

# **Woods Hole Oceanographic Institution**

**Financial Statements**

**For the Year Ended December 31, 2000**

## **Report of Independent Accountants**

To the Board of Trustees of  
Woods Hole Oceanographic Institution:

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Woods Hole Oceanographic Institution (the "Institution") as of December 31, 2000 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institution's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Institution's 1999 financial statements, and in our report dated March 10, 2000, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

March 9, 2001

**Woods Hole Oceanographic Institution**  
**Statements of Financial Position**  
**As of December 31, 2000 (with comparative information as of December 31, 1999)**

	2000	1999			
<b>Assets</b>					
Cash, unrestricted	\$ 21,637,368	\$ 16,388,928			
Cash, restricted	2,373,675	826,309			
Reimbursable costs and fees:					
Billed	2,078,150	1,925,005			
Unbilled	2,053,172	3,775,094			
Receivable for investments sold	-	152,708			
Interest and dividends receivable	835,835	533,861			
Other receivables	415,364	355,502			
Pledges receivable	2,875,144	5,408,983			
Inventory	1,070,303	808,919			
Deferred charges and prepaid expenses	314,906	59,636			
Investments, pooled	278,691,287	270,852,643			
Investments, nonpooled	11,340,898	5,781,811			
Prepaid pension and postretirement benefit cost	4,629,623	2,228,384			
Supplemental retirement	7,158,614	7,733,931			
Other assets	<u>4,628,344</u>	<u>4,889,752</u>			
	<u>340,102,683</u>	<u>321,721,466</u>			
Property, plant and equipment:					
Land, buildings and improvements	54,977,722	48,794,999			
Vessels and dock facilities	3,186,277	2,654,406			
Laboratory and other equipment	11,036,930	9,641,619			
Construction in process	<u>1,059,353</u>	<u>5,351,347</u>			
	71,160,282	66,442,371			
Accumulated depreciation	<u>(37,627,865)</u>	<u>(34,770,021)</u>			
Net property, plant and equipment	<u>33,532,417</u>	<u>31,672,350</u>			
Remainder trusts	<u>316,464</u>	<u>846,630</u>			
Total assets	<u>\$ 373,951,564</u>	<u>\$ 354,240,446</u>			
<b>Liabilities</b>					
Accounts payable and other liabilities	\$ 8,059,206	\$ 7,912,400			
Accrued payroll and related liabilities	5,537,049	5,298,550			
Payable for investments purchased	402,557	-			
Accrued supplemental retirement benefits	7,158,614	7,733,931			
Deferred revenue and refundable advances	6,495,459	4,082,935			
Deferred fixed rate variance	3,595,425	3,070,148			
Loan payable	<u>3,921,516</u>	<u>2,999,214</u>			
Total liabilities	<u>35,169,826</u>	<u>31,097,178</u>			
Commitments and contingencies					
<b>Net Assets</b>					
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>		
Undesignated	\$ 7,828,139	\$ -	\$ -	7,828,139	4,543,295
Designated	1,552,954	12,355,100	-	13,908,054	7,736,814
Pledges and other	-	4,538,823	164,774	4,703,597	6,916,236
Plant and facilities	30,434,561	189,172	-	30,623,733	30,741,936
Education	-	2,889,562	-	2,889,562	2,679,119
Endowment and similar funds	<u>70,075,164</u>	<u>166,395,249</u>	<u>42,358,240</u>	<u>278,828,653</u>	<u>270,525,868</u>
Total net assets	<u>\$ 109,890,818</u>	<u>\$ 186,367,906</u>	<u>\$ 42,523,014</u>	<u>338,781,738</u>	<u>323,143,268</u>
Total liabilities and net assets				<u>\$ 373,951,564</u>	<u>\$ 354,240,446</u>

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

# Woods Hole Oceanographic Institution

## Statement of Activities

For the Year Ended December 31, 2000 (with summarized financial information for the year ended December 31, 1999)

	Unrestricted				2000	1999
	Operating	Sponsored research	Temporarily restricted	Permanently restricted		
Operating:						
Revenues:						
Fees	\$ 398,557	\$	\$	\$	\$ 398,557	\$ 294,132
Sponsored research:						
Government		51,483,430			51,483,430	45,588,822
Nongovernment		9,032,802	2,962,806		11,995,608	11,317,094
Ships and subs operations		14,577,061			14,577,061	13,393,321
Sponsored research assets released to operations	77,633,257	(75,093,293)	(2,539,964)		-	-
Education:						
Tuition	2,300,021				2,300,021	2,335,701
Endowment income	3,340,692		1,432,228		4,772,920	4,458,526
Sponsored research	677		(677)		-	9,879
Gifts and transfers			232,210		232,210	597,886
Education funds released from restriction	1,453,318		(1,453,318)		-	-
Investment return designated for current operations	3,347,291				3,347,291	3,732,750
Contributions and gifts	1,000,227		9,090,075	1,285,076	11,375,378	6,844,310
Contributions and gifts released	1,011,475		(2,233,572)	1,222,097	-	-
Change in split-interest agreements	762,576			296,282	1,058,858	-
Rental income	689,987				689,987	759,364
Communication and publications	204,607				204,607	207,211
Other	835,531				835,531	59,220
<b>Total revenues</b>	<b>92,978,216</b>	<b>-</b>	<b>7,489,788</b>	<b>2,803,455</b>	<b>103,271,459</b>	<b>89,598,216</b>
Expenses:						
Sponsored research:						
National Science Foundation	28,905,513				28,905,513	26,647,498
United States Navy	14,833,446				14,833,446	12,935,069
Subcontracts	5,885,445				5,885,445	5,136,638
National Oceanic & Atmospheric Administration	4,097,038				4,097,038	2,853,135
Department of Energy	683,316				683,316	653,341
United States Geological Survey	939,757				939,757	1,020,622
National Aeronautics & Space Administration	725,017				725,017	654,835
Ships Operations	10,868,821				10,868,821	9,440,957
Submersible and ROV operations	3,708,240				3,708,240	3,952,364
Other	6,986,664				6,986,664	5,929,417
Education:						
Faculty expense	2,288,385				2,288,385	2,303,217
Student expense	2,904,506				2,904,506	3,059,049
Postdoctoral programs	476,988				476,988	512,404
Other	560,659				560,659	540,347
Business development	11,235				11,235	92,119
Rental expenses	536,965				536,965	458,444
Communication publications and development	3,085,429				3,085,429	2,751,471
Un-sponsored programs	4,152,772				4,152,772	2,867,766
Other expenses	1,142,875				1,142,875	1,868,945
<b>Total expenses</b>	<b>92,793,071</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,793,071</b>	<b>83,677,638</b>
<b>Change in net assets from operating activities</b>	<b>185,145</b>	<b>-</b>	<b>7,489,788</b>	<b>2,803,455</b>	<b>10,478,388</b>	<b>5,920,578</b>
Nonoperating income:						
Investment return in excess of amounts designated for sponsored research, education and current operations	1,549,532		1,686,007		3,235,539	34,447,906
Change in prepaid pension cost	2,401,239				2,401,239	142,889
Nonoperating expenses:						
Other nonoperating expenses	476,696				476,696	442,715
Net asset transfers	(142,134)			142,134	-	-
<b>Change in net assets from nonoperating activities</b>	<b>3,331,941</b>	<b>-</b>	<b>1,686,007</b>	<b>142,134</b>	<b>5,160,082</b>	<b>34,148,080</b>
<b>Total change in net assets</b>	<b>3,517,086</b>	<b>-</b>	<b>9,175,795</b>	<b>2,945,589</b>	<b>15,638,470</b>	<b>40,068,658</b>
<b>Net assets at beginning of year</b>	<b>106,373,732</b>	<b>-</b>	<b>177,192,111</b>	<b>39,577,425</b>	<b>323,143,268</b>	<b>283,074,610</b>
<b>Net assets at end of year</b>	<b>\$ 109,890,818</b>	<b>\$ -</b>	<b>\$ 186,367,906</b>	<b>\$ 42,523,014</b>	<b>\$ 338,781,738</b>	<b>\$ 323,143,268</b>

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

**Woods Hole Oceanographic Institution**  
**Statements of Cash Flows**  
**For the Year Ended December 31, 2000 (with comparative information for the year**  
**ended December 31, 1999)**

	<b>2000</b>	<b>1999</b>
Cash flows from operating activities:		
Total change in net assets	\$ 15,638,470	\$ 40,068,658
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,338,844	2,706,749
Change in split-interest agreements	(154,086)	-
Gain on sale of property	(481,000)	-
Net realized and unrealized gain on investments	(3,235,539)	(41,229,880)
Contributions to be used for long-term investment	(4,787,404)	(4,262,220)
(Increase) decrease in assets:		
Restricted cash	(1,547,366)	1,079,287
Interest and dividends receivable	(301,974)	603,041
Reimbursable costs and fees:		
Billed	(153,145)	(778,949)
Unbilled	1,721,922	(85,284)
Receivable for investments sold	152,708	1,127,013
Other receivables	(59,862)	76,590
Pledges receivable	2,533,839	(594,921)
Inventory	(261,384)	(115,962)
Deferred charges and prepaid expenses	(255,270)	263,683
Prepaid pension and postretirement benefit cost	(2,401,239)	(17,061)
Other assets	261,408	(501,824)
Remainder trusts	684,252	370,037
Supplemental retirement	575,317	(841,548)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	146,806	(990,804)
Accrued payroll and related liabilities	238,499	473,785
Payable for investments purchased	402,557	(2,845,856)
Deferred revenue and refundable advances	2,412,524	(1,034,671)
Accrued supplemental retirement benefits	(575,317)	841,548
Deferred fixed rate variances	525,277	(498,244)
Net cash provided by (used in) operating activities	<u>14,418,837</u>	<u>(6,186,833)</u>
Cash flows from investing activities:		
Capital expenditures:		
Additions to property and equipment	(5,414,975)	(7,941,807)
Disposals of property and equipment	697,065	-
Endowment:		
Proceeds from the sale of investments	203,949,829	126,094,954
Purchase of investments	<u>(214,112,022)</u>	<u>(124,845,656)</u>
Net cash used in investing activities	<u>(14,880,103)</u>	<u>(6,692,509)</u>
Cash flows from financing activities:		
Borrowings under debt agreement	922,302	2,999,214
Contributions to be used for long-term investment	<u>4,787,404</u>	<u>4,262,220</u>
Net cash provided by financing activities	<u>5,709,706</u>	<u>7,261,434</u>
Net increase (decrease) in cash and cash equivalents	5,248,440	(5,617,908)
Cash and cash equivalents, beginning of year	<u>16,388,928</u>	<u>22,006,836</u>
Cash and cash equivalents, end of year	<u>\$ 21,637,368</u>	<u>\$ 16,388,928</u>

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

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

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### A. Background

Woods Hole Oceanographic Institution (the "Institution") is a private, independent not-for-profit research and educational institution located in Woods Hole, Massachusetts. Founded in 1930, the Institution is dedicated to working and learning at the frontier of ocean science and attaining maximum return on intellectual and material investments in oceanographic research.

The Institution is a qualified tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code as it is organized and operated exclusively for education and scientific purposes.

### B. Summary of Significant Accounting Policies

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting as defined by Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 116 requires that unconditional promises to give be recorded as receivables and revenues within the appropriate net asset category. SFAS No. 117 requires that the Institution display its activities and net assets in three classes as follows: unrestricted, temporarily restricted, and permanently restricted. Additionally, it requires the presentation of a statement of cash flows.

The financial statements include certain prior-year summarized comparative information, but do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institution's audited financial statements for the year ended December 31, 1999, from which the summarized information was derived.

Net assets, revenues, and realized and unrealized gains and losses are classified based on the existence or absence of donor-imposed restrictions and legal restrictions imposed under Massachusetts State law. Accordingly, net assets and changes therein are classified as follows:

#### ***Permanently Restricted Net Assets***

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Institution. Generally the donors of these assets permit the Institution to use all or part of the income earned and capital appreciation, if any, on related investments for general or specific purposes.

#### ***Temporarily Restricted Net Assets***

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Institution and/or the passage of time. Unspent endowment gains are classified as temporarily restricted until the Institution appropriates and spends such sums in accordance with the terms of the underlying endowment funds at which time they will be released to unrestricted revenues.

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

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### *Unrestricted Net Assets*

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Amounts received for sponsored research (under exchange transactions) are reflected in unrestricted sponsored research until spent for the appropriate purpose, or as deferred revenue if expenditures are yet to be incurred.

### **Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. 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 items' 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 other than cash are generally recorded at market value on the date of the gift (or an estimate of fair value), although certain noncash gifts, for which a readily determinable market value cannot be established, are recorded at a nominal value until such time as the value becomes known. Contributions to be received after one year are discounted at the appropriate rate commensurate with risk. Amortization of such discount is recorded as additional contribution revenue in accordance with restrictions imposed by the donor on the original contribution, as applicable. Amounts receivable for contributions are reflected net of an applicable reserve for collectibility.

The Institution reports contributions in the form of land, buildings, or equipment as unrestricted operating support.

Dividends, interest and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net realized and unrealized gains; and
- as increases in unrestricted net assets in all other cases.

### **Operations**

The statements of activities report the Institution's operating and nonoperating activities. Operating revenues and expenses consist of those attributable to the Institution's current annual research or educational programs, including a component of endowment income appropriated for operations (see Note C). Unrestricted endowment investment income and gains over the amount appropriated under the Institution's spending plan are reported as nonoperating revenue as investment return in excess of amounts designated for sponsored research, education and current operations.

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

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### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash, money market accounts, certificates of deposit and overnight repurchase agreements with initial maturities of three months or less when purchased which are stated at cost, which approximates market value. At times the Institution maintains amounts at a single financial institution in excess of federally insured limits.

Included in cash at December 31, 2000 and 1999 is \$2,143,974 and \$607,163, respectively, representing advances received from the United States Navy and other U.S. Government and state agencies. Such amounts are restricted as to use for research programs. Interest earned on unspent funds is remitted to the federal government.

Also included in cash at December 31, 2000 and 1999 is \$229,701 and \$219,146, respectively, representing cash restricted by the Massachusetts Department of Public Health. Interest earned on unspent funds is reinvested within the restricted cash account.

In addition, cash and cash equivalents include uninvested amounts from each classification of net assets (e.g., endowment).

### **Investments**

Investment securities are carried at market value determined as follows: securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sales prices were reported on that day are valued at closing bid prices. For investments in venture capital and investment partnerships, the Institution relies on valuations reported to the Institution by the managers of these investments except where the Institution may reasonably determine that additional factors should be considered.

Purchases and sales of investment securities are recorded on a trade date basis. Realized gains and losses are computed on a specific identification method. Investment income, net of investment expenses, is distributed on the unit method.

### **Investment Income Utilization**

The Institution's investments are pooled in an endowment fund and the investments and allocation of income are tracked on a unitized basis. The Institution distributes to operations for each individual fund an amount of investment income earned by each of the fund's proportionate share of investments based on a total return policy.

The Board of Trustees has appropriated all of the income and a specified percentage of the net appreciation (depreciation) to operations as prudent considering the Institution's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Institution's current endowment spending policy, which is within the guidelines specified under state law, between 4 percent and 5.5 percent of the average of the market value of qualifying endowment investments at September 30 of each of the previous three years is appropriated. This amounted to \$10,109,203 and \$9,608,901 for the years ending December 31, 2000 and 1999, respectively, and is classified in operating revenues (research, education, and operations). The Institution has interpreted relevant state law as generally permitting the spending of gains on endowment funds over a stipulated period of time.



# Woods Hole Oceanographic Institution

## Notes to Financial Statements

### Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

### Contracts and Grants

Revenues earned on contracts and grants for research are recognized as related costs are incurred.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis at annual rates of 8 to 50 years on buildings and improvements, 28 years on vessels and dock facilities, and 3 to 5 years on laboratory and other equipment. Depreciation expense on property, plant, and equipment purchased by the Institution in the amounts of \$3,238,068 and \$2,605,973 in 2000 and 1999, respectively, has been charged to operating activities.

Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to \$100,776 and \$100,776 in 2000 and 1999, respectively, has been charged to nonoperating expenses as these assets are owned by the Government. There were gains on the disposal of property, plant and equipment of \$481,000 in 2000.

### Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### Reclassification of Amounts

Certain prior year amounts have been reclassified to conform to the December 31, 2000 presentation.

## C. Investments

The cost and market value of investments held at December 31 are as follows:

	2000		1999	
	Cost	Market	Cost	Market
U.S. Government and government agencies	\$ 6,010,333	\$ 6,205,973	\$ 9,115,196	\$ 8,649,788
Corporate bonds	42,266,542	42,396,551	23,495,708	22,190,605
International bonds	6,290,635	5,911,656	6,259,492	5,923,533
Equity securities and mutual funds	95,417,513	123,939,867	99,099,911	135,345,966
International equities	50,557,666	47,850,287	55,951,945	64,823,332
Hedge fund limited partnerships	18,920,000	32,251,037	18,920,000	27,940,091
Venture Capital and private equity	13,410,006	19,800,254	6,406,919	5,701,217
Other	299,465	299,465	325,729	325,729
Subtotal investments	233,172,160	278,655,090	219,574,900	270,900,261
Purchased call options	66,294	38,387	13,913	3,297
Written call options	(19,653)	(1,006)	(7,168)	(4,699)
Written put options	(17,625)	(1,184)	(15,188)	(46,216)
Total investments	\$ 233,201,176	\$ 278,691,287	\$ 219,566,457	\$ 270,852,643

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

Amounts held in Venture Capital and Investment Partnerships and other investments are invested in securities or other assets for which there is not necessarily a publicly-traded market value or which are restricted as to disposition. The return on such investments was \$7,095,950 and \$2,698,148 for the years ended December 31, 2000 and 1999, respectively, including dividends, distributions and changes in the estimated value of such investments.

The following schedule summarizes the investment return and its classification in the statements of activities:

	Unrestricted	Temporarily restricted	2000 Total	1999 Total
Dividend and interest income	\$ 4,118,662	\$ 1,432,228	\$ 5,550,890	\$ 5,073,790
Investment management costs	(1,307,813)	-	(1,307,813)	(1,075,321)
Net realized gains	7,641,691	8,184,809	15,826,500	13,016,621
Change in unrealized appreciation	<u>702,727</u>	<u>(6,498,802)</u>	<u>(5,796,075)</u>	<u>28,213,259</u>
Total return on investments	<u>11,155,267</u>	<u>3,118,235</u>	<u>14,273,502</u>	<u>45,228,349</u>
Investment return designated for:				
Sponsored research	(2,917,752)	-	(2,917,752)	(2,589,167)
Education	(3,340,692)	(1,432,228)	(4,772,920)	(4,458,526)
Current operations	<u>(3,347,291)</u>	<u>-</u>	<u>(3,347,291)</u>	<u>(3,732,750)</u>
Total distributions to operations	<u>(9,605,735)</u>	<u>(1,432,228)</u>	<u>(11,037,963)</u>	<u>(10,780,443)</u>
Investment return in excess of amounts designated for sponsored research, education and current operations	<u>\$ 1,549,532</u>	<u>\$ 1,686,007</u>	<u>\$ 3,235,539</u>	<u>\$ 34,447,906</u>

Endowment income is allocated to each individual fund based on a per unit valuation. The value of an investment unit at December 31, is as follows:

	2000	1999
Unit value, beginning of year	\$ 4.5884	\$ 3.9089
Unit value, end of year	4.5650	4.5884
Net change for the year	(.0234)	.6795
Investment income per unit for the year	<u>.0536</u>	<u>.0824</u>
Total return per unit	<u>\$ .0302</u>	<u>\$ .7619</u>

**Woods Hole Oceanographic Institution**  
**Notes to Financial Statements**

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**D. Pledges Receivable**

Pledges receivable consist of the following at December 31:

	<b>2000</b>	<b>1999</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,979,540	\$ 4,125,666
One year to five years	<u>895,604</u>	<u>1,283,317</u>
	<u>\$ 2,875,144</u>	<u>\$ 5,408,983</u>

**E. Deferred Fixed Rate Variance**

The Institution receives funding or reimbursement from federal government agencies for sponsored research under government grants and contracts. The Institution has negotiated fixed rates with the federal government for the recovery of certain fringe benefits and indirect costs on these grants and contracts. Such recoveries are subject to carryforward provisions that provide for adjustments to be included in the negotiation of future fixed rates. The deferred fixed rate variance accounts represent the cumulative amount owed to or due from the federal government. The Institution's rates are negotiated with the Office of Naval Research (ONR), the Institution's cognizant agency.

The composition of the deferred fixed rate variance is as follows:

Deferred Fixed Rate Variance (liability), December 31, 1998	<u>\$ (3,568,395)</u>
1999 indirect costs	33,084,487
Amounts recovered	<u>(32,586,240)</u>
1999 change in liability	<u>498,247</u>
Deferred Fixed Rate Variance (liability), December 31, 1999	<u>(3,070,148)</u>
2000 indirect costs	34,876,295
2000 adjustment	(76,092)
Amounts recovered	<u>(35,325,480)</u>
2000 change in liability	<u>(525,277)</u>
Deferred Fixed Rate Variance (liability), December 31, 2000	<u>\$ (3,595,425)</u>

As of December 31, 2000, the Institution has recovered a cumulative amount in excess of expended amounts of \$3,595,425 which will be reflected as a reduction of future year recoveries. This amount has been reported as a liability of the Institution.

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

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### F. Loan Payable

On May 27, 1999, the Institution entered into a \$3,000,000 loan agreement with the Massachusetts Health and Educational Facilities Authority (the "Authority") to finance various capital projects. On January 31, 2000, the agreement was amended to increase the maximum loan commitment to \$6,000,000. As of December 31, 2000, \$3,921,516 had been drawn down on the loan and was outstanding at year-end. Draw downs are expected to occur during an eighteen month period subsequent to the amendment to the loan agreement. During this period, no principal payments are due on the loan, but the Institution is required to pay interest on the draw downs at a variable rate established by the Authority, which was 3.25% for the year ended December 31, 2000. Once the final draw down has occurred or the eighteen month period has lapsed, a schedule of principal payments will be established by Authority until the final payment due on June 30, 2010.

The loan agreement has covenants, the most restrictive of which requires the Institution to maintain unrestricted net assets at a market value equal to at least 1.0x outstanding indebtedness.

### G. Retirement Plans

The Institution maintains a noncontributory defined benefit pension plan covering substantially all employees of the Institution, as well as a supplemental benefit plan which covers certain employees. Pension benefits are earned based on years of service and compensation received. The Institution's policy is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974.

	<b>2000</b>	<b>1999</b>
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 115,969,678	\$ 117,287,816
Service cost	3,669,981	4,180,879
Interest cost	9,085,277	8,208,944
Amendments	-	10,584,215
Actuarial (gain)/loss	4,860,581	(17,180,701)
Benefits paid	<u>(5,696,287)</u>	<u>(7,111,475)</u>
Benefit obligation at end of year	<u>\$ 127,889,230</u>	<u>\$ 115,969,678</u>
 <b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	179,573,553	158,790,517
Actual return on plan assets	8,718,327	27,894,511
Benefits paid	<u>(5,696,287)</u>	<u>(7,111,475)</u>
Fair value of plan assets at end of year	<u>\$ 182,595,593</u>	<u>\$ 179,573,553</u>

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

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	<b>Qualified Plan Pension Benefits</b>	
	<b>2000</b>	<b>1999</b>
Funded status	\$ 54,706,364	\$ 63,603,875
Unrecognized actuarial (gain)/loss	(61,207,888)	(73,106,806)
Unrecognized portion of net obligation/(asset) at transition	(642,223)	(1,289,293)
Unrecognized prior service cost/(credit)	<u>10,984,544</u>	<u>12,160,543</u>
Net amount recognized	<u>\$ 3,840,797</u>	<u>\$ 1,368,319</u>
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid benefit cost	<u>\$ 3,840,797</u>	<u>\$ 1,368,319</u>
Weighted-Average Assumptions		
Discount rate as of December 31	7.75%	8.00%
Expected return on plan assets for the year	10.00%	10.00%
Rate of compensation increase as of December 31	3.50%	3.50%
Components of Net Periodic Benefit Cost		
Service cost	\$ 3,669,981	\$ 4,180,879
Interest cost	9,085,277	8,208,944
Expected return on plan assets and reserves	(13,982,038)	(12,688,120)
Amortization of:		
transition obligation/(asset)	(647,070)	(647,070)
prior service cost/(credit)	1,247,238	1,175,999
actuarial loss/(gain)	<u>(1,774,627)</u>	<u>(176,454)</u>
Net periodic benefit cost/(income)	<u>\$ (2,401,239)</u>	<u>\$ 54,178</u>

The Institution has reflected the net periodic benefit income in nonoperating income as the change in prepaid pension cost.

Effective January 1, 1999, the qualified plan was amended to improve benefits for service over 25 years, reduce the vesting period, expand the lump sum option and eliminate certain early retirement subsidies for newly hired employees.

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

	<b>Supplemental Plan Pension Benefits</b>	
	<b>2000</b>	<b>1999</b>
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 3,277,024	\$ 3,685,379
Service cost	90,501	109,906
Interest cost	233,808	221,296
Actuarial (gain)/loss	(154,526)	(407,215)
Benefits paid	<u>(268,397)</u>	<u>(332,342)</u>
Benefit obligation at end of year	<u>\$ 3,178,410</u>	<u>\$ 3,277,024</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contribution	268,397	332,342
Benefits paid	<u>(268,397)</u>	<u>(332,342)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	(3,178,410)	(3,277,024)
Unrecognized actuarial (gain)/loss	(534,216)	(524,676)
Unrecognized portion of net obligation/(asset) at transition	<u>127,993</u>	<u>256,950</u>
Net amount recognized	(3,584,633)	(3,544,750)
True up to earmarked reserves	<u>(3,573,981)</u>	<u>(4,189,181)</u>
Total earmarked reserves	<u>\$ (7,158,614)</u>	<u>\$ (7,733,931)</u>
<b>Amounts Recognized in the Statement of Financial Position Consist of:</b>		
Accrued benefit liability	<u>\$ (7,158,614)</u>	<u>\$ (7,733,931)</u>
<b>Weighted-Average Assumptions</b>		
Discount rate as of December 31	7.75%	8.00%
Expected return on plan assets for the year	10.00%	10.00%
Rate of compensation increase as of December 31	3.50%	3.50%
<b>Components of Net Periodic Benefit Cost</b>		
Service cost	\$ 90,501	\$ 109,906
Interest cost	233,808	221,296
Expected return on plan assets and reserves	(279,486)	(291,188)
Amortization of:		
transition obligation/(asset)	128,957	128,957
actuarial loss/(gain)	<u>(50,131)</u>	<u>(11,375)</u>
Net periodic benefit cost/(income)	123,649	157,596
Investment return on invested reserves	<u>184,631</u>	<u>165,904</u>
Total periodic cost	<u>\$ 308,280</u>	<u>\$ 323,500</u>

The earmarked reserves are matched by a "Rabbi" Trust with \$7,158,614 and \$7,733,931, respectively as of December 31, 2000 and 1999.

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

### H. Other Postretirement Benefits

In addition to providing retirement plan benefits, the Institution provides certain health care benefits for retired employees and their spouses. Substantially all of the Institution's employees may become eligible for the benefits if they reach normal retirement age (as defined) or elect early retirement after having met certain time in service criteria.

	<b>Other Postretirement Benefits</b>	
	<b>2000</b>	<b>1999</b>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 19,030,443	\$ 21,998,913
Service cost	361,902	490,210
Interest cost	1,490,203	1,420,108
Plan participants' contributions *	-	-
Actuarial (gain)/loss	630,033	(4,091,749)
Benefits paid	(907,756)	(878,018)
Plan participants' contributions	<u>89,562</u>	<u>90,979</u>
Benefit obligation at end of year	<u>\$ 20,694,387</u>	<u>\$ 19,030,443</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	15,866,313	13,701,233
Actual return on plan assets	129,370	2,021,124
Employer contribution	464,718	930,995
Plan participants' contributions *	-	-
Benefits paid net of plan participants' contributions	<u>(818,194)</u>	<u>(787,039)</u>
Fair value of plan assets at end of year	<u>\$ 15,642,207</u>	<u>\$ 15,866,313</u>
* plan participants' contributions are netted out of benefit claims		
Funded status	\$ (5,052,180)	\$ (3,164,130)
Unrecognized actuarial (gain)/loss	(715,549)	(2,859,332)
Unrecognized portion of net obligation/(asset) at transition	10,242,594	11,096,143
Unrecognized prior service cost/(credit)	<u>(3,686,039)</u>	<u>(4,212,616)</u>
Net amount recognized	<u>\$ 788,826</u>	<u>\$ 860,065</u>
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid benefit cost	<u>\$ 788,826</u>	<u>\$ 860,065</u>
Weighted-Average Assumptions		
Discount rate as of December 31	7.75%	8.00%
Expected return on plan assets for the year	10.00%	10.00%

For measurement purposes, a 6.5% and 8.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed in 2001 for pre-65 and post-65 benefits, respectively.

## Woods Hole Oceanographic Institution

### Notes to Financial Statements

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These were assumed to decrease gradually to 4.5% and 5.0% respectively, and remain at that level thereafter.

	2000	1999
Components of net periodic benefit cost:		
Service cost	\$ 361,902	\$ 490,210
Interest cost	1,490,203	1,420,108
Expected return on plan assets and reserves	(1,574,077)	(1,377,533)
Recognized actuarial (gain)/loss	(69,043)	-
Amortization of:		
Transition obligation/(asset)	853,549	853,549
Prior service cost/(credit)	<u>(526,577)</u>	<u>(526,577)</u>
Net periodic benefit cost/(income)	<u>\$ 535,957</u>	<u>\$ 859,757</u>

The Institution has reflected the net periodic benefit cost in operating expenses, as the amount is reimbursed through federal awards.

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

	December 31, 2000	
	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service cost and interest cost	\$ 322,253	\$ (256,939)
Effect on the postretirement benefit obligation:	3,121,456	(2,528,592)

#### I. Commitments and Contingencies

The Defense Contract Audit Agency (DCAA) is responsible for auditing both direct and indirect charges to grants and contracts on behalf of the ONR. The Institution and the ONR have settled the years through 1999. The current indirect costs recovery rates, which are fixed, include the impact of prior year settlements. While the 2000 direct and indirect costs are subject to audit, the Institution does not believe settlement of this year will have a material impact on its change in net assets or its financial position.

The Institution through its endowment fund is committed to invest \$48,040,000 in certain venture capital and investment partnerships.

The Institution is a defendant in legal proceedings incidental to the nature of its operations. The Institution believes that the outcome of these proceedings will not materially affect its financial position.