KPMG

THE JACKSON LABORATORY

Independent Auditors' Reports as Required by U.S. Office of Management and Budget (OMB) Circular A-133 and *Government Auditing Standards* and Related Information

Year ended December 31, 2014

THE JACKSON LABORATORY

Independent Auditors' Reports as Required by U.S. Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

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KPMG LLP
Two Financial Center
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Exhibit I

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
The Jackson Laboratory:

Report on Compliance for Major Federal Program

We have audited The Jackson Laboratory's (the Laboratory's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Laboratory's major federal program for the year ended December 31, 2014. The Laboratory's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Laboratory's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Laboratory's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Laboratory's compliance.

Opinion on Major Federal Program

In our opinion, the Laboratory complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

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Exhibit I

Report on Internal Control over Compliance

Management of the Laboratory is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Laboratory's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Laboratory's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

June 16, 2015

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
The Jackson Laboratory:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Jackson Laboratory (the Laboratory), which comprise the balance sheet as of December 31, 2014, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Laboratory's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Laboratory's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laboratory's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Laboratory's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results

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of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Laboratory's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Laboratory's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

May 21, 2015

Exhibit III

THE JACKSON LABORATORY

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
• Material weaknesses identified?	______	yes	x	no
• Significant deficiencies identified that are not considered to be material weaknesses?	______	yes	x	none reported
Noncompliance material to the financial statements noted?	______	yes	x	no

Federal Awards

Internal control over major program:				
• Material weaknesses identified?	______	yes	x	no
• Significant deficiencies identified that are not considered to be material weaknesses?	______	yes	x	none reported
Type of auditors' report issued on compliance for major program:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	______	yes	x	no

Identification of Major Program

Name of federal cluster	**CFDA Numbers**
Research and Development Cluster	Various

Dollar threshold used to distinguish between type A and type B programs:	$300,000			
Auditee qualified as low-risk auditee?	x	yes	______	no

(Continued)

THE JACKSON LABORATORY

Schedule of Findings and Questioned Costs

Year ended December 31, 2014

(2) Findings Relating to Financial Statements Reported in Accordance with *Government Auditing Standards*

None reported.

(3) Findings and Questioned Cost Relating to Federal Awards

None reported.

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Exhibit IV

Independent Auditors' Report

The Board of Trustees
The Jackson Laboratory:

Report on the Financial Statements

We have audited the accompanying financial statements of The Jackson Laboratory (the Laboratory), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Laboratory as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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Exhibit IV

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards for the year ended December 31, 2014 is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2015 on our consideration of the Laboratory's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Laboratory's internal control over financial reporting and compliance.

KPMG LLP

May 21, 2015, except for the supplementary
schedule of expenditures of federal awards,
as to which the date is June 16, 2015

Exhibit IV

THE JACKSON LABORATORY

Balance Sheets

December 31, 2014 and 2013

(Dollars in thousands)

Assets		**2014**	**2013**
Cash and equivalents	$	7,199	12,917
Working capital investments, at fair value		144,831	108,908
Funds held in escrow		7,374	10,997
Accounts receivable, net		29,800	22,378
Contributions receivable, net		5,818	2,727
Other assets		16,839	16,601
Long-term investments, at fair value		126,610	108,966
Long-lived assets, net		397,890	329,032
Total assets	$	736,361	612,526
Liabilities			
Accounts payable and accrued expenses	$	48,323	42,721
Accrued pension and postretirement obligations		6,329	6,655
Interest rate swaps, at fair value		6,809	5,347
Deposits and deferred revenue		9,726	7,290
Bonds and note payable, net		104,648	106,015
Connecticut forgivable loans, at fair value		67,540	27,720
Total liabilities		243,375	195,748
Net assets:			
Unrestricted		439,030	369,077
Temporarily restricted		38,626	37,321
Permanently restricted		15,330	10,380
Total net assets		492,986	416,778
Total liabilities and net assets	$	736,361	612,526

See accompanying notes to financial statements

Exhibit IV

THE JACKSON LABORATORY

Statement of Activities

Year ended December 31, 2014

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenue and other support:				
Grants	$ 83,459	—	—	83,459
Contributions	1,175	383	—	1,558
Genetic resources and services	185,316	—	—	185,316
Long-term investment return utilized	—	562	—	562
Other investment return	1,122	—	—	1,122
Other revenue	2,513	—	—	2,513
Total revenue	273,585	945	—	274,530
Net assets released from restrictions	1,734	(1,736)	2	—
Total revenue and other support	275,319	(791)	2	274,530
Expenses:				
Research	91,225	—	—	91,225
Genetic resources and services	108,424	—	—	108,424
Training	5,430	—	—	5,430
Institutional support	45,230	—	—	45,230
Total expenses	250,309	—	—	250,309
Increase in net assets from operating activities	25,010	(791)	2	24,221
Nonoperating activities:				
Grants and contributions for capital and long-term investments	115	1,180	4,948	6,243
Net assets released from restrictions for capital purposes	7	(7)	—	—
Long-term investment return above amounts utilized	4,461	867	—	5,328
Unrealized net loss on interest-rate swaps	(1,462)	—	—	(1,462)
Change in funded status of pension and post-retirement benefit plans	80	—	—	80
Adjustment to fair value of Connecticut forgivable loans	39,737	—	—	39,737
Valuation adjustment for loan to New York Genome Center	2,100	—	—	2,100
Other	(95)	56	—	(39)
Increase in net assets from nonoperating activities	44,943	2,096	4,948	51,987
Increase in net assets	69,953	1,305	4,950	76,208
Net assets, beginning of year	369,077	37,321	10,380	416,778
Net assets, end of year	$ 439,030	38,626	15,330	492,986

See accompanying notes to financial statements.

Exhibit IV

THE JACKSON LABORATORY

Statement of Activities

Year ended December 31, 2013

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:					
Revenue and other support:					
Grants	$	69,652	—	—	69,652
Contributions		1,016	1,369	—	2,385
Genetic resources and services		165,348	—	—	165,348
Long-term investment return utilized		—	608	—	608
Other investment return		302	—	—	302
Other revenue		2,231	—	—	2,231
Total revenue		238,549	1,977	—	240,526
Net assets released from restrictions		1,105	(1,107)	2	—
Total revenue and other support		239,654	870	2	240,526
Expenses:					
Research		71,640	—	—	71,640
Genetic resources and services		100,272	—	—	100,272
Training		4,945	—	—	4,945
Institutional support		39,064	—	—	39,064
Total expenses		215,921	—	—	215,921
Increase in net assets from operating activities		23,733	870	2	24,605
Nonoperating activities:					
Grants and contributions for capital and long-term investments		553	1	1,730	2,284
Net assets released from restrictions for capital purposes		52	(52)	—	—
Long-term investment return above amounts utilized		8,067	4,332	—	12,399
Unrealized net gain on interest-rate swaps		3,650	—	—	3,650
Change in funded status of pension and post-retirement benefit plans		797	—	—	797
Adjustment to fair value of Connecticut forgivable loans		23,619	—	—	23,619
Valuation adjustment for loan to New York Genome Center		(1,000)	—	—	(1,000)
Loss on disposal of fixed assets		(597)	—	—	(597)
Increase in net assets from nonoperating activities		35,141	4,281	1,730	41,152
Increase in net assets		58,874	5,151	1,732	65,757
Net assets, beginning of year		310,203	32,170	8,648	351,021
Net assets, end of year	$	369,077	37,321	10,380	416,778

See accompanying notes to financial statements.

Exhibit IV

THE JACKSON LABORATORY

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	76,208	65,757
Adjustments to reconcile increase in net assets to cash provided by operating activities:			
Depreciation and amortization		27,142	22,724
Adjustment to fair value of Connecticut forgivable loans		(39,737)	(23,619)
Valuation adjustment for loan to New York Genome Center		400	1,000
Realized and unrealized net investment gains		(3,561)	(11,997)
Unrealized net losses (gains) on interest-rate swaps		1,462	(3,650)
Loss on disposal of long-lived assets		39	597
Contributions restricted for long-term investment and assets		(2,812)	(1,208)
Changes in actuarial assumptions		(80)	(606)
Changes in operating assets and liabilities		532	(6,509)
Net cash provided by operating activities		59,593	42,489
Cash flows from investing activities:			
Acquisition and construction of long-lived assets		(98,899)	(100,599)
Proceeds from investments		125,488	180,968
Purchases of investments		(175,843)	(180,769)
Net cash used in investing activities		(149,254)	(100,400)
Cash flows from financing activities:			
Repayment of bonds		(3,240)	(3,000)
Proceeds from financing of real property		2,260	—
Repayment of note payable		(18)	—
Decrease in funds held in escrow		3,623	14,897
Draws under Connecticut forgivable loans		78,506	45,804
Contributions restricted for long-term investment and assets		2,812	1,208
Net cash provided by financing activities		83,943	58,909
Net (decrease) increase in cash and equivalents		(5,718)	998
Cash and equivalents, beginning of year		12,917	11,919
Cash and equivalents, end of year	$	7,199	12,917
Cash paid for interest	$	4,060	2,966

See accompanying notes to 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 mission of the Laboratory is to discover precise genomic solutions for disease and empower the global biomedical community in the 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Laboratory presents its financial statements on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP).

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 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 judgment include Connecticut forgivable loans, obligations under postretirement plan, liabilities under self-insured plans, allowances for uncollectible receivables, valuations of interest-rate swaps, and certain alternative investments.

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 financial statements.

(b) Classification of Net Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-205, *Classification of Donor Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (ASC 958-205), provides guidance on the net asset classification of donor-restricted endowment funds, and requires comprehensive disclosures regarding both donor-restricted endowment funds and board-designated (quasi) endowment funds. The Laboratory is subject to the Maine Uniform Prudent Management of Institutional Funds Act (MUPMIFA) and, accordingly, classifies as temporarily restricted net assets the unappropriated and unspent balance above historic dollar value of its donor-restricted endowment funds. See note 5 for more information about the Laboratory's endowment.

The financial statements have been prepared to focus on the Laboratory as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations but which may be designated for specific purposes by the Laboratory's Board of Trustees.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be released upon actions of the Laboratory meeting the donor-imposed stipulations and/or the passage of time. In addition, unspent appreciation of donor-restricted endowment funds in excess of their historic dollar value is classified as temporarily restricted net assets until appropriated by the Laboratory and spent in accordance with the standard of prudence imposed by MUPMIFA.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity. Generally, the donors permit the Laboratory to use all or part of the income earned and/or capital gains, if any, on related investments for general or specific purposes.

Revenue is reported as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions or it is a gift pledge or remainder trust and included in temporarily restricted revenue until collected. Expenditures of temporarily restricted funds are reported in the program where expended with the release of the restriction shown as a decrease in temporarily restricted net assets and an offsetting increase in unrestricted net assets.

(c) Revenue from Provision of Genetic Resources and Clinical and Research Services

Revenue from providing genetic resources and clinical and research services is recognized when the resources are shipped or the services are provided and is included in Genetic Resources & Services revenue. Accounts receivable from such activities are reported net of allowance for uncollectible accounts.

(d) Revenue from Grants and Research Contracts

The Laboratory recognizes revenue from grants and research contracts as related costs are incurred. Payments received in advance of expenditures are recorded as deferred revenue until expended. The Laboratory received approximately 73% and 76%, respectively, of its revenue from grants and contracts from the National Institutes of Health (NIH) for the years ended December 31, 2014 and 2013. Connecticut Innovations, Incorporated (CI) research and operating grant provided 19% and 13% of the grant revenue in 2014 and 2013, respectively. Indirect costs are billed and recovered in accordance with the terms of the grant and represented $29,434 and $25,205, respectively, of revenue from grants for the years ended December 31, 2014 and 2013. 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 to direct costs and then to indirect costs.

(Continued)

The loss or significant reduction of Connecticut funding or federal programs could have a material adverse effect on the Laboratory's operations. However, the Laboratory is not aware that any federal programs will be discontinued or materially reduced. In addition, direct and indirect costs charged to federal programs are subject to audit and possible future adjustment. Management believes that the Laboratory is in compliance with applicable laws and regulations and that any possible adjustments would not be material to the financial statements.

(e) 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 temporarily restricted net assets and are reclassified to unrestricted net assets 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 permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of cash and publicly traded securities are classified in Level 1 of the fair value hierarchy (see note 2(l)). Contributions of assets other than cash or publicly traded securities are recorded at their estimated fair value at the date of gift. As no market for future contributions exists, pledges are classified in Level 3 of the fair value hierarchy. 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 as temporarily restricted nonoperating support until the assets are acquired or placed in service.

Donor-directed changes made in subsequent periods to their original restrictions are reported as reclassifications between the applicable net asset classes.

(f) Programmatic Expenses

Expenses are presented on the 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.

THE JACKSON LABORATORY

Notes to Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

Expenses incurred by type for the years ended December 31, 2014 and 2013 are presented below:

	December 31, 2014					
Program		**Research**	**Genetic resources and services**	**Training**	**Institutional support**	**Total**
Salaries and wages	$	37,479	36,952	1,872	20,412	96,715
Benefits		11,506	11,344	575	6,266	29,691
Employee recruitment, training, memberships and subscriptions		1,298	667	74	1,620	3,659
Purchased services and stipends		7,455	4,306	972	5,011	17,744
Supplies and shipping		11,669	24,592	326	1,509	38,096
Maintenance, utilities and insurance		5,230	10,573	405	4,964	21,172
Travel and meals		1,443	1,998	607	1,471	5,519
Financing costs		1,014	2,695	46	234	3,989
Depreciation		11,589	12,668	488	2,765	27,510
Other expenses		2,542	2,629	65	978	6,214
Total	$	91,225	108,424	5,430	45,230	250,309

	December 31, 2013					
Program		**Research**	**Genetic resources and services**	**Training**	**Institutional support**	**Total**
Salaries and wages	$	30,690	35,024	1,493	18,194	85,401
Benefits		9,338	10,657	455	5,536	25,986
Employee recruitment, training, memberships and subscriptions		947	387	112	1,660	3,106
Purchased services and stipends		6,670	3,633	1,091	4,132	15,526
Supplies and shipping		8,253	22,704	341	1,184	32,482
Maintenance, utilities and insurance		4,399	10,077	348	4,593	19,417
Travel and meals		1,245	1,719	469	1,262	4,695
Financing costs		880	2,198	52	122	3,252
Depreciation		9,196	11,981	498	1,404	23,079
Other expenses		22	1,892	86	977	2,977
Total	$	71,640	100,272	4,945	39,064	215,921

(Continued)

All direct and indirect costs of fundraising are expensed as incurred and are included in institutional support in the statements of activities. Direct fundraising expenses were $2,454 and $2,217 for the years ended December 31, 2014 and 2013, respectively.

(g) Operating and Nonoperating Activities

The 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 services. Included in operating revenue is investment return appropriated to support operations under the endowment income spending formula approved by the Board of Trustees, as described in note 5(b). Also included in operating revenue are research grant reimbursements of $515 and $806 for the years ended December 31, 2014 and 2013, 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 $720 and $681 for the years ended December 31, 2014 and 2013, respectively.

Nonoperating revenue includes items not related to the Laboratory's recurring activities or revenue that may not be used for operations. Accordingly, 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 (below) the amount appropriated under the Laboratory's spending formula, and grants to acquire land, buildings, and equipment are all reported as nonoperating activities. Changes in fair value of Connecticut forgivable loans and interest-rate swaps, as well as pension and postretirement plan charges above periodic benefit costs, are also all presented as nonoperating activities.

(h) Cash and Equivalents

For the purpose of the statement of cash flows, the Laboratory considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents, except for long-term investment.

(i) Self-Insurance Reserves

The Laboratory is self-insured for worker's compensation claims and certain other healthcare benefits offered to active employees. 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 balance sheet date.

(j) 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, which are classified in Level 3 of the fair value hierarchy. 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.

(Continued)

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	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, 2014 and 2013.

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.

(k) Long-Term Debt Policies

Forgivable loans with recourse only to the collateral are valued at fair value, reflecting the probability of forgiveness and the value of the underlying collateral. All other debt is carried at cost.

Bond issuance costs are capitalized and deferred as other assets, and original issue discount or premium is recorded as a decrease or increase, respectively, to the carrying value of the related bonds. Such issuance costs and premiums or discounts are amortized over the life of the related bonds.

(l) Derivative Instruments

The Laboratory utilizes interest-rate swap agreements with various counterparties to essentially convert its variable-rate debt to fixed rates and not for speculative purposes. The swaps' fair values and changes therein are recognized in the Laboratory's financial statements. Differences between the fixed and variable interest rates in effect are settled net monthly under each swap, increasing or decreasing interest expense. The estimated fair value of each swap is measured at each reporting date and presented as an asset (liability) based on the termination value as of that date using techniques such as discounted cash flow analysis and option pricing models that incorporate assumptions about future market interest rates. This does not include the credit risk of the counterparty in the payable position, which would result in a reduction in the Laboratory's estimated liability. See footnote 8(d) for additional information on the interest rate swaps.

(m) 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 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.

(n) Fair Value of Financial Instruments

The Laboratory discloses fair value information about all financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate fair value. The Laboratory's financial instruments not carried at fair value are carried at net realizable value, which approximates fair value. Such financial instruments consist of cash and equivalents, receivables from customers, and accounts payable and accrued expenses, which would be classified in Level 1 of the fair value hierarchy (excluding employee benefit obligations, which are not financial instruments). As the Laboratory's Finance Authority of Maine Series 2012 bonds payable have a variable rate set by the market, its carrying value approximates fair value. As of December 31, 2014, an independent third-party financial advisor estimated the fair value of the ABAG Series 2007 and ABAG Series 2012

(Continued)

bonds based on recent bond trades reported by Bloomberg. Such value would be lower than the carrying value by approximately $515 in 2014. Both the FAME and ABAG bonds would be classified in Level 2 of the fair value hierarchy.

(o) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates made in the preparation of these financial statements include valuation of investments at fair value, estimated net realizable value of receivables, Connecticut forgivable loans, asset retirement obligations, and actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from estimates.

(p) Reclassifications

Certain amounts from the 2013 financial statements have been reclassified to conform to the 2014 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 that is intended 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 working capital investments is preservation of value and liquidity, relying 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 Finance Committee, which oversees the Laboratory’s investment program in accordance with Board of Trustee approved investment policy, relies on the Investment Subcommittee to recommend investment policy and implement the approved policy. Until October 1, 2013, the Laboratory engaged an investment consultant to support the committee on portfolio allocation, due diligence on investment managers and performance monitoring. As of October 1, 2013, the Laboratory engaged new investment managers whom have discretion to invest funds within broad asset categories and volatility and maximum anticipated drawdown guidelines. The Investment Subcommittee oversees the investment managers.

(b) Investment Strategies

The unrestricted assets are invested to optimize liquidity and stability of returns. Fees are minimized through the use of indexed funds and direct purchases of short-term bonds and notes. The restricted assets may be invested with less liquidity and seek longer term returns through nonmarketable assets. Within its long-term investments, the Laboratory may hold shares or units in traditional institutional stock and fixed income funds as well as in alternative investment funds involving hedged strategies, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, credit default swaps and other instruments, and are valued accordingly. Private equity funds focus on investments not available in the public equity market. Real asset funds generally hold interests in commercial real estate, natural resources, or timber assets. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

(c) Basis of Reporting

Investments 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 alternative investment funds 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.

(d) Classification in the Fair Value Hierarchy

The Laboratory owns interests in alternative investment funds rather than in securities underlying each fund, and therefore it is generally required to classify such investments in Level 2 or 3, even though the underlying securities may not be difficult to value or may be readily marketable. To the extent NAV has been used as a practical expedient to estimate fair value of an investment, that investment’s classification in the fair value hierarchy is based on the Laboratory’s ability to redeem its interest at or near the balance sheet date. The Laboratory owns corporate and U.S. government agency bonds directly through a brokerage account, and although these assets are readily marketable and are considered to have daily liquidity, these bonds have been classified in Level 2 due to the pricing methodology used, which may not consistently utilize identical securities.

Accordingly, 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.

(Dollars in thousands)

The following tables summarize the Laboratory's investments and other assets by major category in the fair value hierarchy as of December 31, 2014 and 2013, as well as related strategy, liquidity and funding commitments:

	December 31, 2014					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption or liquidation**	**Days' notice**
Working capital investments:						
Money market accounts and certificates of deposit	$ 60,623	—	—	60,623	Daily	One
U.S. government agency bonds	—	10,384	—	10,384	Daily	One
Corporate bonds	—	29,681	—	29,681	Daily	One
U.S. and global fixed income funds	21,019	23,124	—	44,143	Daily to Monthly	One to Five
Total working capital investments	81,642	63,189	—	144,831		
Long-term investments (endowment):						
Money market accounts and certificates of deposit	1,814	—	—	1,814	Daily	One
U.S. and global fixed income funds	22,041	—	—	22,041	Daily	One
Equities:						
U.S. mid and large cap value funds	45,281	—	—	45,281	Daily	One
Global large cap	24,185	—	—	24,185	Daily	One
Global – developed markets	12,548	—	—	12,548	Daily	One
Global – emerging markets	1,573	—	—	1,573	Daily	One
Total equities	83,587	—	—	83,587		
Multiple hedged strategies	4,024	4,783	8,567	17,374	Daily to locked-up	One to n/a
Private equity and real assets	—	—	1,794	1,794	Locked-up[1]	N/A
Total long-term investments	111,466	4,783	10,361	126,610		
Total	$ 193,108	67,972	10,361	271,441		

[1] The lock-up periods have various terms with extensions of one to two years. As of December 31, 2014, the average remaining life of these partnerships is approximately nine years. Unfunded future commitments aggregate $4,298. Of the outstanding commitments, $150 will not be called unless extraordinary expenses arise during liquidation.

THE JACKSON LABORATORY

Notes to Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

		December 31, 2013				
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Working capital investments:						
Money market accounts and certificates of deposit	$ 36,550	—	—	36,550	Daily	One
U.S. government agency bonds	—	6,682	—	6,682	Daily	One
Corporate bonds	—	22,004	—	22,004	Daily	One
U.S. and global fixed income funds	20,755	22,917	—	43,672	Daily to Monthly	One to Five
Total working capital investments	57,305	51,603	—	108,908		
Long-term investments (endowment):						
Money market accounts and certificates of deposit	9,618	—	—	9,618	Daily	One
U.S. and global fixed income funds	14,639	—	—	14,639	Daily	One
Equities:						
U.S. mid and large cap value funds	23,196	7,968	—	31,164	Daily to Monthly	One to Thirty
Global large cap	14,691	6,556	—	21,247	Daily to Monthly	One to Thirty
Global – developed markets	5,958	—	—	5,958	Daily to Monthly	One
Global – emerging markets	2,444	2,527	—	4,971	Daily to Quarterly	One to Sixty
Total equities	46,289	17,051	—	63,340		
Multiple hedged strategies	3,003	68	16,754	19,825	Daily to locked-up	One to n/a
Private equity and real assets	—	—	1,544	1,544	Locked-up1	N/A
Total long-term investments	73,549	17,119	18,298	108,966		
Total	$ 130,854	68,722	18,298	217,874		

[1] The lock-up periods have various terms with extensions of one to two years. As of December 31, 2013, the average remaining life of these partnerships is approximately two years. Unfunded future commitments aggregate $109.

(Continued)

(Dollars in thousands)

(e) Level 3 Roll Forward

The following tables present the Laboratory's activity for the years ended December 31, 2014 and 2013 for investments measured at fair value on a recurring basis and classified in Level 3:

Level 3 roll forward		December 31, 2014 Hedge equity funds	Private equity and other	Total
Fair value as of December 31, 2013	$	16,754	1,544	18,298
Transfers out		(4,783)	—	(4,783)
Acquisitions		2,615	964	3,579
Dispositions		(6,299)	(429)	(6,728)
Realized investment gains (losses), net		1,112	(18)	1,094
Unrealized investment loss, net		(832)	(267)	(1,099)
Fair value at December 31, 2014	$	8,567	1,794	10,361

Level 3 roll forward		December 31, 2013 Hedge equity funds	Private equity and other	Total
Fair value as of December 31, 2012	$	11,816	1,564	13,380
Acquisitions		5,300	460	5,760
Dispositions		(2,664)	(915)	(3,579)
Realized investment losses, net		(623)	(6)	(629)
Unrealized investment gains, net		2,925	441	3,366
Fair value at December 31, 2013	$	16,754	1,544	18,298

The changes in unrealized (losses) and gains related to Level 3 investments held as of December 31, 2014 and December 31, 2013 were ($644) and $2,549, respectively. The transfers to Level 2 are the result of expiration of lock up periods. There were no transfers between Level 1 and Level 2 for the fiscal years ended December 31, 2014 and 2013.

(f) Liquidity

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the Laboratory is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, and under such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Laboratory cannot anticipate such changes because they are based on unforeseen events, but should they occur they might result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls in any particular future year are uncertain. In addition, certain agreements or receivership arrangements allow the investment manager to hold the investment for the duration of the fund or determine when distributions will occur.

(Dollars in thousands)

Aggregate investment liquidity as of December 31, 2014 and 2013 is presented below based on redemption or sale period:

		Investment fair values	
		2014	**2013**
Investment redemption or sale period:			
Daily	$	233,173	182,457
Monthly		23,124	8,249
Quarterly		4,783	8,870
Semi-annually to Annually		5,290	6,996
Locked up		5,071	11,302
Total	$	271,441	217,874

(4) Investment Return

The following summarizes investment return for the years ended December 31, 2014 and 2013:

		2014	**2013**
Investment return:			
Interest and dividends	$	3,451	1,312
Realized net gains		8,830	14,310
Unrealized net losses		(5,269)	(2,313)
Investment return	$	7,012	13,309

(Dollars in thousands)

Investment returns are included in the statements of activities as follows for the years ended December 31, 2014 and 2013:

		2014	2013
Investment return:			
Operating:			
Long-term investment return utilized	$	562	608
Other investment return		1,122	302
Nonoperating activities:			
Long-term investment return above amounts utilized		5,328	12,399
Investment return	$	7,012	13,309

Investment return is net of bank and advisory fees, which were $339 and $305 for the years ended December 31, 2014 and 2013, respectively.

(5) Endowment

The Laboratory's endowment consisted of 62 individual donor-restricted funds, established for a variety of purposes, including support of research, training, and the library, as well as Board-designated funds held for the long-term support of the Laboratory's mission.

The Board of Trustees sets separate long-term investment return objectives and risk parameters for donor-restricted and Board-designated funds. For 2014 and a portion of 2013, donor-restricted funds were invested with an investment objective of a real return of 5%, net of fees, a targeted annual volatility of 10% or less and an anticipated maximum drawdown of 25% over a seven-year investment cycle. Prior to October 1, 2013, the investment objective was a nominal return of 7% with a risk profile equivalent to Standard & Poor's index of 500 stocks. In contrast, Board-designated funds are invested with an investment objective of preserving value over the medium term while maintaining liquidity in the short term, defined as two years. The investment return objective is also an average annual real rate of return of 5% over a rolling five-year investment period. Actual returns in any given year may vary from this amount.

(Continued)

(Dollars in thousands)

To satisfy its long-term rate-of-return objectives, the Laboratory relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Laboratory targets a diversified asset allocation to active investment managers and passive indexed funds within the following asset categories: equities, fixed income instruments, and other investments. Other investments include hedge, venture capital, real assets, and derivative strategies.

Effective October 1, 2013, the asset allocation targets are as follows:

	Target asset allocations	
	Donor-restricted	Board-designated
Equities	47%	75%
Fixed income and cash	18	20
Other	35	5
	100%	100%

Prior to October 2013, the asset allocation target for the Donor-restricted funds had a lower allocation to equities and fixed income with an offsetting higher target for other asset categories.

(a) Interpretation of Relevant Law

The Laboratory classifies as permanently restricted net assets the original value of gifts made to establish donor–restricted endowment funds and any additions to such funds. The remaining portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated for expenditure by the Laboratory in a manner consistent with the standard of prudence prescribed by MUPMIFA.

(b) Endowment Spending Policy

Consistent with the standard of prudence prescribed by MUPMIFA, the Board of Trustees considers the preservation of the endowment funds, the mission of the Laboratory and the intent of the donor-restricted endowment, the expected total return of investments, and the possible effect of general price adjustments in making a determination to appropriate or to accumulate donor-restricted endowment funds. The investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by an endowment, while seeking to maintain the purchasing power of endowment assets. In addition, when considering appropriation of Board-designated endowment balances, the Trustees consider the need to maintain unrestricted endowment balances at levels needed to meet liquidity covenants related to outstanding bonds. Accordingly, the Board of Trustees appropriates annually a portion of long-term investment return for spending. In the years ended December 31, 2014 and 2013, this appropriation was generally equal to 4% of the rolling three-year average fair value of investments attributable to donor-restricted endowment funds if the fund specified a programmatic use for the income other than general support

(Continued)

(Dollars in thousands)

of the Laboratory. For individual endowment funds established before June 1, 2009, or where the donor has specified the principal to be held in perpetuity, that are below historical dollar value, or "underwater," no spending is allocated from the fund until the fund recovers. As of December 31, 2014, five endowments were below historical dollar value by a total of $56. No endowments were below historical dollar value as of December 31, 2013.

(c) Endowment Activity

The Laboratory's endowment consisted of the following at December 31, 2014 and 2013:

		2014			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted	$	(56)	33,197	11,600	44,741
Board-designated match for endowed chairs		5,000	—	—	5,000
Board-designated		76,869	—	—	76,869
Total	$	81,813	33,197	11,600	126,610

		2013			
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted	$	—	31,931	9,336	41,267
Board-designated		67,699	—	—	67,699
Total	$	67,699	31,931	9,336	108,966

(Dollars in thousands)

Changes in endowment assets for the years ended December 31, 2014 and 2013 are as follows:

	December 31, 2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, December 31, 2013	$ 67,699	31,931	9,336	108,966
Cash contributions	—	—	2,262	2,262
Board transfer from operating funds to endowment	9,581	—	—	9,581
Investment return	4,461	1,429	—	5,890
Long-term investment return utilized	—	(562)	—	(562)
Adjustment for underwater endowments	(56)	56	—	—
Net assets transferred per restrictions	$ —	(2)	2	—
In-transit transactions	128	345	—	473
Endowment, December 31, 2014	$ 81,813	33,197	11,600	126,610

	December 31, 2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, December 31, 2012	$ 54,258	27,887	8,610	90,755
Cash contributions	—	—	724	724
Board transfer from operating funds to endowment	5,351	—	—	5,351
Investment return	8,067	4,940	—	13,007
Long-term investment return utilized	—	(608)	—	(608)
Net assets transferred per restrictions	—	(2)	2	—
In-transit transactions	23	(286)	—	(263)
Endowment, December 31, 2013	$ 67,699	31,931	9,336	108,966

(Dollars in thousands)

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, 2014 and 2013:

		2014	2013
Due from provision of genetic resources and services	$	22,806	17,766
Amounts reimbursable under grants and contracts		4,194	4,217
Miscellaneous accounts receivable		3,690	1,293
		30,690	23,276
Less allowance for uncollectibles		(890)	(898)
Accounts receivable, net	$	29,800	22,378

(7) Long-Lived Assets

Long-lived assets consisted of the following as of December 31, 2014 and 2013:

		2014	2013
Land and improvements	$	7,193	6,294
Buildings and improvements		479,567	331,273
Construction in progress		23,670	100,975
Equipment		126,693	106,639
		637,123	545,181
Less accumulated depreciation		(239,233)	(216,149)
	$	397,890	329,032

The change in accounts payable for acquisition and construction of long-lived assets was a decrease of $2,491 and an increase of $6,526 for the years ended December 31, 2014 and 2013, respectively.

Commitments to third parties for the purchase of equipment, space renovation and construction projects were $18,650 and $55,958 as of December 31, 2014 and 2013, respectively.

(Dollars in thousands)

(8) Bonds and Note Payable and Related Instruments

(a) Bonds and Note Payable

Bonds and note payable consisted of the following as of December 31, 2014 and 2013:

		2014	2013
Finance Authority of Maine Revenue Bonds (FAME Series 2012 Bonds)	$	38,930	40,725
Association of Bay Area Government for California fixed rate revenue bonds (ABAG Series 2012 bonds)		58,130	59,300
Association of Bay Area Government for California fixed rate revenue bonds (ABAG Series 2007 bonds)		300	575
		97,360	100,600
Less unamortized discount		(204)	(215)
Plus unamortized premium		5,250	5,630
Bonds payable, net		102,406	106,015
Note payable for real estate purchase		2,242	—
	$	104,648	106,015

The FAME Series 2012 bonds carry a variable interest rate and mature serially through July 1, 2031. A bank purchased the FAME Series 2012 bonds under a 10-year bond purchase agreement and supplemental letter agreement under which the Laboratory pays 67% of one-month LIBOR plus 1.02% above LIBOR each month. The agreements contain certain restrictive covenants, including meeting a semi-annual liquidity test, limits on incurring additional debt, and not allowing liens on property. Annually, in connection with providing the audited financial statements, the Laboratory may request an extension of the purchase agreement for up to nine additional years. In 2014, the Laboratory requested, and the bank granted a two year extension of the term of the original purchase agreement until 2024.

Should the financial institution holding the bonds under a direct purchase agreement accelerate the maturities of the obligation due to a subjective clause, under which conditions are not objectively determinable, the Laboratory would consider those obligations to be short-term in nature.

The Laboratory maintains a $10 million one-year renewable line of credit with a bank for working capital purposes. The annual commitment fee of 0.15% of the line is included in financing costs. Draws on the line incur interest at a variable rate based on BBA LIBOR plus a spread. The restrictive covenants are similar to those included in the bank bond purchase agreement. No draws were made on the line of credit in 2013 and 2014.

The Laboratory was in compliance with all financial covenants as of December 31, 2014 and 2013.

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 $33,025 of the ABAG Series 2007 bonds and fund the further fit-out of the Sacramento facility. Construction funds are held by a trustee and drawn monthly to reimburse the Laboratory for construction costs incurred. The Laboratory did not refund the balance of the ABAG Series 2007 bonds, which mature on or before July 1, 2015. The bonds carry a fixed rate of 4.125% for the remaining maturities in 2015.

Unamortized bond issuance costs, which are included in other assets, were $686 and $722 as of December 31, 2014 and 2013, 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.

(b) Connecticut Innovations, Incorporated 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 Connecticut Innovations, Incorporated (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 provides a $145,000 forgivable loan to construct a building and fit it out; a $46,685 forgivable loan for the purchase of equipment over 10 years; and $99,000 in grant commitments to support research and development over ten years. The loans will be forgiven if the Laboratory meets an employment goal of 300 employees for a period of six months, including a minimum of 90 senior scientists with an average wage exceeding a minimum target. In order for forgiveness to occur, the employment goal must be reached within ten years, or within the extended period if the Laboratory exercises an option to extend. The loans are non–recourse to the Laboratory. The loans accrue simple interest at 1% per year, which is forgivable according to the same terms as the loans. If the Laboratory does not meet the employment goal, it will forfeit the building and equipment to the State of Connecticut.

The Laboratory elected, under FASB ASC Topic 825, to report the forgivable loans at fair value. Therefore, the fair value of the loans is based on the probability that the Laboratory will meet the employment goals and the projected value of the underlying assets which collateralize the loans. An independent third-party valuation firm used a Monte Carlo simulation of key business plan assumptions to develop the fair value presented in the balance sheet. The difference between funds drawn through December 31 under the loans and the fair value is included in the nonoperating section of the statement of activities as an adjustment to fair value of Connecticut forgivable loans.

(Dollars in thousands)

As part of the transaction, UCHC provided a 99-year ground lease for the building site. The ground lease contains a provision whereby the property 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. From May 2012 through 2014, the Laboratory leased temporary space from UCHC for use while the permanent facility was constructed. In addition, 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, 2014 and 2013, the Laboratory had incurred $145,176 and $83,949, respectively, in project-related costs, which are included in construction in progress, buildings and improvements, and equipment. As of December 31, 2014 and 2013, the Laboratory had cumulatively received advances and accrued interest under the Connecticut forgivable loans of $134,539 and $54,982, respectively. The advances include $5,351 and $1,974 held in escrow by CII as retainage as of December 31, 2014 and 2013, respectively. The funds held in escrow are included in Funds Held in Escrow.

The following table summarizes the valuation techniques and significant unobservable inputs used by the Laboratory that are categorized within Level 3 of the fair value hierarchy as of December 31:

	Fair value at December, 31 2014	Valuation technique	Unobservable inputs	Range (weighted average)
Connecticut forgivable loans	$ 67,540	Third-party valuation based on Monte Carlo simulations	Employee annual salaries by position	$28 – $327 ($104k)
			Employee annual salaries increases	1% – 2.5% (1.73%)
			Employee benefits as a% of salaries	25% – 40% (32.5%)
			Weighted case scenario probabilities	65% – 90% (78.33%)

	Fair value at December, 31 2013	Valuation technique	Unobservable inputs	Range (weighted average)
Connecticut forgivable loans	$ 27,720	Third-party valuation based on Monte Carlo simulations	Employee annual salaries by position	$28 – $585 ($116k)
			Employee annual salaries increases	1% – 2.5% (1.73%)
			Employee benefits as a% of salaries	25% – 40% (32.5%)
			Weighted case scenario probabilities	65% – 90% (78.33%)

(Dollars in thousands)

(c) Maturities of Long-Term Debt

Maturities of long-term debt as of December 31, 2014, were as follows:

		Amounts due
Year ending December 31:		
2015	$	3,458
2016		3,588
2017		3,727
2018		3,882
2019		4,043
Thereafter		214,083
Total	$	232,781

Included in "Thereafter" in the above table is $133,179 drawn through December 31, 2014 under the nonrecourse Connecticut loan agreements described in note 8(b). Such balance would be forgiven if the Laboratory meets certain employment goals as defined in the agreements.

(d) Interest-Rate Swaps

The Laboratory entered into interest-rate swap agreements, including forward-starting swaps, to essentially convert the variable rate on the $38,930 of FAME borrowings outstanding to various fixed rates. The swaps' notional amounts amortize at the same rate as and cover the entire related debt principal throughout the term of the bonds, which mature in 2031.

Because the swap fair values are primarily based on observable inputs, such as the interest yield curve, that are corroborated by market data, the swap fair values are categorized as Level 2 in the fair value hierarchy. The estimated fair value shown in the financial statements is based on the estimated termination value as of the end of the year.

(Dollars in thousands)

As of December 31, 2014 and 2013, the following interest-rate swap agreements were outstanding:

	2014					
Counterparty	**Issue date**	**Effective date**	**Expiration date**	**Remaining notional amount**	**Swap fixed rate**	**Fair value asset (liability)**
Bank of America	6/12/2002	7/1/2002	7/1/2022	$ 10,395	3.920%	$ (1,635)
Bank of America	6/11/2003	7/1/2003	7/1/2031	11,325	2.859	(1,339)
Morgan Stanley	5/5/2005	7/1/2005	7/1/2031	6,815	3.271	(1,018)
Morgan Stanley	6/20/2003	7/1/2012	7/1/2031	10,395	4.140	(2,320)
Bank of America*	6/20/2003	7/1/2022	7/1/2031	5,905	4.000	(497)
Totals						$ (6,809)

* As of December 31, 2014, represents a separate forward swap that effectively extends the initial swap expiration date through the related debt maturity date.

	2013					
Counterparty	**Issue date**	**Effective date**	**Expiration date**	**Remaining notional amount**	**Swap fixed rate**	**Fair value asset (liability)**
Bank of America	6/12/2002	7/1/2002	7/1/2022	$ 10,875	3.920%	$ (1,605)
Bank of America	6/11/2003	7/1/2003	7/1/2031	11,835	2.859	(857)
Morgan Stanley	5/5/2005	7/1/2005	7/1/2031	7,140	3.271	(758)
Morgan Stanley	6/20/2003	7/1/2012	7/1/2031	10,875	4.140	(1,955)
Bank of America*	6/20/2003	7/1/2022	7/1/2031	5,905	4.000	(172)
Totals						$ (5,347)

* As of December 31, 2013, represents a separate forward swap that effectively extends the initial swap expiration date through the related debt maturity date.

The variable-rate side of the swaps is based on 67% of one-month LIBOR + 1.02%. The Morgan Stanley swap agreements contain a requirement for the Laboratory to post cash collateral if the aggregate mark-to-market value of the Morgan Stanley swaps exceeds a $5,000 liability as of any month-end. The Bank of America swap agreements contain a requirement for the Laboratory to post cash collateral if the aggregate mark-to-market value of the Bank of America swaps exceed an $8,000 liability as of any month end. The Morgan Stanley and Bank of America mark-to-market threshold amounts are exclusive. The counterparties are required to maintain a minimum credit rating as per the individual agreements.

Interest rate volatility, remaining outstanding principal and time to maturity will affect each swap's fair value at subsequent reporting dates. To the extent the Laboratory holds a swap through its expiration date, the swap's fair value will reach zero.

(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. Participants invest their account balances with funds offered through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). All regular full-and part-time employees working at least 20 hours per week are eligible to participate in the plan after completing six months of service. The Laboratory contributes 5% of an employee's earnings with each bi-weekly payroll. In addition, the Laboratory matches employee contributions up to an additional 5% of earnings limited by the maximum allowed contribution. Employees vest in the employer contributions as follows: 50% after two full years of employment and 100% after four years of employment. Contribution expense was $7,413 and $6,827 for the years ended December 31, 2014 and 2013, respectively.

(b) Defined Benefit Retirement Plan

Effective January 31, 2014, the Laboratory terminated the defined benefit pension plan (Pension Plan). All assets were distributed by September 2014, eliminating the liability under the Pension Plan. The Pension Plan purchased an annuity contract from a qualified financial institution to assume all liability for monthly payment obligations to retirees and nonretirees electing to receive monthly benefits upon retirement. Participants who elected a lump sum payment, calculated in accordance with ERISA and Pension Plan documents, received funds or, as directed, rolled over the funds into their 403(b) retirement plan accounts. Prior to termination, the Pension Plan, covering employees other than scientific and management staff, was frozen in 1995; no additional participants added nor additional benefit accrued after that date. The Laboratory continued to make annual contributions to the defined benefit plan based upon Employee Retirement Income Security Act of 1974 (ERISA) minimum funding requirements. The Laboratory contributed $529 and $985 for the years ended December 31, 2014 and 2013.

In addition, the Laboratory has supplemental pension obligations under employment agreements. The present value of the obligations is included in accrued expenses and is funded primarily through a split-interest life insurance arrangement. The cash value of the insurance policy is included in other assets. Life annuities were purchased to meet another obligation to provide additional retirement income. The cost of these annuities is included in other assets and is being amortized over the vesting period after which the annuity contracts transfer to the employee.

(c) Postretirement Medical Plan

The Laboratory maintains a 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 $477 and $593 in the years ended December 31, 2014 and 2013, respectively, the Laboratory has not funded the postretirement plan. Contributions by retired employees are required for coverage of dependents. In addition, the Laboratory has agreed to provide

(Dollars in thousands)

$3.6 per year towards the cost of medical coverage for retired employees not yet eligible for Medicare and meeting a combined years of service and age threshold.

The impact of the changes in actuarial assumptions was a decrease in the liability resulting in a loss of $140 and a gain of $5 for the years ended December 31, 2014 and 2013, respectively, included in the nonoperating section of the statements of activities.

(d) Combined Disclosures – Defined Benefit Pension and Postretirement Medical Plans

The Laboratory uses an annual measurement date of December 31 to determine the benefit obligations for its plans. Following are significant required disclosures on a combined basis:

Benefit obligations and funded status of the plans for the years ended December 31, 2014 and 2013 were as follows:

		Year ended December 31, 2014	
		Pension plan benefits	**Retiree medical benefits**
Changes in benefit obligations:			
Benefit obligation at beginning of year	$	7,167	6,331
Interest cost		235	275
Total actuarial (gain) loss		(51)	380
Medicare Part D subsidy with adjustment		—	(179)
Benefits paid, net of employee contributions		(8)	(478)
Termination of plan		(7,343)	—
Benefit obligation at end of year		—	6,329
Changes in plan assets:			
Fair value of plan assets at beginning of year		6,843	—
Actual return on plan assets		(21)	—
Employer contributions		529	477
Employee contributions		—	50
Benefits paid		(8)	(527)
Distribution of assets to terminate plan		(7,343)	—
Fair value of plan assets at end of year		—	—
Accrued benefit cost recognized in the balance sheet	$	—	(6,329)

(Dollars in thousands)

		Year ended December 31, 2013	
		Pension plan benefits	**Retiree medical benefits**
Changes in benefit obligations:			
Benefit obligation at beginning of year	$	7,862	6,641
Interest cost		273	225
Total actuarial (gain) loss		(655)	49
Medicare Part D subsidy with adjustment		—	9
Benefits paid, net of employee contributions		(313)	(593)
Benefit obligation at end of year		7,167	6,331
Changes in plan assets:			
Fair value of plan assets at beginning of year		6,024	—
Actual return on plan assets		147	—
Employer contributions		985	593
Employee contributions		—	63
Benefits paid		(313)	(656)
Fair value of plan assets at end of year		6,843	—
Accrued benefit cost recognized in the balance sheet	$	(324)	(6,331)

Net periodic benefit cost consisted of the following components for the years ended December 31, 2014 and 2013:

		Year ended December 31, 2014		Year ended December 31, 2013	
		Pension plan benefits	**Retiree medical benefits**	**Pension plan benefits**	**Retiree medical benefits**
Interest cost	$	235	275	273	225
Expected return on assets		—	—	(331)	—
Medicare Part D subsidy		—	(48)	—	(40)
Amortization of net actuarial loss		190	48	322	43
Net periodic benefit cost recorded	$	425	275	264	228

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Notes to Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

The net loss and prior service credit for the postretirement plan that will be amortized into net periodic benefit cost in 2015 is $69. Weighted average assumptions used to determine benefit obligations for 2014 and 2013 were as follows:

	September 26, 2014	December 31, 2014	December 31, 2013	
	Pension plan benefits	Retiree medical benefits	Pension plan benefits	Retiree medical benefits
Discount rate	3.88%	3.42%	4.46%	4.06%
Rate of compensation increase	n/a	n/a	n/a	n/a

Discount rate and expected long-term rate of return on plan assets used to determine net periodic benefit cost for the years ended December 31, 2014 and 2013 were as follows:

	December 31, 2014		December 31, 2013	
	Pension plan benefits	Retiree medical benefits	Pension plan benefits	Retiree medical benefits
Discount rate	4.46%	4.06%	3.55%	3.16%
Expected long-term rate of return	n/a	n/a	5.50	n/a

The assumed health care cost trend rates at December 31, 2014 and 2013 were as follows:

	2014	2013
Healthcare cost trend rate assumed for next year	5.5%	6.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5	4.5
Year that the rate reaches the ultimate trend rate	2017	2018

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-point increase	One-point decrease
Effect on total of service and interest cost	$ 21	19
Effect on total on postretirement benefit obligation	593	518

(Dollars in thousands)

The Laboratory's estimated future benefit payment obligation for the retiree medical benefit pension plan future benefit payment obligations are as follows:

		Retiree medical benefits
Year ending December 31:		
2015	$	507
2016		512
2017		502
2018		496
2019		490
2020 through 2024		2,315

(e) Deferred Compensation Program

The Laboratory maintains a nonqualified salary deferral plan (the 457(b) Plan) authorized under Section 457(b) of the Internal Revenue Code. This plan allows management and highly compensated employees (salaries over $115) to defer up to $17.5 of their salary in both 2014 and 2013. The Laboratory's liability for an employee's deferred salary is adjusted for deemed investment gains or losses based on the employee's selection of an investment fund proxy. Distributions are made the earlier of death, disability, retirement, or cessation of employment. Under the 457(b) Plan, the Laboratory may add discretionary credits to an employee's account. The Laboratory holds an investment approximately matching the employee investment selections to assure funding is available to meet future liabilities. The liability at December 31, 2014 and 2013 was $3,369 and $2,906, respectively, and is included in accounts payable and accrued expenses. The investments valued at $3,369 and $2,906 as of December 31, 2014 and 2013, respectively, and are included in other assets.

The Laboratory also maintains a deferred compensation program under Section 457(f) of the Internal Revenue Code under which a portion of key employees' compensation is deferred and vested over time. The Laboratory funds the deferred compensation obligation through a Rabbi Trust. The liability of $1,053 and $937 at December 31, 2014 and 2013, respectively, is included in accounts payable and accrued expenses, and the corresponding Rabbi Trust assets are included in other assets because they are subject to claims of creditors of the Laboratory.

(Continued)

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Notes to Financial Statements

December 31, 2014 and 2013

(Dollars in thousands)

(10) Restricted Net Assets

The Laboratory classifies gift pledges based on donor purpose restriction. Unrestricted pledges are shown as time restricted until collected.

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of December 31, 2014 and 2013:

		2014	2013
Time-restricted	$	1,327	1,410
Unappropriated return on donor-restricted endowments		33,197	31,931
Restricted for acquisition and construction of long-lived assets		1,645	465
Restricted for research, training and other programs		2,457	3,515
	$	38,626	37,321

(b) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of December 31, 2014 and 2013:

		2014	2013
Research	$	7,539	5,497
Training		406	381
Other programs		706	697
General purposes		2,949	2,761
Total endowment		11,600	9,336
Pledges receivable		3,730	1,044
	$	15,330	10,380

(Continued)

(Dollars in thousands)

(c) Pledges Receivable and Remainder Trusts

As of December 31, net assets restricted for the following purposes included outstanding pledges and remainder trusts, net of allowance for uncollectible pledges and time-value discounts:

		2014	2013
Time-restricted only	$	1,327	1,410
Restricted for acquisition or construction of long-lived assets		629	—
Restricted for research, training, and other programs		132	273
Permanently restricted		3,730	1,044
	$	5,818	2,727

(d) Net Assets Released from Restrictions

Net assets released from restrictions consisted of the following for the years ended December 31, 2014 and 2013:

		Year ended December 31	
		2014	2013
Operating activities:			
Research programs	$	778	529
Training programs		580	410
Other		228	40
Collection of unrestricted pledges		148	126
Transfer to permanently restricted		2	2
		1,736	1,107
Nonoperating activities:			
Acquisition and construction of long-lived assets		7	52
	$	1,743	1,159

(11) Commitments and Contingencies

(a) Leases

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 $446 and $434 for the years ended December 31, 2014 and 2013, respectively.

(Dollars in thousands)

Estimated future minimum lease payments under noncancelable facility and equipment operating leases as of December 31, 2014 are as follows:

		Amounts due
Year ending December 31:		
2015	$	67
2016		16
2017		8
Total	$	91

(b) 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.

(c) Other Commitments

In the ordinary course of business, the Laboratory enters into contracts to lock in the price of electricity not for speculative purposes, but to eliminate the variability in market pricing over several months for operational purposes. Such commitments are accounted for as costs are incurred and do not contain features that require them to be accounted for as derivative instruments.

(12) Related Party Transactions

Members of the Laboratory's Board of Trustees 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 of Trustees may participate in any decision in which he or she has a material financial interest.

Each trustee 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 Audit Committee. When such a relationship exists, the Laboratory requires such transactions be conducted at arm's length, with terms that are fair and reasonable to and for the benefit of the Laboratory. For senior management, the Laboratory requires annual disclosure of significant financial interests in, or governance, employment, consulting relationships with entities doing business with the Laboratory. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interest of the Laboratory.

(Continued)

The Laboratory licenses intellectual property to a company in which a member of the faculty holds an ownership interest and several employees serve as advisors. The license transaction is an arm's length basis. The Laboratory is a co-investor with two former Trustees in a limited partnership established to invest in a venture fund. Further, the Laboratory maintains deposits in and uses payment card processing services from a bank in which a Trustee and officer of the Laboratory serves on the Board of Directors.

(13) Subsequent Events

The Laboratory has evaluated subsequent events from the balance sheet date of December 31, 2014 through May 21, 2015, the date on which the financial statements were issued, and determined there are no other items to disclose.

Exhibit IV

THE JACKSON LABORATORY

Supplementary Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal grantor/pass-through grantor/program title	CFDA number	Grant award number	Federal expenditures
Research and Development Cluster:			
Department of Health and Human Services:			
Direct awards, National Institutes of Health (NIH):			
Oral Diseases and Disorders Research	93.121	DE020052A	$ 660,345
Human Genome Research	93.172	HG000330G	5,702,638
Human Genome Research	93.172	HG002273D	3,557,556
Human Genome Research	93.172	HG006332A	2,982,625
Human Genome Research	93.172	HG007497A	2,872,194
Human Genome Research	93.172	HG007554A	132,739
Human Genome Research	93.172	HG007053A	61,579
Research Related to Deafness and Communication Disorders	93.173	DC004301C	371,937
Research Related to Deafness and Communication Disorders	93.173	DC005827C	389,904
Research Related to Deafness and Communication Disorders	93.173	DC014417A	32,788
Alcohol Research Programs	93.273	AA018776A	352,793
Drug Abuse and Addiction Research Programs	93.279	DA028420A	240,385
Drug Abuse and Addiction Research Programs	93.279	DA032192B	23,126
Trans-NIH Research Support	93.310	HG006332A	358,796
Trans-NIH Research Support	93.310	OD007070A	830,641
Research Infrastructure Programs	93.351	OD010920D	13,206
Research Infrastructure Programs	93.351	OD010972H	820,978
Research Infrastructure Programs	93.351	OD016473A	270,994
Research Infrastructure Programs	93.351	RR026296A	1,450,317
Research Infrastructure Programs	93.351	RR032656A	814,248
Research Infrastructure Programs	93.351	RR033367A	5,550,006
National Center for Research Resources	93.389	RR016049C	1,028,516
National Center for Research Resources	93.389	RR032339A	99,038
Cancer Cause and Prevention Research	93.393	CA186714A	483,545
Cancer Treatment Research	93.395	CA184704A	5,449
Cancer Biology Research	93.396	CA089713C	773,965
Cancer Biology Research	93.396	CA155825A	90,858
Cancer Biology Research	93.396	CA184851A	89,421
Cancer Centers Support Grants	93.397	CA034196F	1,084,749
Cancer Centers Support Grants	93.397	CA034196G	757,932
Cancer Research Manpower	93.398	CA122819B	98,555
Cancer Research Manpower	93.398	CA155164A	4,836
Cancer Research Manpower	93.398	CA174584A	22,790
Cancer Research Manpower	93.398	CA172010A	2,838
Cardiovascular Diseases Research	93.837	HL077796B	266,341
Cardiovascular Diseases Research	93.837	HL077796C	265,103
Cardiovascular Diseases Research	93.837	HL081162B	230,606
Cardiovascular Diseases Research	93.837	HL095668A	350,983
Blood Diseases and Resources Research	93.839	HL085480C	922
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR049288C	529,268
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR054170B	519,321
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR056635A	281,217
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR060234A	324,146
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR060981A	11,101
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR063781A	130,089
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK046266D	128,274
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK046266E	267,861
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK085441A	243,564
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK087790A	390,340
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK095735A	383,251
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK097610A	397,753
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK100692A	194,785
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK092251B	113,228
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK101735A	42,061
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK007449F	71,594
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS031348E	282,482
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS031348F	53,810
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS054154B	496,143
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS061971B	404,965
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS064013A	170,691
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS073576A	434,036
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS075382A	139,896
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS075447A	117,527
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS078251A	122,838
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS078795A	54,398
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS079677A	44,764
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS081334A	101,156
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS082658A	85,166
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS082666A	124,141
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS085285A	109,036
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS085762A	168,556
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS087351A	135,574
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS042613B	134,547
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS064013B	85,626
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS090030A	3,192
Biomedical Research and Research Training	93.859	GM061364C	50,706
Biomedical Research and Research Training	93.859	GM070683B	221,503
Biomedical Research and Research Training	93.859	GM072863C	473,020
Biomedical Research and Research Training	93.859	GM076468B	3,038,060
Biomedical Research and Research Training	93.859	GM078452B	241,887
Biomedical Research and Research Training	93.859	GM078643B	155,477
Biomedical Research and Research Training	93.859	GM083408B	190,169
Biomedical Research and Research Training	93.859	GM099640A	1,948,818
Child Health and Human Development Extramural Research	93.865	HD042137B	446,984

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Supplementary Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal grantor/pass-through grantor/program title	CFDA number	Grant award number	Federal expenditures
Child Health and Human Development Extramural Research	93.865	HD007065G	$ 96,422
Child Health and Human Development Extramural Research	93.865	HD033816E	348,633
Child Health and Human Development Extramural Research	93.865	HD062499A	2,240,569
Child Health and Human Development Extramural Research	93.865	HD072628A	57,719
Child Health and Human Development Extramural Research	93.865	HD073077A	152,197
Child Health and Human Development Extramural Research	93.865	HD074299A	69,722
Child Health and Human Development Extramural Research	93.865	HD079344A	90,107
Child Health and Human Development Extramural Research	93.865	HD078485A	10,347
Aging Research	93.866	AG022308B	352,307
Aging Research	93.866	AG022308C	667,583
Aging Research	93.866	AG032333A	296,053
Aging Research	93.866	AG038070A	914,953
Aging Research	93.866	AG038560A	300,102
Vision Research	93.867	EY011721C	85,256
Vision Research	93.867	EY011721D	314,521
Vision Research	93.867	EY011996C	184,985
Vision Research	93.867	EY016501B	1,979,189
Vision Research	93.867	EY019943A	516,318
Vision Research	93.867	EY021525A	666,750
Vision Research	93.867	EY022825A	45,008
Total direct awards, NIH			56,598,004
Pass-through awards, NIH:			
University of Cambridge			
Human Genome Research	93.172	HG004834B UCAMB	112,943
Geisinger Clinic			
Human Genome Research	93.172	HG006834A GEISINGER	26,932
Trustees of the University of Pennsylvania			
National Center on Sleep Disorders Research	93.233	HL111725A PENN	81,734
Stanford Junior University			
Trans-NIH Research Support	93.310	DE023789A STANFORD	294,007
Stanford Junior University			
Trans-NIH Research Support	93.310	DK102556A STANFORD	23,556
University of Massachusetts			
Research Infrastructure Programs	93.351	OD018259A UMA	103,616
Brigham and Women’s Hospital			
Cancer Detection and Diagnosis Research	93.394	CA173190A BWH	128,259
The Pennsylvania State University			
Cancer Treatment Research	93.395	CA171983A PennSt	111,957
Cold Spring Harbor Laboratory			
Cancer Treatment Research	93.395	CA180944A CSHL	29,111
The Research Foundation of SUNY			
Cancer Biology Research	93.396	CA131407 SUNY	34,419
University of Pittsburgh			
Cardiovascular Diseases Research	93.837	HL098180A PITT	124,151
New England Research Institutes, Inc.			
Cardiovascular Diseases Research	93.837	HL098188A NERI	42,900
Thomas Jefferson University			
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR055225A THOMJE	45,658
University of Connecticut Health Center			
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR063702A UConn	111,880
University of Virginia			
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	AR064790A VIRGIN	20,158
Beth Israel Deaconess Medical Center			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK097818A BIDMC	41,017
Beth Israel Deaconess Medical Center			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK097818 BIDMC-S1	72,724
Medical College of Wisconsin			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK097605A MCW	113,855
University of Wisconsin			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK101573A UW	6,618
Vanderbilt University Medical Center			
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DK089572A VU	143,993
Johns Hopkins University School			
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	NS087579A JHU	18,999
Mayo Clinic			
Allergy, Immunology and Transplantation Research	93.855	AI089859A MAYO	36,076
Mt. Sinai School of Medicine			
Allergy, Immunology and Transplantation Research	93.855	AI089246A MTSINAI	120,863
University of Massachusetts			
Allergy, Immunology and Transplantation Research	93.855	AI046629 UMA	4,760
University of Massachusetts			
Allergy, Immunology and Transplantation Research	93.855	AI046629C UMA	31,849
University of Massachusetts			
Allergy, Immunology and Transplantation Research	93.855	AI112321A UMA	63,431
University of Massachusetts			
Allergy, Immunology and Transplantation Research	93.855	AI111809A UMA	29,905

(Continued)

Exhibit IV

THE JACKSON LABORATORY

Supplementary Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Federal grantor/pass-through grantor/program title	**CFDA number**	**Grant award number**	**Federal expenditures**
University of Massachusetts			
Allergy, Immunology and Transplantation Research	93.855	DK104218A UMA	$ 1,005
Massachusetts General Hospital			
Allergy, Immunology and Transplantation Research	93.855	AI081845A MGH	231,486
University of Delaware			
Biomedical Research and Research Training	93.859	GM080646B UDL	231,597
University of Washington			
Child Health and Human Development Extramural Research	93.865	HD042454C UW	409,979
Massachusetts General Hospital			
Child Health and Human Development Extramural Research	93.865	HD068250A MGH	108,236
Massachusetts General Hospital			
Child Health and Human Development Extramural Research	93.865	HD068250A MGHLee	289,547
Brigham and Women's Hospital			
Vision Research	93.867	EY010123D BWH	33,906
Total pass-through awards, NIH			3,281,127
Total Department of Health and Human Services			59,879,131
National Science Foundation (NSF):			
Direct awards, NSF:			
Biological Sciences	47.074	DBI 1262049	98,734
Total direct awards, NSF			98,734
Pass-through awards, NSF:			
University of South Dakota			
Biological Sciences	47.074	DBI 1062542 USD	2,695
Total pass-through awards, NSF			2,695
Total NSF			101,429
Direct awards, other Federal:			
Department of Defense:			
Military Medical Research and Development	12.420	DOD YUN	54,764
Military Medical Research and Development	12.420	DOD GAC	282,066
USAMRIID:			
Military Medical Research and Development	12.420	USAMRIID LDS	27,927
Total direct other Federal awards			364,757
Total Research and Development Cluster			$ 60,345,317

See accompanying notes to supplementary schedule of expenditures of federal awards.

THE JACKSON LABORATORY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

(1) Definition of Reporting Entity and Basis of Presentation

The accompanying schedule of expenditures of federal awards presents expenditures of all federal awards programs of The Jackson Laboratory (the Laboratory), including awards passed through to the Laboratory from other organizations (i.e., primary recipients), for the year ended December 31, 2014. The schedule is presented using the accrual basis of accounting. Negative amounts on the schedule represent adjustments to expenditures reported in a prior year.

For purposes of the schedule, federal awards include grants, contracts, and similar agreements entered into directly between the Laboratory and agencies and departments of the federal government and all subawards to the Laboratory by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are categorized in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Laboratory, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Laboratory.

(2) Subrecipient Awards

The Laboratory passes certain awards through to subrecipient organizations. Expenditures incurred by subrecipients and reimbursed by the Laboratory amounted to $5,702,906 for the year ended December 31, 2014 and are summarized as follows:

Subrecipient	CFDA No.	Amount
Albert Einstein College of Medicine	93.172	$ 13,917
Baylor University	93.273	56,745
Boston College	93.172	201,951
Boston University	93.866	27,030
California Institute of Technology	93.172	373,282
Carnegie Institution	93.172	135,964
Children’s Research Institute	12.420	95,710
Cleveland Clinic Foundation	93.867	16,564
Cornell University	93.864	46,252
European Molecular Biology Laboratories	93.172	398,366
The President & Fellows of Harvard College	93.172	253,213
Imperial College London	93.846	72,337
Louisiana State University	93.172	119,920
Medical University of South Carolina	93.846	45,086
Northwestern University	93.172	81,252
Phoenix Bioinformatics Corporation	93.172	50,931
Purdue University	93.846	129,723
Purdue University	93.853	28,862
Research Foundation of SUNY	93.173	53,969

(Continued)

THE JACKSON LABORATORY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended December 31, 2014

Subrecipient	CFDA No.		Amount
Signal Solutions, LLC	93.172	$	92,896
Stanford University	93.172		498,224
University of California	93.172		946,504
University of California	93.859		79,091
University of Connecticut	93.846		13,728
University of Florida	93.847		7,135
University of Maine	93.173		28,053
University of Maine	93.310		35,368
University of Maine	93.846		97,697
University of Maine	93.867		30,656
University of Michigan	93.172		89,634
University of North Carolina	93.172		2,970
University of North Carolina	93.859		249,796
University of Southern California	93.172		635,574
University of Tennessee	93.273		64,858
University of Texas	93.172		85,993
University of Washington	93.172		227,172
University of Wisconsin	93.859		34,256
Washington University, St. Louis	93.172		36,105
Yale University	93.172		246,122
		$	5,702,906