:			
Grants and contributions for capital and long-term investments	7,855	2,898	10,753
Long-term investment loss above amounts utilized	(17,901)	(3,250)	(21,151)
Realized gain on termination of interest-rate swaps	601	—	601
Realized gain on forgiveness of Connecticut Innovations forgivable loans	8,724	—	8,724
Other	58	—	58
Decrease in net assets from nonoperating activities	(663)	(352)	(1,015)
Increase in net assets	26,276	754	27,030
Net assets, beginning of year	646,539	66,375	712,914
Net assets, end of year	$ 672,815	67,129	739,944

See accompanying notes to consolidated financial statements.

THE JACKSON LABORATORY

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Cash flows from operating activities:			
Increase in net assets	$	95,360	27,030
Adjustments to reconcile increase in net assets to cash provided by operating activities:			
Depreciation and amortization		41,656	35,494
Gain on forgiveness of Connecticut forgivable loans		—	(8,724)
Loss on debt extinguishment		—	508
Termination of interest rate swap agreements		—	(3,655)
Realized and unrealized net investment (gains)/loss		(39,673)	30,700
Realized gain on interest-rate swaps		—	(601)
Loss/(gain) on disposal of long-lived assets		757	(795)
Contributions restricted for long-term investment and assets		(3,046)	(2,328)
Changes in operating assets and liabilities		(8,216)	(13,855)
Net cash provided by operating activities		86,838	63,774
Cash flows from investing activities:			
Acquisition and construction of long-lived assets		(81,543)	(71,964)
Proceeds from sales of investments		267,826	257,247
Purchases of investments		(312,935)	(300,126)
Net cash used in investing activities		(126,652)	(114,843)
Cash flows from financing activities:			
Repayment of bonds		(6,415)	(36,925)
Proceeds from bonds		—	159,585
Bond issuance costs		—	(1,419)
Repayment of note payable		(133)	(127)
Draws under Connecticut Innovations forgivable loans prior to loan forgiveness		—	886
Contributions from Connecticut Innovations restricted for long-term assets subsequent to loan forgiveness		—	3,721
Contributions restricted for long-term investment and assets		3,046	2,328
Net cash (used in) provided by financing activities		(3,502)	128,049
Net (decrease)/increase in cash and equivalents		(43,316)	76,980
Cash, cash equivalents and restricted cash beginning of year		105,997	29,017
Cash, cash equivalents and restricted cash end of year	$	62,681	105,997
Cash paid for interest	$	8,623	4,651

See accompanying notes to consolidated financial statements.

(1) Background

The Jackson Laboratory (the Laboratory) is a not-for-profit independent research organization focusing on research to advance human health. The purposes of the Laboratory are scientific, medical, charitable, and educational. The Laboratory strives to discover precise genomic solutions for disease and empower the global biomedical community in its shared quest to improve human health. This mission is carried out through: (1) conducting basic biomedical research; (2) training and educating scientists worldwide; and (3) developing and providing scientific services, genetic resources, and genetic and clinical information related to genetic resources to the global scientific community.

The Laboratory's financial results include the operations of its wholly-owned US subsidiary, Jackson Laboratory Holdings, LLC (LLC) and LLC's wholly-owned subsidiary, The Jackson Laboratory Medical Science and Technology (Shanghai) Co., Ltd., incorporated under Chinese law. All intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Laboratory presents its consolidated financial statements on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). All amounts presented in the notes to the consolidated financial statements are in thousands.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Management estimates, requiring the application of significant judgments, include obligations under a postretirement plan, liabilities under self-insured plans, allowances for uncollectible receivables and certain alternative investments.

(b) Classification of Net Assets

The Laboratory follows the reporting requirements of GAAP which require that net assets be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classifying net assets into two classes: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. This net asset category principally consists of revenues and related expenses associated with the core activities of the Laboratory: conduct of sponsored research, genetic resources and clinical and research services, and training. Additionally, changes in this category include investment returns on funds without donor restrictions, including those designated by the Board of Trustees (the Board) to function as an endowment, restricted gifts whose donor-imposed restrictions were met during the fiscal year, and previously restricted gifts and grants for buildings and equipment that have been placed in service, as well as the gain on forgiveness of Connecticut Innovations, Inc. (CI) forgivable loans.

- With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Laboratory or the passage of time. This net asset category consists of gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not placed in service; endowment, pledges, and investment return on endowments funds; and endowments where the principal may be expended over a stated period of time (term endowments). Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

  Also included in this category are net assets subject to donor-imposed restrictions, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations and other purposes.

Revenue is reported as an increase in net assets without donor restrictions unless its use is limited by donor-imposed restrictions or it is a pledge and included in net assets with donor restrictions until collected. Expenditures of net assets with donor restrictions are reported in the program where expended with the release of the restriction shown as a decrease in net assets with donor restrictions and an offsetting increase in net assets without donor restrictions.

(c) Revenue

The Laboratory follows the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the Laboratory follows the provisions of ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides guidance as to whether the Laboratory should account for a grant (or similar transaction) as a contribution or as an exchange transition. A summary of the Laboratory’s specific revenue recognition practices follows:

- *Revenue from Provision of Genetic Resources and Clinical and Research Services*

  The Laboratory recognizes revenue from providing genetic resources and clinical and research services when the resources are shipped or the services are provided; these revenues are included in Genetic Resources and Clinical and Research Services revenue. Accounts receivable from such activities are reported net of allowance for uncollectible accounts.

- *Revenue from Grants and Research Contracts*

  Grants and contracts awarded by federal and other sponsors, which generally are considered nonexchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred or other conditions under the agreements are met. The Laboratory has elected the simultaneous release policy available under ASU 2018-08, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. Payments received in advance of expenditures are recorded as deferred revenue until expended. The Laboratory received approximately 76% and 78%, respectively, of its revenue from grants and contracts from the National Institutes of Health (NIH) for the years ended December 31, 2019 and 2018. CI research and operating grants provided 17% and 15% of the grant revenue in 2019 and 2018, respectively. Indirect costs are billed and recovered in accordance with the terms of the grant

(Continued)

agreements and represented $35,190 and $31,447, respectively, of revenue from grants for the years ended December 31, 2019 and 2018. Most NIH grants reimburse for indirect costs at an agreed percentage of direct costs incurred. CI reimburses eligible costs up to an annual maximum amount. The Laboratory applies the CI grant funds first to direct costs and then to indirect costs.

- *Revenue from Contributions*

  Contributions, including unconditional promises to give, are recognized at fair value and increase net assets in the period received. Written promises to give that are scheduled to be received after the balance sheet date are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in net assets with donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at rates commensurate with the estimated risk of receipt of the pledge. Amortization of the discount is recorded as additional contribution revenue in the appropriate net asset category.

  Contributions of cash or other assets that must be used to acquire long-lived assets or the contribution of long-lived assets are reported in nonoperating support as a component of net assets with donor restrictions until the assets are placed in service.

(d) Functional Classification of Expenses

Program services consist of research, genetic resources and clinical and research services, and training. Expenses are presented on the consolidated statements of activities on a functional or programmatic basis, consisting of direct costs and indirect facility-related costs. Facility-related expenses, including costs for the operation and maintenance of long-lived assets, financing costs and depreciation, are allocated on the basis of square footage utilized by each of the programs. Facility-related costs related to information technology are allocated primarily on the basis of the estimated level of effort.

Functional expenses incurred by type for the years ended December 31, 2019 and 2018 are presented below:

	December 31, 2019				
	Research	Genetic resources and clinical and research services	Training	Institutional support	Total
Salaries and wages	$ 63,834	74,977	2,688	27,447	168,946
Benefits	20,095	23,603	846	8,640	53,184
Employee recruitment, training, memberships and subscriptions	1,515	997	436	2,507	5,455
Purchased services and stipends	9,837	5,423	1,369	8,611	25,240
Supplies and shipping	15,277	42,217	555	914	58,963
Maintenance, utilities and insurance	10,174	14,667	678	3,568	29,087
Travel and meals	2,504	4,091	836	2,669	10,100
Interest expense	371	5,398	31	118	5,918
Depreciation	17,111	21,342	877	2,606	41,936
Other expenses	368	5,589	62	2,082	8,101
Total	$ 141,086	198,304	8,378	59,162	406,930

	December 31, 2018				
	Research	Genetic resources and clinical and research services	Training	Institutional support	Total
Salaries and wages	$ 63,335	64,529	2,806	25,683	156,353
Benefits	18,826	19,181	834	7,634	46,475
Employee recruitment, training, memberships and subscriptions	1,292	590	86	2,170	4,138
Purchased services and stipends	8,733	3,111	1,571	7,712	21,127
Supplies and shipping	15,219	38,245	556	1,179	55,199
Maintenance, utilities and insurance	11,039	12,574	676	3,300	27,589
Travel and meals	2,310	3,070	999	2,593	8,972
Interest expense	1,168	3,516	57	270	5,011
Depreciation	16,554	15,662	838	2,705	35,759
Other expenses	166	4,573	76	1,294	6,109
Total	$ 138,642	165,051	8,499	54,540	366,732

All direct and indirect costs of fundraising are expensed as incurred and are included in institutional support in the consolidated statements of activities. Direct fundraising expenses were $5,175 and $5,074 for the years ended December 31, 2019 and 2018, respectively.

(e) Operating and Nonoperating Activities

The consolidated statements of activities report changes in net assets from operating and nonoperating activities.

Operating activities consist of the Laboratory's ongoing research and training programs, including the provision of genetic resources and clinical and research services. Included in operating revenue is investment return appropriated to support operations under the endowment income spending formula approved by the Board, as described in note 5(c). Also included in operating revenue are research grant reimbursements of $869 and $444 for the years ended December 31, 2019 and 2018, for the purchase of equipment that became the property of the Laboratory upon acquisition. Depreciation charged to operating activities from research grant-funded equipment was $447 and $383 for the years ended December 31, 2019 and 2018, respectively.

Nonoperating revenue includes items not related to the Laboratory's recurring activities or revenue that may not be used for operations. Contributions for the acquisition of long-lived assets, net assets released from restrictions for the acquisition of long-lived assets, unrestricted bequests, investment return in excess of the amount appropriated under the Laboratory's spending formula, and grants to acquire land, buildings, and equipment are all reported as nonoperating activities. Postretirement plan charges above periodic benefit costs and the gain from the forgiveness of the CI forgivable loans are also all presented as nonoperating activities.

(f) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding amounts whose use is limited by internal designation.

The following table provides a reconciliation of cash, cash equivalents and restricted cash within the consolidated balance sheet that sums to the total of such amounts as shown on the consolidated statement of cash flows as of December 31:

		2019	2018
Restricted cash included in short-term investments on the consolidated balance sheets whose use is limited (note 3)	$	3,003	44,646
Cash included in short-term investments on the consolidated balance sheets		57,145	52,945
Cash and cash equivalents as reported in the consolidated balance sheets		2,533	8,406
Total cash, cash equivalents and restricted cash as shown in the consolidated statement of cash flows	$	62,681	105,997

(g) Self-Insurance Reserves

The Laboratory is self-insured for healthcare benefits offered to active employees who meet eligibility requirements. These costs are accounted for on an accrual basis, which requires estimates to be made for claims incurred but not yet reported as of the consolidated balance sheet date.

(h) Long-Lived Assets

Long-lived assets are reported at cost at date of acquisition or at fair value at date of donation in the case of gifts. For assets placed in service, depreciation is provided using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset lives is not capitalized.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

	Years
Buildings and improvements	15–50
Land improvements	5–15
Equipment and software	3–15

Management reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Management determined that no long-lived assets were impaired as of December 31, 2019 and 2018.

The Laboratory receives awards from various granting agencies that allow for the purchase of certain assets, scientific equipment and construction of buildings. These assets are depreciated in accordance with the aforementioned policy. The assets become the property of the Laboratory upon acquisition, unless the grant or funding agreement specifically states otherwise. Grant-funded assets are typically restricted as to use and disposal.

(i) Income Taxes

The Laboratory is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code), as amended, and is generally exempt from income taxes pursuant to the Code. In accordance with GAAP, the Laboratory assesses whether there are uncertain tax positions and determined that there were no uncertain tax positions that would have a material effect on the consolidated financial statements.

(j) Fair Value Measurements

The Laboratory determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- **Level 1 inputs:** Unadjusted quoted prices for identical assets or liabilities in active markets accessible to the entity at the measurement date.

- **Level 2 inputs:** Other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level 3 inputs:** Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Laboratory utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Levels are determined based on the aforementioned hierarchy, except for investments measured using net asset value (NAV) as a practical expedient to estimate fair value, as described in note 3.

It is the Laboratory's policy to review and reflect transfers between levels as of the consolidated financial statement reporting date. Transfers between different levels of the fair value hierarchy are recorded as of the end of the reporting period.

The categorization of an investment within the fair value hierarchy is based on the inputs described above and does not necessarily correspond to the Laboratory's management's perceived risk of that investment. Moreover, the methods used by management may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Laboratory believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments and nonfinancial assets and liabilities could result in a different fair value measurement at the reporting date.

(k) Recent Accounting Pronouncements

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the changes during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Laboratory adopted ASU 2016-18 retrospectively as of January 1, 2018 to include restricted and short-term investment cash amounts within the statement of cash flows.

(l) Reclassification of Prior Year Amounts

Certain other amounts as disclosed in the prior year have been reclassified to conform to the current year presentation.

(3) Investments

(a) Overall Investment Objective

The overall investment objective of the Laboratory is to invest its long-term assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its annual operating activities, and increase investment value after inflation. The investment objective for short-term investments is preservation of value and liquidity, relying primarily on highly rated short-term interest-bearing investments. The Laboratory diversifies its long-term investments among various asset classes incorporating multiple strategies and managers. The Investment Committee oversees the Laboratory's endowment in accordance with the investment policy statement.

(b) Basis of Reporting

Investments, including endowment and operating investments without donor restrictions are reported at estimated fair value. If an investment is held directly by the Laboratory and an active market with quoted prices exists, the market price of an identical security is used as the reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Laboratory's interests in commingled investment funds (multiple strategies) are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the Laboratory's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV.

(c) Classification in the Fair Value Hierarchy

The Laboratory owns interests in alternative investment funds that are generally reported at the NAV reported by the fund managers, unless the fund has a readily determinable fair value that is used as a practical expedient to estimate the fair value of the Laboratory's interest therein, or it is probable that all or a portion of the investment will be sold for an amount different from the NAV. Such valuations are determined by fund managers who generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and also may reflect discounts for the liquid nature of certain investments held. As of December 31, 2019 and 2018 the Laboratory had no plans or intentions to sell investments at amounts different from NAV.

The inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

There were no transfers between Level 1 and Level 2 for the fiscal years ended December 31, 2019 and 2018.

The following tables summarize the Laboratory's investments by major category in the fair value hierarchy as of December 31, 2019 and 2018, as well as related strategy, liquidity and funding commitments:

	December 31, 2019			
	Level 1	Level 2	NAV or equivalent	Total
Short-term investments:				
Cash, money market accounts and certificates of deposits[1]	$ 89,059	—	—	89,059
U.S. and global fixed income funds	107,999	—	—	107,999
Total short-term investments	197,058	—	—	197,058
Long-term investments (endowment):				
Money market accounts and certificates of deposit	49,120	—	—	49,120
U.S. and global fixed income funds	26,653	—	—	26,653
Equities:				
U.S. mid and large cap value funds	101,059	—	—	101,059
Global large cap	100,311	—	—	100,311
Total equities	201,370	—	—	201,370
Multiple hedged strategies[2]	—	—	9,273	9,273
Private equity and real assets[2]	—	—	19,988	19,988
Total long-term investments	277,143	—	29,261	306,404
Total	$ 474,201	—	29,261	503,462

[1] Includes $3,003 in cash from 2018 bond proceeds designated for working capital purposes (note 8(a)).

[2] The redemption or liquidation is monthly to locked up. The lock-up periods have various terms with extensions of one to two years. As of December 31, 2019, the average remaining life of these partnerships is approximately eight years.

	December 31, 2018			
	Level 1	**Level 2**	**NAV or equivalent**	**Total**
Short-term investments:				
Cash, money market accounts and certificates of deposits[1]	$ 118,578	—	—	118,578
Corporate bonds	—	1,011	—	1,011
U.S. and global fixed income funds	74,645	—	—	74,645
Total short-term investments	193,223	1,011	—	194,234
Long-term investments (endowment):				
Money market accounts and certificates of deposit	617	—	—	617
U.S. and global fixed income funds	21,421	—	—	21,421
Equities:				
U.S. mid and large cap value funds	70,190	—	—	70,190
Global large cap	70,261	—	—	70,261
Total equities	140,451	—	—	140,451
Multiple hedged strategies[2]	78,582	—	9,940	88,522
Private equity and real assets[2]	—	—	10,878	10,878
Total long-term investments	241,071	—	20,818	261,889
Total	$ 434,294	1,011	20,818	456,123

[1] Includes $44,646 in cash from 2018 bond proceeds designated for working capital purposes (note 8(a)).

[2] The redemption or liquidation is monthly to locked up. The lock-up periods have various terms with extensions of one to two years. As of December 31, 2018, the average remaining life of these partnerships is approximately eight years.

(d) Commitments

Private equity investments are generally made through private limited partnerships. Under the terms of the partnership agreements, the Laboratory makes a commitment of a specific amount of capital to a partnership and is obligated to remit committed funding periodically when capital calls are exercised by the General Partner as the partnership executes on its investment strategy. Private equity funds are typically structured with investment periods of three-to-seven years. The aggregate amounts of unfunded commitments associated with private limited partnerships as of December 31, 2019 and 2018 were $34,970 and $21,205, respectively. The timing and amount of future capital calls expected to be exercised in any particular future year is uncertain.

(4) Financial Assets and Liquidity Resources

As of December 31, 2019 and 2018 financial assets and liquidity resources available within one year for general expenditure, such as operating and program expenditure, scheduled principal and interest payments on debt, and capital constructions costs not financed with debt, were as follows:

		2019	2018
Financial assets:			
Cash and cash equivalents	$	2,533	8,406
Contributions and accounts receivable, net		46,770	46,839
Short-term investments		197,058	149,588
Budgeted endowment payouts:			
Board-designated		4,909	3,651
Donor-restricted		2,188	2,015
Total financial assets available within one year		253,458	210,499
Liquidity resources:			
Bank line of credit		50,000	25,000
Total financial assets and liquidity resources available within one year	$	303,458	235,499

The Laboratory actively manages its resources utilizing a combination of short, medium and long-term operating investment strategies to align its cash inflows with anticipated outflows in accordance with policies approved by the Board. As disclosed in note 8(a), the Laboratory may draw upon an unsecured revolving credit facility to manage cash flows.

Additionally, as of December 31, 2019 and 2018, the Laboratory had an additional $235,691 and $200,463, respectively, in Board-designated endowments not budgeted for spending which is available for general expenditure with Board approval.

(5) Endowment

The Laboratory’s endowment consisted of approximately 73 individual donor-restricted funds, as well as Board-designated funds held for the long-term support of the Laboratory’s mission.

Both donor-restricted and Board-designated endowment funds were invested with a total return objective and long-term goal of attaining an average annualized nominal return equal to, or above the rate of inflation, based on the Consumer Price Index (CPI), plus the Laboratory’s spending rate.

(a) Interpretation of Relevant Law

The Laboratory is subject to the Maine Uniform Prudent Management of Institutional Funds Act (MUPMIFA).

For reporting purposes the Laboratory classifies as net assets with donor restrictions the historical value of donor-restricted endowment funds, which includes: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) changes to the endowment made in accordance with the direction of the applicable donor instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor-restricted endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by MUPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift as disclosed in note 5(d).

(b) Investment Strategies

The endowment provides financial support for programs through the generation of income and gains while preserving capital for future support. The endowment is managed to maximize long-term, risk-adjusted investment returns. The investment objective for both donor-restricted and Board-designated funds can be met through a common investment pool with liquidity sufficient to meet the needs of the Laboratory. Only the Board-designated funds may be used to meet liquidity covenants as required by the Laboratory’s creditors or bondholders.

(c) Endowment Spending Policy

The Laboratory employs a total-return approach to endowment management. Income and dividends are used to fund spending first, with net realized and unrealized appreciation providing incremental funding as needed. Taking into consideration the factors continued in MUPMIFA for the appropriation and accumulation of endowment funds, the annual spending policy distribution rate from the endowment shall be a target percentage as adopted by the Investment Committee from time to time, of the twelve-quarter moving average market value, with the final quarter in the spending formula determined on December 31 of the last audited year preceding the fiscal year of spending. The spending distribution is reviewed and approved annually by the Investment Committee in conjunction with the recommended adoption of the annual budget by the Finance Committee.

(d) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historic dollar value of permanently restricted contributions. Deficiencies of this nature are reported in net assets with donor restrictions when they occur. There were no individual funds with deficiencies at December 31, 2019. Deficiencies totaled $48 at December 31, 2018.

(Continued)

(e) *Net Assets by Type of Fund and Changes in Endowment Investments*

Net assets by type of fund consisted of the following at December 31, 2019 and 2018:

	2019			
	Without donor restrictions	With donor restrictions: Underwater funds	With donor restrictions: Other funds	Total
Donor-restricted endowments:				
Historical gift value	$ —	—	25,420	25,420
(Depreciation)/appreciation	—	—	40,384	40,384
Board-designated endowments	240,600	—	—	240,600
Total	$ 240,600	—	65,804	306,404

	2018			
	Without donor restrictions	With donor restrictions: Underwater funds	With donor restrictions: Other funds	Total
Donor-restricted endowments:				
Historical gift value	$ —	1,636	20,738	22,374
(Depreciation)/appreciation	—	(48)	35,449	35,401
Board-designated endowments	204,114	—	—	204,114
Total	$ 204,114	1,588	56,187	261,889

Changes in endowment assets for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019		
	Without donor restrictions	With donor restrictions	Total
Endowment, December 31, 2018	$ 204,114	57,775	261,889
Cash contributions	—	3,046	3,046
Investment return	39,987	6,421	46,408
Long-term investment return utilized	(3,650)	(2,015)	(5,665)
In-transit transactions	149	577	726
Endowment, December 31, 2019	$ 240,600	65,804	306,404

		December 31, 2018		
		Without donor restrictions	With donor restrictions	Total
Endowment, December 31, 2018	$	108,927	58,754	167,681
Cash contributions		—	2,328	2,328
Board transfer from operating funds to endowment		113,050	—	113,050
Investment return		(14,723)	(1,357)	(16,080)
Long-term investment return utilized		(3,178)	(1,891)	(5,069)
In-transit transactions		38	(59)	(21)
Endowment, December 31, 2019	$	204,114	57,775	261,889

In-transit transactions are due to timing of transfers between the Laboratory's operational accounts and endowment accounts for gifts received and reimbursement of expenditures. Gifts are shown as the amount of cash received and therefore include the collection of pledge payments and exclude uncollected pledges.

(6) Accounts Receivable

Accounts receivable consisted of the following as of December 31, 2019 and 2018:

		2019	2018
Due from provision of genetic resources and services	$	30,524	32,092
Amounts reimbursable under grants and contracts		7,892	9,275
Miscellaneous accounts receivable		8,970	5,503
		47,386	46,870
Less allowance for uncollectibles		(1,267)	(1,680)
Accounts receivable, net	$	46,119	45,190

(7) Long-Lived Assets

Long-lived assets consisted of the following as of December 31, 2019 and 2018:

		2019	2018
Land and improvements	$	12,757	11,226
Buildings and improvements		648,543	619,676
Construction in progress		67,666	45,004
Equipment and software		186,254	171,398
		915,220	847,304
Less accumulated depreciation		(388,098)	(361,429)
Long-lived assets, net	$	527,122	485,875

The change in accounts payable for acquisition and construction of long-lived assets was a decrease of $2,397 for the year ended December 31, 2019 and a decrease of $7,303 for the year ended December 31, 2018.

Commitments to third parties for the purchase of equipment, space renovation and construction projects were $42,881 and $15,424 as of December 31, 2019 and 2018, respectively.

(8) Debt

(a) Bonds and Note Payable

Bonds and note payable consisted of the following as of December 31, 2019 and 2018:

		2019	2018
Series 2018 taxable bonds	$	152,885	157,520
Association of Bay Area Government for California fixed rate revenue bonds (ABAG Series 2012 bonds)		50,300	52,080
		203,185	209,600
Plus unamortized premium		3,416	3,753
Debt issuance costs		(1,510)	(1,566)
Bonds payable, net		205,091	211,787
Note payable for real estate purchase		1,629	1,761
Bonds and note payable, net	$	206,720	213,548

On March 19, 2018, the Laboratory issued taxable bonds in the amount of $159,585. A portion of the proceeds were utilized to refund $33,165 of a former bond series. The remainder of the proceeds are intended for capital improvements. The bonds have a stated rate of fixed interest ranging from 2.25% to 4.334%, payable semiannually, over a 30 year term. Interest expense incurred during 2019 and 2018 on the taxable bonds totaled $3,777 and $2,301, net of capitalized interest of $2,390 and $2,590, respectively. At December 31, 2019 and 2018 accrued interest of $3,053 and $3,113, respectively, is included in accrued expenses on the consolidated balance sheet. The remaining bond proceeds on hand of $3,003 and $44,646 at December 31, 2019 and 2018, respectively, are included in short-term investments on the consolidated balance sheet.

Subsequent to the bond issuance in 2018, the Laboratory utilized $3,655 of bond proceeds to terminate the outstanding interest-rate swaps related to the former bond series. The Laboratory recognized a gain on the termination of the swaps of $601, resulting from the excess of the swaps' fair value over the termination fees paid in 2018.

The ABAG Series 2012 bonds were issued with a par amount of $60,290 and a premium of $6,066 at fixed interest rates ranging from 2.5% to 5% over a 25-year term. The proceeds were used to refund existing ABAG bonds and fund the further fit-out of the Laboratory's Sacramento facility. Interest expense incurred during 2019 and 2018 totaled $2,328 and $2,059, respectively.

In connection with the purchase of property located contiguous to the Laboratory's Bar Harbor campus, the Laboratory entered into a $2,260 fifteen year note with the seller of the property. The note bears a fixed interest rate of 4% and requires monthly mortgage amortization payments.

As of December 31, 2018 the laboratory entered into a one-year, $25,000 unsecured line of credit with a financial institution, to provide general working capital needs and other corporate purposes. The line of credit was increased to $50,000 during 2019 and extended to December 31, 2020. Interest is payable monthly at the rate of LIBOR plus 0.45%. The Laboratory did not utilize the unsecured line of credit during the year ended December 31, 2019 or 2018. The Laboratory is required to maintain certain financial, rating agency and reporting covenants.

(b) CI Forgivable Loans

On January 5, 2012, the Laboratory entered into several agreements with various sub-units of the state of Connecticut to build a 183,500 square foot laboratory and operate a genomics medicine research program in Farmington, Connecticut. The major agreements include a funding agreement with CI, a ground lease with the University of Connecticut Health Center (UCHC), and a collaboration agreement with the University of Connecticut (UConn).

The CI funding agreement provided forgivable loans to construct a building and for the purchase of equipment, as well as $99,000 in grant commitments to support research and development over ten years.

On June 26, 2018 the Laboratory met the loan forgiveness requirements pursuant to the CI funding agreement and CI forgave the outstanding loans. The Laboratory realized a net gain on loan forgiveness of $8,724, representing the fair value of the loan balances plus additional loan draws through and accrued interest as of June 26, 2018. The gain is included in the nonoperating section of the consolidated statement of activities for the year ended December 31, 2018.

As part of the transaction, UCHC provided a 99-year ground lease for the building site. The ground lease contains a provision whereby the land will transfer to the Laboratory upon reaching 600 employees in Connecticut. The ground lease also includes limitations on the sale and use of the facility. A collaboration agreement with UConn covers joint faculty appointments, grant applications, UConn assignment and funding of faculty to be located at the Laboratory's Farmington site, and other related matters.

As of December 31, 2019 and 2018, the Laboratory had incurred $182,039 and $169,656, respectively, in project-related costs, which are included in construction in progress, buildings and improvements, and equipment. Subsequent to loan forgiveness, the Laboratory may continue to draw funds up to an amount equivalent to the original loan amounts without incurring additional debt. The Laboratory drew funds totaling $12,383 for 2019 and $3,721 for 2018 subsequent to June 26, 2018; these funds are realized as a contribution and are included in the nonoperating section of the consolidated statement of activities for the year ended December 31, 2019 and 2018. As of December 31, 2019 the Laboratory has an available balance of $9,466 for future draws under the agreement. The contributions include no funds held in escrow by CI as retainage as of December 31, 2019 and 2018.

(c) Maturities of Long-Term Debt

Maturities of long-term debt as of December 31, 2019, were as follows:

		Amounts due
Year ending December 31:		
2020	$	6,743
2021		6,969
2022		7,194
2023		7,131
2024		7,382
Thereafter		169,395
Total	$	204,814

(9) Employee Benefits

(a) Defined Contribution Retirement Plan

Subject to meeting certain eligibility requirements, all employees participate in a defined contribution 403(b) retirement plan administered by the Laboratory. Contribution expense was $13,585 and $12,702 for the years ended December 31, 2019 and 2018, respectively.

(b) Postretirement Medical Plan

The Laboratory maintains a non-contributory postretirement medical plan covering certain retired employees with hire dates before 2003 and faculty members eligible to retire on May 31, 2008, and their dependents. Other than the payment of current benefits totaling $724 and $498 in the years ended December 31, 2019 and 2018, respectively, the Laboratory has not funded the postretirement plan. The benefit obligation as of December 31, 2019 and 2018, respectively, is $6,088 and $5,192, and is reported as accrued postretirement obligations on the consolidated balance sheet.

(c) Deferred Compensation Program

The Laboratory maintains a nonqualified salary deferral plan authorized under Section 457(b) of the Internal Revenue Code. The Laboratory holds an investment approximately matching the employee investment selections to assure funding is available to meet future liabilities. The liability of $7,145 and $5,422 at December 31, 2019 and 2018, respectively, is included in accounts payable and accrued expenses. The investments valued at $7,145 and $5,459 at December 31, 2019 and 2018, respectively, are included in other assets.

The Laboratory also maintains a deferred compensation program under Section 457(f) of the Internal Revenue Code for management and certain highly compensated employees under which a portion of the employee's compensation is deferred and vested over time. The liability of $721 and $628 at December 31, 2019 and 2018, respectively, is included in accounts payable and accrued expenses, and the corresponding assets are included in other assets.

(10) Net Assets

Net assets without donor restrictions include Board-designated endowments that are used to support the Laboratory's strategic initiatives and general operations. The Laboratory classifies gift pledges based on donor purpose restriction. Unrestricted pledges are shown as a component of net assets with donor restrictions until collected. Net assets with donor restrictions consisted of the following at December 31:

		2019	2018
Donor-restricted endowments:			
Research	$	20,246	17,612
Training		1,211	939
Other programs		881	877
General purpose		3,082	2,946
Pledges receivable for endowment		786	2,396
Total endowment		26,206	24,770
Purpose and time-restricted, and other:			
Unappropriated return		40,384	35,401
Other		5,276	6,958
Total net assets with donor restrictions	$	71,866	67,129

(11) Commitments and Contingencies

The Laboratory leases laboratory and office space and other equipment under leases accounted for as operating leases. Some of these leases have renewal options. Total rental expense was $504 and $321 for the years ended December 31, 2019 and 2018, respectively. Estimated future minimum lease payments under noncancelable facility and equipment operating leases as of December 31, 2019 are as follows:

		Amounts due
Year ending December 31:		
2020	$	586
2021		511
2022		504
2023		194
2024		72
Thereafter		168
Total	$	2,035

(12) Legal Claims

The Laboratory is subject to certain legal proceedings and claims that arise in the ordinary course of conducting its activities. While it is not possible to predict accurately or determine the eventual outcome of such actions, management believes that the outcome of proceedings will not have a material adverse effect on the Laboratory's financial position.

(13) Related Party Transactions

Members of the Laboratory's Board and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the Laboratory. The Laboratory has a written conflict of interest policy that requires, among other things, that no member of the Board may participate in any decision in which he or she has a material financial interest.

Each member of the Board and senior management is required to certify compliance with the conflict of interest policy on an annual basis as well as disclose any potential related party transactions to the General Counsel's Office and the Audit and Enterprise Risk Management Committee.

(14) Subsequent Events

The Laboratory has evaluated subsequent events from the consolidated balance sheet date of December 31, 2019 through May 19, 2020, the date on which the consolidated financial statements were issued, and determined there are no other items to disclose.

In March 2020, the broader U.S. economy was affected by the COVID-19 pandemic. The impact on the Laboratory's finances, if any, cannot yet be determined. The U.S. financial markets have also suffered as a result of the COVID-19 pandemic and therefore negative changes in the fair value of financial instruments held as of December 31, 2019 may have occurred and be material.