Woods Hole Oceanographic Institution

Financial Statements
For the Year Ended December 31, 1999

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, 1999 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. 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 1998 financial statements, and in our report dated March 12, 1999, 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, 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 the opinion expressed above.

The financial statements for the years ended December 31, 1998 and 1997 have been restated as described in Note B.

March 10, 2000

Woods Hole Oceanographic Institution
Statements of Financial Position
As of December 31, 1999 (with comparative information as of December 31, 1998)

	1999	1998
Assets		
Cash and cash equivalents:		
Operating	$ 10,304,606	$ 16,217,878
Sponsored research prepayment pool	607,163	1,694,628
Endowment	6,303,468	5,999,926
	17,215,237	23,912,432
Reimbursable costs and fees:		
Billed	1,925,005	1,146,056
Unbilled	3,775,094	3,689,810
Receivable for investments sold	152,708	1,279,721
Accrued interest and dividends	533,861	1,136,902
Other receivables	355,502	432,092
Pledges receivable	5,408,983	4,814,062
Inventory	808,919	692,957
Deferred charges and prepaid expenses	59,636	323,319
Investments, pooled	270,852,643	230,551,497
Investments, nonpooled	5,781,811	6,102,375
Prepaid pension cost	2,228,384	2,211,323
Supplemental retirement	7,733,931	6,892,383
Other assets	4,889,752	4,387,928
	321,721,466	287,572,857
Property, plant and equipment:		
Land, buildings and improvements	48,794,999	47,069,200
Vessels and dock facilities	2,654,406	2,754,406
Laboratory and other equipment	9,641,619	8,355,383
Construction in process	5,351,347	421,575
	66,442,371	58,600,564
Accumulated depreciation	(34,770,021)	(32,163,272)
Net property, plant and equipment	31,672,350	26,437,292
Remainder trusts	846,630	1,216,667
Total assets	$ 354,240,446	$ 315,226,816
Liabilities		
Accounts payable and other liabilities	$ 7,912,400	$ 8,903,204
Accrued payroll and related liabilities	5,298,557	4,824,765
Payable for investments purchased	-	2,845,856
Accrued supplemental retirement benefits	7,733,931	6,892,383
Deferred revenue and refundable advances	4,082,935	5,117,606
Deferred fixed rate variance	3,070,141	3,568,392
Loan payable	2,999,214	-
Total liabilities	31,097,178	32,152,206
Commitments and contingencies		

Net Assets

	Unrestricted	Temporarily restricted	Permanently restricted	1999	1998
Undesignated	$ 4,543,295		$	4,543,295	4,469,831
Designated	2,829,597	$ 4,907,217		7,736,814	6,868,599
Pledges		4,654,402	2,261,834	6,916,236	6,246,356
Plant and facilities	30,499,805	242,131		30,741,936	31,058,824
Education		2,679,119		2,679,119	2,859,995
Endowment and similar funds	68,501,035	164,709,242	37,315,591	270,525,868	231,571,005
Total net assets (Note B)	$ 106,373,732	$ 177,192,111	$ 39,577,425	323,143,268	283,074,610
Total liabilities and net assets				$ 354,240,446	$ 315,226,816

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

Woods Hole Oceanographic Institution
Statements of Activities
For the Year Ended December 31, 1999 (with summarized financial information for the year ended December 31, 1998)

	Unrestricted					
	Operating	Sponsored research	Temporarily restricted	Permanently restricted	1999	1998
Operating:						
Revenues:						
Fees	$ 294,132	$	$	$	$ 294,132	$ 373,399
Sponsored research:						
Government		58,747,647			58,747,647	62,809,830
Nongovernment		10,476,229	1,075,361		11,551,590	10,726,503
Sponsored research assets released to operations	69,223,876	(69,223,876)			-	-
Education:						
Tuition	2,335,701				2,335,701	2,652,371
Endowment income	3,183,141		1,275,385		4,458,526	3,676,520
Sponsored research	9,879				9,879	11,284
Gifts and transfers			597,886		597,886	867,189
Education funds released from restriction	2,054,147		(2,054,147)		-	-
Investment return designated for current operations	3,732,750				3,732,750	2,541,019
Contributions and gifts	2,038,038		1,256,786	3,549,486	6,844,310	6,563,933
Contributions and gifts released	-		(2,848,740)	2,848,740	-	-
Rental income	759,364				759,364	774,880
Communication and publications	207,211				207,211	318,615
Other	59,220				59,220	565,387
Total revenues	83,897,459	-	(697,469)	6,398,226	89,598,216	91,880,930
Expenses:						
Sponsored research:						
National Science Foundation	36,027,556				36,027,556	38,488,430
United States Navy	15,267,680				15,267,680	17,840,136
Subcontracts	5,356,734				5,356,734	5,835,413
National Oceanic & Atmospheric Administration	4,298,691				4,298,691	3,277,420
Department of Energy	653,341				653,341	778,412
United States Geological Survey	1,020,772				1,020,772	546,070
National Aeronautics & Space Administration	654,835				654,835	992,714
Other	5,944,267				5,944,267	5,514,756
Education:						
Faculty expense	2,303,217				2,303,217	2,238,580
Student expense	3,059,049				3,059,049	2,953,751
Postdoctoral programs	512,404				512,404	510,402
Other	540,347				540,347	495,287
Business development	92,119				92,119	527,467
Rental expenses	458,444				458,444	418,649
Communication publications and development	2,751,471				2,751,471	2,592,063
Unsponsored programs	2,867,766				2,867,766	2,178,658
Other expenses	1,868,945				1,868,945	1,670,942
Total expenses	83,677,638				83,677,638	86,859,150
Change in net assets from operating activities	219,821	-	(697,469)	6,398,226	5,920,578	5,021,780
Nonoperating income:						
Investment return in excess of amounts designated for sponsored research, education and current operations	8,148,762		26,299,144		34,447,906	11,978,925
Other nonoperating revenue	17,061		125,828		142,889	1,177,915
Nonoperating expenses:						
Other nonoperating expenses	200,776		241,939		442,715	675,265
Change in net assets from nonoperating activities	7,965,047		26,183,033		34,148,080	12,481,575
Total change in net assets	8,184,868		25,485,564	6,398,226	40,068,658	17,503,355
Net assets at beginning of year, as restated (Note B)	98,188,864	-	151,706,547	33,179,199	283,074,610	265,571,255
Net assets at end of year	$ 106,373,732	$ -	$ 177,192,111	$ 39,577,425	$ 323,143,268	$ 283,074,610

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, 1999 (with comparative information for the year ended December 31, 1998)

	1999	1998
Cash flows from operating activities:		
Total change in net assets	$ 40,068,658	$ 17,503,355
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,706,749	2,935,236
Net realized and unrealized gain on investments	(41,229,880)	(14,241,327)
Contributions to be used for long-term investment	(4,262,220)	(4,841,563)
(Increase) decrease in assets:		
Supplemental retirement	(841,548)	(695,287)
Accrued interest and dividends	603,041	(140,635)
Reimbursable costs and fees:		
Billed	(778,949)	1,136,208
Unbilled	(85,284)	49,066
Receivable for investments sold	1,127,013	-
Other receivables	76,590	(23,963)
Pledges receivable	(594,921)	(1,003,085)
Inventories	(115,962)	(52,340)
Deferred charges and prepaid expenses	263,683	(150,631)
Prepaid pension cost	(17,061)	(278,107)
Other assets	(501,824)	(28,046)
Remainder trusts	370,037	(41,576)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	(990,804)	(1,352,546)
Accrued payroll and related liabilities	473,785	(73,560)
Payable for investments purchased	(2,845,856)	1,416,897
Deferred revenue and refundable advances	(1,034,671)	(598,238)
Accrued supplemental retirement benefits	841,548	695,287
Deferred fixed rate variances	(498,244)	1,811,780
Net cash provided by (used in) operating activities	(7,266,120)	2,026,925
Cash flows from investing activities:		
Capital expenditures:		
Additions to property and equipment	(7,941,807)	(3,356,684)
Endowment:		
Proceeds from the sale of investments	126,094,954	464,439,261
Purchase of investments	(124,845,656)	(479,259,097)
Net cash (used in) investing activities	(6,692,509)	(18,176,520)
Cash flows from financing activities:		
Proceeds from loan payable	2,999,214	-
Contributions to be used for long-term investment	4,262,220	4,841,563
Net cash provided by financing activities	7,261,434	4,841,563
Net decrease in cash and cash equivalents	(6,697,195)	(11,308,032)
Cash and cash equivalents, beginning of year	23,912,432	35,220,464
Cash and cash equivalents, end of year	$ 17,215,237	$ 23,912,432

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

A. Background

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

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, 1998, 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 reclassified to unrestricted revenues.

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.

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 unless the donor places restrictions on their use.

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 the Institution's interpretation of 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.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash, money market accounts 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, 1999 and 1998 is $607,163 and $1,694,628, respectively, representing advances received from the United States Navy and other U.S. Government and state agencies (the sponsored research prepayment pool). Such amounts are restricted as to use for research programs. Interest earned on unspent funds is remitted to the federal government. Cash and cash equivalents also 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.

Options and Futures
An option is a contract in which the writer of the option grants the buyer the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a specified price within a period of time. Premiums received on written options are recorded as negative cost basis until the contract is closed. The liability representing the Institution's obligation under a written option or the Institution's investment in a purchase option is valued at the last sale price or, in the absence of a sale, the mean between the closing bid and asked price or at the most recent asked price (bid for purchase option) if no bid and asked price are available. Over-the-counter written or purchased options are valued using dealer supplied quotations. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Institution's maximum exposure for purchased options is limited to the premium initially paid.

A futures contract is an agreement between a buyer or seller and an established futures exchange or clearinghouse in which the buyer or seller agrees to take (or make) delivery of an amount of an item at a specific price on a specific date (settlement date). Upon entering into a futures contract, the Institution deposits with a financial intermediary an amount ("initial margin") equal to a percentage of the face value of the futures contract. Subsequent payments are made or received by the Institution each day, dependent on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. The Institution will realize a gain or loss equal to the difference between the value of the futures contract to sell and the futures contract to buy at settlement date or by closing the contract. Futures contracts are valued at the most recent settlement price.

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 (a percentage of the prior three years' endowment market values).

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 $9,608,901 and $7,588,902 for the years ending December 31, 1999 and 1998, 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.

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 $2,605,973 and $2,834,460 in 1999 and 1998, 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 in 1999 and 1998, respectively, has been charged to nonoperating expenses as these assets are owned by the Government. There were no gains on the disposal of property, plant and equipment in 1999 and 1998.

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 as of December 31, 1999 and 1998, as well as the reported amounts of revenues and expenses during the years then ended. Actual results could differ from the estimates included in the financial statements.

Reclassification of Amounts
Certain prior year amounts have been reclassified to conform to the December 31, 1999 presentation.

Restatement
In 1999, the Institution restated net assets as of December 31, 1997 to properly reflect pension and postretirement benefit costs in accordance with Statements of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and to properly reflect temporarily restricted investment income when earned in accordance with SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." Prior to the restatement, the Institution recorded pension costs based on cash paid for employer contributions and recorded temporarily restricted investment income as deferred revenue until expenditures were incurred. The effect of the restatement is presented below:

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Net assets at December 31, 1997, as previously reported	$ 92,625,768	$ 138,205,953	$ 29,237,444	$ 260,069,165
Recording of prepaid pension costs	1,933,216	-	-	1,933,216
Recording of temporarily restricted investment income	-	3,568,874	-	3,568,874
Net assets at December 31, 1997, as restated	$ 94,558,984	$ 141,774,827	$ 29,237,444	$ 265,571,255
Total change in net assets at December 31, 1998, as previously reported	$ 3,351,773	$ 9,668,738	$ 3,941,755	$ 16,962,266
Recording of prepaid pension costs	278,107	-	-	278,107
Recording of temporarily restricted investment income	-	262,982	-	262,982
Total change in net assets at December 31, 1998, as restated	$ 3,629,880	$ 9,931,720	$ 3,941,755	$ 17,503,355

C. Investments

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

	1999		1998	
	Cost/(premium received)	Market	Cost/(premium received)	Market
U.S. Government and government agencies	$ 9,115,196	$ 8,649,788	$ 9,455,685	$ 9,569,265
Corporate bonds	23,495,708	22,190,605	15,655,157	16,014,417
Other bonds	6,259,492	5,923,533	5,374,862	5,093,275
Equity securities and mutual funds	99,099,911	135,345,966	100,109,271	123,803,114
International mutual funds	60,951,945	69,160,320	56,647,950	50,363,401
Venture Capital and Investment Partnerships	20,326,919	29,304,320	19,103,213	25,219,328
Other	325,729	325,729	1,121,854	1,284,992
Subtotal investments	219,574,900	270,900,261	207,467,992	231,347,792
Purchased call options	13,913	3,297	57,203	23,311
Written call options	(7,168)	(4,699)	(25,625)	(783,701)
Written put options	(15,188)	(46,216)	(21,000)	(35,905)
Total investments	$ 219,566,457	$ 270,852,643	$ 207,478,570	$ 230,551,497

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 $2,698,148 and $2,241,146 for the years ended December 31, 1999 and 1998, respectively, including dividends, distributions and changes in the estimated value of such investments.

At December 31, 1999, open future contracts sold short were as follows:

Futures	Expiration date	Aggregate face value	Market value
10 Year U.S. Treasury Note	3/22/00	$ 187,293	$ 181,875
30 Year U.S. Treasury Bond	3/22/00	$ 1,274,175	$ 1,246,172

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

	Unrestricted	Temporarily restricted	1999 Total	1998 Total
Dividend and interest income	$ 3,798,405	$ 1,275,385	$ 5,073,790	$ 6,715,677
Investment management costs	(1,075,321)	-	(1,075,321)	(692,340)
Net realized gains	2,612,445	10,404,176	13,016,621	36,155,279
Change in unrealized appreciation	12,318,291	15,894,968	28,213,259	(21,913,952)
Total return on investments	17,653,820	27,574,529	45,228,349	20,264,664
Investment return designated for:				
Sponsored research	(2,589,167)	-	(2,589,167)	(2,068,200)
Education	(3,183,141)	(1,275,385)	(4,458,526)	(3,676,520)
Current operations	(3,732,750)	-	(3,732,750)	(2,541,019)
	(9,505,058)	(1,275,385)	(10,780,443)	(8,285,739)
Investment return in excess of amounts designated for sponsored research, education and current operations	$ 8,148,762	$ 26,299,144	$ 34,447,906	$ 11,978,925

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:

	1999	1998
Unit value, beginning of year	$ 3.9089	$ 3.6785
Unit value, end of year	4.5884	3.9089
Net change for the year	.6795	.2304
Investment income per unit for the year	.0824	.0868
Total return per unit	$ .7619	$ .3172

D. Pledges Receivable

Pledges receivable consist of the following at December 31:

	1999	1998
Unconditional promises expected to be collected in:		
Less than one year	$ 4,125,666	$ 2,615,729
One year to five years	1,283,317	2,198,333
	$ 5,408,983	$ 4,814,062

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 with the federal government fixed rates 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, 1997	$ (1,756,612)
1998 indirect costs	30,307,084
1998 adjustment	11,669
Amounts recovered	(32,130,533)
1998 (over)/under recovery	(1,811,780)
Deferred Fixed Rate Variance (liability), December 31, 1998	(3,568,392)
1999 indirect costs	33,084,491
Amounts recovered	(32,586,240)
1999 (over)/under recovery	498,251
Deferred Fixed Rate Variance (liability), December 31, 1999	$ (3,070,141)

As of December 31, 1999, the Institution has recovered a cumulative amount in excess of expended amounts of $3,070,141 which will be reflected as a reduction of future year recoveries. This amount has been reported as a liability of the Institution.

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. The loan matures on June 1, 2010. Interest is computed at a rate established by the Authority and this rate was 3.75% for the year ended December 31, 1999.

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.

Principal payments during the term of the loan are as follows:

Year	
2000	$ 22,547
2001	47,524
2002	50,960
2003	54,644
2004	58,594
2005 and thereafter	2,764,945
Total	$ 2,999,214

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.

	Qualified Plan Pension Benefits	
	1999	**1998**
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 117,287,816	$ 107,000,311
Service cost	4,180,879	3,213,476
Interest cost	8,208,944	7,332,679
Amendments	10,584,215	-
Actuarial (gain)/loss	(17,180,701)	4,222,921
Benefits paid	(7,111,475)	(4,481,571)
Benefit obligation at end of year	$ 115,969,678	$ 117,287,816
Change in Plan Assets		
Fair value of plan assets at beginning of year	158,790,517	149,537,244
Actual return on plan assets	27,894,511	13,734,844
Benefits paid	(7,111,475)	(4,481,571)
Fair value of plan assets at end of year	$ 179,573,553	$ 158,790,517

	Qualified Plan Pension Benefits 1999	Qualified Plan Pension Benefits 1998
Funded status	$ 63,603,875	$ 41,502,701
Unrecognized actuarial (gain)/loss	(73,106,806)	(40,896,168)
Unrecognized portion of net obligation/(asset) at transition	(1,289,293)	(1,936,363)
Unrecognized prior service cost/(credit)	12,160,543	2,752,327
Net amount recognized	$ 1,368,319	$ 1,422,497
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid benefit cost	$ 1,368,319	$ 1,422,497
Weighted-Average Assumptions		
Discount rate as of December 31	8.00%	6.75%
Expected return on plan assets for the year	10.00%	9.00%
Rate of compensation increase as of December 31	3.50%	4.50%
Components of Net Periodic Benefit Cost		
Service cost	$ 4,180,879	$ 3,213,476
Interest cost	8,208,944	7,332,679
Expected return on plan assets and reserves	(12,688,120)	(10,546,822)
Amortization of:		
transition obligation/(asset)	(647,070)	(647,070)
prior service cost/(credit)	1,175,999	311,982
actuarial loss/(gain)	(176,454)	-
Net periodic benefit cost/(income)	$ 54,178	$ (335,755)

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.

	Supplemental Plan Pension Benefits 1999	Supplemental Plan Pension Benefits 1998
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 3,685,379	$ 3,576,307
Service cost	109,906	111,913
Interest cost	221,296	235,860
Actuarial (gain)/loss	(407,215)	127,325
Benefits paid	(332,342)	(366,026)
Benefit obligation at end of year	$ 3,277,024	$ 3,685,379
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	332,342	366,026
Benefits paid	(332,342)	(366,026)
Fair value of plan assets at end of year	$ -	$ -
Funded status	(3,277,024)	(3,685,379)
Unrecognized actuarial (gain)/loss	(524,676)	(254,120)
Unrecognized portion of net obligation/(asset) at transition	256,950	385,907
Net amount recognized	(3,544,750)	(3,553,592)
True up to earmarked reserves	(4,189,181)	(3,338,791)
Total earmarked reserves	$ (7,733,931)	$ (6,892,383)
Amounts Recognized in the Statement of Financial Position Consist of:		
Accrued benefit liability	$ (7,733,931)	$ (6,892,383)
Weighted-Average Assumptions		
Discount rate as of December 31	8.00%	6.75%
Expected return on plan assets for the year	10.00%	9.00%
Rate of compensation increase as of December 31	3.50%	4.50%
Components of Net Periodic Benefit Cost		
Service cost	$ 109,906	$ 111,913
Interest cost	221,296	235,860
Expected return on plan assets and reserves	(291,188)	(281,087)
Amortization of:		
transition obligation/(asset)	128,957	128,957
actuarial loss/(gain)	(11,375)	(1,280)
Net periodic benefit cost/(income)	157,596	194,363
Investment return on invested reserves	165,904	154,530
Total periodic cost	$ 323,500	$ 348,893

The earmarked reserves are matched by a "Rabbi" Trust with $7,733,931 and $6,892,383, respectively as of December 31, 1999 and 1998.

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.

	Other Postretirement Benefits 1999	1998
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 21,998,913	$ 18,675,643
Service cost	490,210	441,396
Interest cost	1,420,108	1,295,184
Plan participants' contributions *	-	-
Actuarial (gain)/loss	(4,091,749)	2,340,048
Benefits paid net of plan participants' contributions	(787,039)	(753,358)
Benefit obligation at end of year	$ 19,030,443	$ 21,998,913
Change in Plan Assets		
Fair value of plan assets at beginning of year	13,701,233	11,621,126
Actual return on plan assets	2,021,124	1,879,465
Employer contribution	930,995	954,000
Plan participants' contributions *	-	-
Benefits paid net of plan participants' contributions	(787,039)	(753,358)
Fair value of plan assets at end of year	$ 15,866,313	$ 13,701,233

* plan participants' contributions are netted out of benefit claims

	1999	1998
Funded status	$ (3,164,130)	$ (8,297,680)
Unrecognized actuarial (gain)/loss	(2,859,332)	1,876,007
Unrecognized portion of net obligation/(asset) at transition	11,096,143	11,949,692
Unrecognized prior service cost/(credit)	(4,212,616)	(4,739,193)
Net amount recognized	$ 860,065	$ 788,826
Amounts Recognized in the Statement of Financial Position Consist of:		
Prepaid benefit cost	$ 860,065	$ 788,826
Weighted-Average Assumptions		
Discount rate as of December 31	8.00%	6.75%
Expected return on plan assets for the year	10.00%	9.00%

For measurement purposes, a 7.0% and 5.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed in 2000 for pre-65 and post-65 benefits, respectively.

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

Components of Net Periodic Benefit Cost		
Service cost	$ 490,210	$ 441,396
Interest cost	1,420,108	1,295,184
Expected return on plan assets and reserves	(1,377,533)	(1,051,904)
Amortization of:		
transition obligation/(asset)	853,549	853,549
prior service cost/(credit)	(526,577)	(526,577)
Net periodic benefit cost/(income)	$ 859,757	$ 1,011,648

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:

	1-Percentage Point Increase	**1-Percentage Point Decrease**
Effect on total of service cost and interest cost	$ 352,914	$ (277,215)
Effect on the postretirement benefit obligation:	2,885,965	(2,342,592)

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 had settled the years through 1998. The current indirect costs recovery rates, which are fixed, include the impact of prior year settlements. While the 1999 direct and indirect costs are subject to audit, the Institution does not believe settlement of this year will have a material impact on its results of operations (change in net assets) or its financial position.

The Institution is committed to invest $26,000,000 in certain venture capital and investment partnerships.

The Institution is a defendant in certain 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.