



THE JACKSON LABORATORY

Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
The Jackson Laboratory:

We have audited the accompanying financial statements of The Jackson Laboratory (the Laboratory), which comprise the balance sheets as of December 31, 2015 and 2014, 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. 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 organization'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 organization'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 Jackson Laboratory as of December 31, 2015 and 2014, 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.

KPMG LLP

Boston, Massachusetts
May 5, 2016

THE JACKSON LABORATORY

Balance Sheets

December 31, 2015 and 2014

(Dollars in thousands)

Assets	2015	2014
Cash and equivalents	\$ 4,375	7,199
Working capital investments, at fair value	171,833	144,831
Funds held in escrow	326	7,374
Accounts receivable, net	32,988	29,800
Contributions receivable, net	6,067	5,818
Other assets	15,628	16,839
Long-term investments, at fair value	132,699	126,610
Long-lived assets, net	391,073	397,890
Total assets	\$ 754,989	736,361
Liabilities		
Accounts payable and accrued expenses	\$ 41,022	48,323
Accrued pension and postretirement obligations	5,659	6,329
Interest rate swaps, at fair value	6,454	6,809
Deposits and deferred revenue	7,157	9,726
Bonds and note payable, net	100,800	104,648
Connecticut forgivable loans, at fair value	7,270	67,540
Total liabilities	168,362	243,375
Net assets:		
Unrestricted	527,883	439,030
Temporarily restricted	40,348	38,626
Permanently restricted	18,396	15,330
Total net assets	586,627	492,986
Total liabilities and net assets	\$ 754,989	736,361

See accompanying notes to financial statements

THE JACKSON LABORATORY

Statement of Activities

Year ended December 31, 2015

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating activities:				
Revenue and other support:				
Grants	\$ 82,052	—	—	82,052
Contributions	1,147	3,377	—	4,524
Genetic resources and services	209,836	—	—	209,836
Long-term investment return utilized	—	548	—	548
Other investment return	801	—	—	801
Other revenue	2,565	—	—	2,565
Total revenue	<u>296,401</u>	<u>3,925</u>	<u>—</u>	<u>300,326</u>
Net assets released from restrictions	1,736	(1,738)	2	—
Total revenue and other support	<u>298,137</u>	<u>2,187</u>	<u>2</u>	<u>300,326</u>
Expenses:				
Research	102,407	—	—	102,407
Genetic resources and services	121,245	—	—	121,245
Training	5,958	—	—	5,958
Institutional support	51,933	—	—	51,933
Total expenses	<u>281,543</u>	<u>—</u>	<u>—</u>	<u>281,543</u>
Increase in net assets from operating activities	16,594	2,187	2	18,783
Nonoperating activities:				
Grants and contributions for capital and long-term investments	138	168	3,064	3,370
Long-term investment return above amounts utilized	(517)	(757)	—	(1,274)
Unrealized net gain on interest-rate swaps	355	—	—	355
Change in funded status of pension and post-retirement benefit plans	490	—	—	490
Adjustment to fair value of Connecticut forgivable loans	75,936	—	—	75,936
Other	(4,143)	124	—	(4,019)
Increase (decrease) in net assets from nonoperating activities	<u>72,259</u>	<u>(465)</u>	<u>3,064</u>	<u>74,858</u>
Increase in net assets	88,853	1,722	3,066	93,641
Net assets, beginning of year	439,030	38,626	15,330	492,986
Net assets, end of year	<u>\$ 527,883</u>	<u>40,348</u>	<u>18,396</u>	<u>586,627</u>

See accompanying notes to financial statements.

THE JACKSON LABORATORY

Statement of Activities

Year ended December 31, 2014

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>273,585</u>	<u>945</u>	<u>—</u>	<u>274,530</u>
Net assets released from restrictions	1,734	(1,736)	2	—
Total revenue and other support	<u>275,319</u>	<u>(791)</u>	<u>2</u>	<u>274,530</u>
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	<u>250,309</u>	<u>—</u>	<u>—</u>	<u>250,309</u>
Increase (decrease) 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	<u>44,943</u>	<u>2,096</u>	<u>4,948</u>	<u>51,987</u>
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	<u>\$ 439,030</u>	<u>38,626</u>	<u>15,330</u>	<u>492,986</u>

See accompanying notes to financial statements.

THE JACKSON LABORATORY

Statements of Cash Flows

Years ended December 31, 2015 and 2014

(Dollars in thousands)

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 93,641	76,208
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation and amortization	33,313	27,142
Adjustment to fair value of Connecticut forgivable loans	(75,936)	(39,737)
Valuation adjustment for loan to New York Genome Center	—	400
Realized and unrealized net investment losses (gains)	6,753	(3,561)
Unrealized net (gains) losses on interest-rate swaps	(355)	1,462
Loss on disposal of long-lived assets	4,281	39
Contributions restricted for long-term investment and assets	(4,830)	(2,812)
Changes in actuarial assumptions	(490)	(80)
Changes in operating assets and liabilities	(4,201)	532
Net cash provided by operating activities	52,176	59,593
Cash flows from investing activities:		
Acquisition and construction of long-lived assets	(37,791)	(98,899)
Proceeds from investments	135,834	110,551
Purchases of investments	(175,678)	(160,906)
Net cash used in investing activities	(77,635)	(149,254)
Cash flows from financing activities:		
Repayment of bonds	(3,345)	(3,240)
Proceeds from financing of real property	—	2,260
Repayment of note payable	(130)	(18)
Decrease in funds held in escrow	7,048	3,623
Draws under Connecticut forgivable loans	14,232	78,506
Contributions restricted for long-term investment and assets	4,830	2,812
Net cash provided by financing activities	22,635	83,943
Net decrease in cash and equivalents	(2,824)	(5,718)
Cash and equivalents, beginning of year	7,199	12,917
Cash and equivalents, end of year	\$ 4,375	7,199
Cash paid for interest	\$ 3,972	4,060

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2015 and 2014

(Dollars in thousands)

(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.

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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 73%, respectively, of its revenue from grants and contracts from the National Institutes of Health (NIH) for the years ended December 31, 2015 and 2014. Connecticut Innovations, Incorporated (CI) research and operating grant provided 18% and 19% of the grant revenue in 2015 and 2014, respectively. Indirect costs are billed and recovered in accordance with the terms of the grant and represented \$28,676 and \$29,434, respectively, of revenue from grants for the years ended December 31, 2015 and 2014. 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. 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

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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(m)). 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.

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(Dollars in thousands)

Expenses incurred by type for the years ended December 31, 2015 and 2014 are presented below:

<u>Program</u>	<u>December 31, 2015</u>				
	<u>Research</u>	<u>Genetic resources and services</u>	<u>Training</u>	<u>Institutional support</u>	<u>Total</u>
Salaries and wages	\$ 43,453	44,747	2,247	24,246	114,693
Benefits	12,423	12,792	642	6,931	32,788
Employee recruitment, training, memberships and subscriptions	1,012	453	58	2,313	3,836
Purchased services and stipends	8,112	5,199	856	3,831	17,998
Supplies and shipping	11,107	26,267	425	2,819	40,618
Maintenance, utilities and insurance	6,783	10,173	427	6,109	23,492
Travel and meals	1,478	2,508	599	1,494	6,079
Financing costs	1,895	3,102	54	371	5,422
Depreciation	16,067	13,916	584	3,119	33,686
Other expenses	77	2,088	66	700	2,931
Total	<u>\$ 102,407</u>	<u>121,245</u>	<u>5,958</u>	<u>51,933</u>	<u>281,543</u>

<u>Program</u>	<u>December 31, 2014</u>				
	<u>Research</u>	<u>Genetic resources and services</u>	<u>Training</u>	<u>Institutional support</u>	<u>Total</u>
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	<u>\$ 91,225</u>	<u>108,424</u>	<u>5,430</u>	<u>45,230</u>	<u>250,309</u>

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 \$2,966 and \$2,454 for the years ended December 31, 2015 and 2014, respectively.

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(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 \$171 and \$515 for the years ended December 31, 2015 and 2014, 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 \$828 and \$720 for the years ended December 31, 2015 and 2014, 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. 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.

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(Dollars in thousands)

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

	<u>Years</u>
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, 2015 and 2014.

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.

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(Dollars in thousands)

(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).

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(Dollars in thousands)

(o) ***Reclassifications***

Certain amounts from the 2014 financial statements have been reclassified to conform to the 2015 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, 2014, 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, 2014, 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.

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(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.

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The following tables summarize the Laboratory's investments and other assets by major category in the fair value hierarchy as of December 31, 2015 and 2014, as well as related strategy, liquidity and funding commitments:

	December 31, 2015				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Working capital investments:						
Cash, money market accounts and certificates of deposit	\$ 42,250	—	—	42,250	Daily	One
U.S. government agency bonds	—	8,398	—	8,398	Daily	One
Corporate bonds	—	38,430	—	38,430	Daily	One
U.S. and global fixed income funds	—	23,297	—	23,297	Monthly	Five
Multiple strategies	59,458	—	—	59,458	Daily	One
Total working capital investments	101,708	70,125	—	171,833		
Long-term investments (endowment):						
Money market accounts and certificates of deposit	3,880	—	—	3,880	Daily	One
U.S. and global fixed income funds	22,792	—	—	22,792	Daily	One
Equities:						
U.S. mid and large cap value funds	46,519	—	—	46,519	Daily	One
Global large cap	24,427	—	—	24,427	Daily	One
Global – developed markets	13,246	—	—	13,246	Daily	One
Global – emerging markets	778	—	—	778	Daily	One
Total equities	84,970	—	—	84,970		
Multiple hedged strategies	4,978	4,826	7,994	17,798	Daily to locked-up	One to n/a
Private equity and real assets	—	—	3,259	3,259	Locked-up ¹	N/A
Total long-term investments	116,620	4,826	11,253	132,699		
Total	\$ 218,328	74,951	11,253	304,532		

¹ The lock-up periods have various terms with extensions of one to two years. As of December 31, 2015, the average remaining life of these partnerships is approximately eight years. Unfunded future commitments aggregate \$3,370. Of the outstanding commitments, \$150 will not be called unless extraordinary expenses arise during liquidation.

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	December 31, 2014					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Working capital investments:						
Cash, 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.

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(e) Level 3 Roll Forward

The following tables present the Laboratory's activity for the years ended December 31, 2015 and 2014 for investments measured at fair value on a recurring basis and classified in Level 3:

<u>Level 3 roll forward</u>	December 31, 2015		
	<u>Hedge equity funds</u>	<u>Private equity and other</u>	<u>Total</u>
Fair value as of December 31, 2014	\$ 8,567	1,794	10,361
Acquisitions	2,000	1,145	3,145
Dispositions	(2,892)	(318)	(3,210)
Realized investment gains (losses), net	875	(62)	813
Unrealized investment loss, net	(556)	700	144
Fair value at December 31, 2015	\$ <u>7,994</u>	<u>3,259</u>	<u>11,253</u>

<u>Level 3 roll forward</u>	December 31, 2014		
	<u>Hedge equity funds</u>	<u>Private equity and other</u>	<u>Total</u>
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	\$ <u>8,567</u>	<u>1,794</u>	<u>10,361</u>

The changes in unrealized (losses) and gains related to Level 3 investments held as of December 31, 2015 and December 31, 2014 were \$175 and (\$644), respectively. The transfers in 2014 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, 2015 and 2014.

(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

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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.

Aggregate investment liquidity as of December 31, 2015 and 2014 is presented below based on redemption or sale period:

	Investment fair values	
	2015	2014
Investment redemption or sale period:		
Daily	\$ 265,156	233,173
Monthly	23,298	23,124
Quarterly	4,826	4,783
Semi-annually to Annually	6,872	5,290
Locked up	4,380	5,071
	<u>304,532</u>	<u>271,441</u>
Total	\$ <u>304,532</u>	<u>271,441</u>

(4) Investment Return

The following summarizes investment return for the years ended December 31, 2015 and 2014:

	2015	2014
Investment return:		
Interest and dividends	\$ 6,828	3,451
Realized net (losses)/gains	(803)	8,830
Unrealized net losses	(5,950)	(5,269)
	<u>75</u>	<u>7,012</u>
Investment return	\$ <u>75</u>	<u>7,012</u>

Investment returns are included in the statements of activities as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Investment return:		
Operating:		
Long-term investment return utilized	\$ 548	562
Other investment return	801	1,122
Nonoperating activities:		
Long-term investment return above amounts utilized	(1,274)	5,328
	<u>75</u>	<u>7,012</u>
Investment return	\$ <u>75</u>	<u>7,012</u>

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Investment return is net of bank and advisory fees, which were \$394 and \$339 for the years ended December 31, 2015 and 2014, 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 2015 and 2014, 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. 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.

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
	<u>100%</u>	<u>100%</u>

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

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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, 2015 and 2014, 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 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, 2015, five endowments were below historical dollar value by a total of \$124. As of December 31, 2014, five endowments were below historical dollar value by a total of \$56.

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(c) **Endowment Activity**

The Laboratory's endowment consisted of the following at December 31, 2015 and 2014:

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	\$	(124)	32,565	15,947	48,388
Board-designated match for endowed chairs		3,000	—	—	3,000
Board-designated		81,311	—	—	81,311
Total	\$	<u>84,187</u>	<u>32,565</u>	<u>15,947</u>	<u>132,699</u>
		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	\$	<u>81,813</u>	<u>33,197</u>	<u>11,600</u>	<u>126,610</u>

Changes in endowment assets for the years ended December 31, 2015 and 2014 are as follows:

		December 31, 2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment, December 31, 2014	\$	81,813	33,197	11,600	126,610
Cash contributions				4,349	4,349
Board transfer from operating funds to endowment		3,000	—	—	3,000
Investment return		(518)	(210)	—	(728)
Long-term investment return utilized		—	(548)	—	(548)
Adjustment for underwater endowments		(124)	124	—	—
Net assets transferred per restrictions		—	2	(2)	—
In-transit transactions		16	—	—	16
Endowment, December 31, 2015	\$	<u>84,187</u>	<u>32,565</u>	<u>15,947</u>	<u>132,699</u>

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	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	\$ <u>81,813</u>	<u>33,197</u>	<u>11,600</u>	<u>126,610</u>

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, 2015 and 2014:

	2015	2014
Due from provision of genetic resources and services	\$ 26,675	22,806
Amounts reimbursable under grants and contracts	4,885	4,194
Miscellaneous accounts receivable	2,589	3,690
	<u>34,149</u>	<u>30,690</u>
Less allowance for uncollectibles	(1,161)	(890)
Accounts receivable, net	\$ <u>32,988</u>	<u>29,800</u>

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(7) Long-Lived Assets

Long-lived assets consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Land and improvements	\$ 10,468	7,193
Buildings and improvements	501,560	479,567
Construction in progress	14,192	23,670
Equipment	131,175	126,693
	657,395	637,123
Less accumulated depreciation	(266,322)	(239,233)
	\$ 391,073	397,890

The change in accounts payable for acquisition and construction of long-lived assets was a decrease of (\$6,641) and (\$2,491) for the years ended December 31, 2015 and 2014, respectively.

Commitments to third parties for the purchase of equipment, space renovation and construction projects were \$7,959 and \$18,650 as of December 31, 2015 and 2014, respectively.

(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, 2015 and 2014:

	2015	2014
Finance Authority of Maine Revenue Bonds (FAME Series 2012 Bonds)	\$ 37,075	38,930
Association of Bay Area Government for California fixed rate revenue bonds (ABAG Series 2012 bonds)	56,940	58,130
Association of Bay Area Government for California fixed rate revenue bonds (ABAG Series 2007 bonds)	—	300
	94,015	97,360
Less unamortized discount	(192)	(204)
Plus unamortized premium	4,865	5,250
Bonds payable, net	98,688	102,406
Note payable for real estate purchase	2,112	2,242
Bonds and notes payable, net	\$ 100,800	104,648

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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 2015, the Laboratory requested, and the bank granted a one year extension of the term of the original purchase agreement until 2025.

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 2014 and 2015.

The Laboratory was in compliance with all financial covenants as of December 31, 2015 and 2014.

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 were held by a trustee and drawn monthly to reimburse the Laboratory for construction costs incurred. Final draw on the construction fund occurred July 1, 2015. The Laboratory did not refund the balance of the ABAG Series 2007 bonds, which matured on July 1, 2015.

Unamortized bond issuance costs, which are included in other assets, were \$649 and \$686 as of December 31, 2015 and 2014, 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).

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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.

As part of the transaction, UCHC provided a 99-year ground lease for the building site, for which the Laboratory pays one dollar per year. 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, 2015 and 2014, the Laboratory had incurred \$151,684 and \$145,176, respectively, in project-related costs, which are included in construction in progress, buildings and improvements, and equipment. As of December 31, 2015 and 2014, the Laboratory had cumulatively received advances and accrued interest under the Connecticut forgivable loans of \$150,205 and \$134,539, respectively. The advances include \$326 and \$5,351 held in escrow by CII as retainage as of December 31, 2015 and 2014, respectively. The funds held in escrow are included in Funds Held in Escrow.

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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 2015	Valuation technique	Unobservable inputs	Range (weighted average)
Connecticut forgivable loans	\$ 7,270	Third-party valuation based on Monte Carlo simulations	Employee annual salaries by position Employee annual salaries increases Employee benefits as a% of salaries Weighted case scenario probabilities	\$28 – \$333 (\$120k) 1% – 2.5% (1.7%) 23.5% – 26.5% (25%) 65% – 90% (78.33%)
	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 Employee annual salaries increases Employee benefits as a% of salaries Weighted case scenario probabilities	\$28 – \$327 (\$104k) 1% – 2.5% (1.73%) 25% – 40% (32.5%) 65% – 90% (78.33%)

(c) Maturities of Long-Term Debt

Maturities of long-term debt as of December 31, 2015, were as follows:

	<u>Amounts due</u>
Year ending December 31:	
2016	\$ 3,470
2017	3,605
2018	3,755
2019	3,910
2020	4,070
Thereafter	<u>222,616</u>
Total	<u>\$ 241,426</u>

Included in “Thereafter” in the above table is \$147,411 drawn through December 31, 2015 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 \$37,075 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.

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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.

As of December 31, 2015 and 2014, the following interest-rate swap agreements were outstanding:

Counterparty	2015					
	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	\$ 9,900	3.920%	\$ (1,452)
Bank of America	6/11/2003	7/1/2003	7/1/2031	10,800	2.859	(1,297)
Morgan Stanley	5/5/2005	7/1/2005	7/1/2031	6,475	3.271	(970)
Morgan Stanley	6/20/2003	7/1/2012	7/1/2031	9,900	4.140	(2,181)
Bank of America*	6/20/2003	7/1/2022	7/1/2031	5,905	4.000	(554)
Totals						<u>\$ (6,454)</u>

* As of December 31, 2015, represents a separate forward swap that effectively extends the initial swap expiration date through the related debt maturity date.

Counterparty	2014					
	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						<u>\$ (6,809)</u>

* As of December 31, 2014, 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.

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(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 \$8,685 and \$7,413 for the years ended December 31, 2015 and 2014, 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 \$0 and \$529 for the years ended December 31, 2015 and 2014.

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 \$489 and \$477 in the years ended December 31, 2015 and 2014, 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 \$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.

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(Dollars in thousands)

The impact of the changes in actuarial assumptions was a decrease in the liability resulting in a gain of \$490 and a loss of \$140 for the years ended December 31, 2015 and 2014, 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. The Defined Benefit Pension plan was terminated in 2014. Following are significant required disclosures on a combined basis:

Benefit obligations and funded status of the plans for the years ended December 31, 2015 and 2014 were as follows:

		Year ended December 31, 2015
		Retiree medical benefits
		<hr/>
Changes in benefit obligations:		
Benefit obligation at beginning of year	\$	6,329
Interest cost		239
Total actuarial (gain) loss		(372)
Medicare Part D subsidy with adjustment		(48)
Benefits paid, net of employee contributions		(489)
		<hr/>
Benefit obligation at end of year		5,659
		<hr/>
Changes in plan assets:		
Fair value of plan assets at beginning of year		
Actual return on plan assets		
Employer contributions		489
Employee contributions		52
Benefits paid		(541)
Fair value of plan assets at end of year		<hr/>
Accrued benefit cost recognized in the balance sheet	\$	<hr/> <hr/> (5,659)

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	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)	—
	<u>—</u>	<u>6,329</u>
Benefit obligation at end of year		
	<u>—</u>	<u>6,329</u>
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)	—
	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Accrued benefit cost recognized in the balance sheet	\$ <u>—</u>	<u>(6,329)</u>

Net periodic benefit cost consisted of the following components for the years ended December 31, 2015 and 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
	Retiree medical benefits	Pension plan benefits
Interest cost	\$ 239	235
Expected return on assets	—	—
Medicare Part D subsidy	(61)	(48)
Amortization of net actuarial loss	69	190
	<u>247</u>	<u>425</u>
Net periodic benefit cost recorded	\$ <u>247</u>	<u>275</u>

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The net loss and prior service credit for the postretirement plan that will be amortized into net periodic benefit cost in 2016 is \$43. Weighted average assumptions used to determine benefit obligations for 2015 and 2014 were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	
	Retiree medical benefits	Pension plan benefits	Retiree medical benefits
Discount rate	3.69%	3.88%	3.42%
Rate of compensation increase	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, 2015 and 2014 were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	
	Retiree medical benefits	Pension plan benefits	Retiree medical benefits
Discount rate	3.42%	4.46%	4.06%
Expected long-term rate of return	n/a	n/a	n/a

The assumed health care cost trend rates at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Healthcare cost trend rate assumed for next year	5.0%	5.5%
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	2017

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:

	<u>One-point increase</u>	<u>One-point decrease</u>
Effect on total of service and interest cost	\$ 20	18
Effect on total on postretirement benefit obligation	510	448

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

Year ending December 31:		
2016	\$	426
2017		416
2018		410
2019		405
2020		400
2021 through 2025		1,910

(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 \$120) to defer up to \$18 of their salary in 2015 and \$17.5 in 2014. 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, 2015 and 2014 was \$3,792 and \$3,369, respectively, and is included in accounts payable and accrued expenses. The investments valued at \$3,792 and \$3,369 as of December 31, 2015 and 2014, 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 \$430 and \$1,053 at December 31, 2015 and 2014, 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.

(10) *Restricted Net Assets*

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

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(Dollars in thousands)

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Time-restricted	\$ 1,140	1,327
Unappropriated return on donor-restricted endowments	32,554	33,197
Restricted for acquisition and construction of long-lived assets	1,814	1,645
Restricted for research, training and other programs	4,840	2,457
	<u>\$ 40,348</u>	<u>38,626</u>

(b) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Research	\$ 11,890	7,539
Training	436	406
Other programs	853	706
General purposes	2,768	2,949
Total endowment	<u>15,947</u>	<u>11,600</u>
Pledges receivable	2,449	3,730
	<u>\$ 18,396</u>	<u>15,330</u>

(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:

	<u>2015</u>	<u>2014</u>
Time-restricted only	\$ 1,180	1,327
Restricted for acquisition or construction of long-lived assets	312	629
Restricted for research, training, and other programs	2,126	132
Permanently restricted	2,449	3,730
	<u>\$ 6,067</u>	<u>5,818</u>

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(d) Net Assets Released from Restrictions

Net assets released from restrictions consisted of the following for the years ended December 31, 2015 and 2014:

	Year ended December 31	
	2015	2014
Operating activities:		
Research programs	\$ 821	778
Training programs	627	580
Other	66	228
Collection of unrestricted pledges	222	148
Transfer to permanently restricted	2	2
	1,738	1,736
Nonoperating activities:		
Acquisition and construction of long-lived assets	—	7
	\$ 1,738	1,743

(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 \$96 and \$446 for the years ended December 31, 2015 and 2014, respectively.

Estimated future minimum lease payments under noncancelable facility and equipment operating leases as of December 31, 2015 are as follows:

	Amounts due	
Year ending December 31:		
2016	\$ 95	
2017	9	
2018	1	
Total	\$ 105	

(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.

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(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.

In 2015, the Laboratory invested in a company, founded by a current faculty member along with several Trustees as investors, by contributing intellectual property in exchange for common stock. In addition, the Laboratory has the right to certain royalties in future years.

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, 2015 through May 5, 2016, the date on which the financial statements were available to be issued, and determined there are no other items to disclose.