# **Woods Hole Oceanographic Institution**

Financial Statements
For the Year Ended December 31, 2001

#### **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") at December 31, 2001 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 2000 financial statements, and in our report dated March 9, 2001, 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 8, 2002

# **Woods Hole Oceanographic Institution Statements of Financial Position**

As of December 31, 2001 (with comparative information as of December 31, 2000)

	2001	2000
Assets		
Cash, unrestricted	\$ 25,279,708	\$ 21,637,368
Cash, restricted	2,127,319	2,373,675
Reimbursable costs and fees:		
Billed	1,830,744	2,078,150
Unbilled	4,244,992	3,102,994
Interest and dividends receivable Other receivables	747,738	835,835
Other receivables Pledges receivable	489,022 1,837,433	415,364 2,875,144
Inventory	1,338,200	1,070,303
Deferred charges and prepaid expenses	632,799	314,906
Investments, pooled	255,533,434	278,691,287
Investments, nonpooled	16,914,043	11,340,898
Prepaid pension and postretirement benefit cost	7,196,027	4,629,623
Supplemental retirement	6,464,586	7,158,614
Other assets	4,255,459	4,374,491
	328,891,504	340,898,652
Property, plant and equipment:		
Land, buildings and improvements	58,416,408	54,977,722
Vessels and dock facilities	3,186,277	3,186,277
Laboratory and other equipment	12,687,970	11,036,930
Construction in process	1,714,908	1,959,353
	76,005,563	71,160,282
Accumulated depreciation	(41,311,575)	(37,627,865)
Net property, plant and equipment	34,693,988	33,532,417
Remainder trusts	10,819,303	570,317
Total assets	\$ 374,404,795	\$ 375,001,386
Liabilities		
Accounts payable and other liabilities	\$ 10,099,366	\$ 8,059,206
Accrued payroll and related liabilities	5,835,734	5,537,049
Payable for investments purchased	281,912	402,557
Accrued supplemental retirement benefits	6,464,586	7,158,614
Deferred revenue and refundable advances	7,497,139	7,545,281
Deferred fixed rate variance	2,196,646 5,067,952	3,595,425
Loan payable		3,921,516
Total liabilities	37,443,335	36,219,648
Commitments and contingencies		
Net Assets		
Temporarily Permanently	y	
Unrestricted restricted restricted		
Undesignated \$ 7,595,488 \$ - \$	- \$ 7,595,488	\$ 7,828,139
Designated 1,716,744 11,800,984	- 13,517,728	13,908,054
Pledges and other - 4,096,061 9,744,51	13,840,577	4,703,597
Plant and facilities 30,418,781 -	- 30,418,781	30,623,733
Education - 3,389,196	- 3,389,196	2,889,562
Endowment and similar funds 64,151,461 160,938,965 43,109,26	268,199,690	278,828,653
Total net assets <u>\$ 103,882,474</u> <u>\$ 180,225,206</u> <u>\$ 52,853,78</u>	336,961,460	338,781,738
Total liabilities and	\$ 274.404.705	\$ 275,001,206
net assets	\$ 374,404,795	\$ 375,001,386

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

# **Woods Hole Oceanographic Institution Statement of Activities**

# For the Year Ended December 31, 2001 (with summarized financial information for the year ended December 31, 2000)

	Unres	stricted				
	Operating	Sponsored research	Temporarily restricted	Permanently restricted	2001	2000
Operating:						
Revenues:						
Fees	\$ 480,048				\$ 480,048	\$ 398,557
Sponsored research:						
Government		\$ 57,999,323			57,999,323	51,483,430
Nongovernment		11,720,948	\$ 3,324,977		15,045,925	11,995,608
Ships and subs operations		16,318,230			16,318,230	14,577,061
Sponsored research assets released to operations	88,784,540	(86,038,501)	(2,746,039)		<u>-</u>	_
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Education:						
Tuition	2,422,919				2,422,919	2,300,021
Endowment income	3,507,720		1,579,582		5,087,302	4,772,920
Gifts and transfers Education funds released from restriction	1,525,075		441,327 (1,525,075)		441,327	232,210
Investment return designated for	1,323,073		(1,323,073)		-	-
current operations	3,324,643				3,324,643	3,347,291
Contributions and gifts	4,067,506		15,204,231	\$ 10,283,499	29,555,236	11,375,378
Contributions in kind	569,524				569,524	-
Contributions and gifts released	12,203		(12,203)		-	-
Change in split-interest agreements	(27,220)		50,564	276,210	299,554	1,058,858
Rental income	681,800				681,800	689,987
Communication and publications	230,953				230,953	204,607
Other	17,407				17,407	835,531
Total revenues	105,597,118		16,317,364	10,559,709	132,474,191	103,271,459
Expenses:						
Sponsored research:						
National Science Foundation	32,319,177				32,319,177	28,905,513
United States Navy	16,294,420				16,294,420	14,833,446
Subcontracts	5,602,882				5,602,882	5,885,445
National Oceanic & Atmospheric Administration	5,091,049				5,091,049	4,097,038
Department of Energy	760,432				760,432	683,316
United States Geological Survey	913,216				913,216	939,757
National Aeronautics & Space Administration	752,414				752,414	725,017
Ships Operations Submersible and ROV operations	12,050,433 4,267,797				12,050,433 4,267,797	10,868,821 3,708,240
Privately funded grants	2,976,296				2,976,296	1,810,335
Other	7,756,424				7,756,424	5,176,329
Education:						
Faculty expense	2,396,656				2,396,656	2,288,385
Student expense	3,134,580				3,134,580	2,904,506
Postdoctoral programs	478,479				478,479	476,988
Other	630,559				630,559	560,659
Rental expenses	523,835				523,835	536,965
Communication, publications and development	1,731,513				1,731,513	1,454,465
Fundraising expenses	1,783,952				1,783,952	1,642,199
Unsponsored programs	3,174,119				3,174,119	4,152,772
Other expenses	2,291,793				2,291,793	1,142,875
Write off of fixed assets	531,614				531,614	
Total expenses	105,461,640	-	-	-	105,461,640	92,793,071
Change in net assets from operating activities	135,478		16,317,364	10,559,709	27,012,551	10,478,388
Nonoperating income:						
Investment return (less than) in excess of amounts						
designated for sponsored research, education and current operations	(8,751,729)		(22,442,548)		(31,194,277)	3,235,539
Change in prepaid pension cost	2,566,404		(22,442,346)		2,566,404	2,401,239
Nonoperating expenses:	2,300,404				2,300,404	2,401,237
Other nonoperating expenses	(204,956)				(204,956)	(476,696)
Net asset transfers	246,459		(17,516)	(228,943)		<del></del>
Change in net assets from nonoperating activities	(6,143,822)		(22,460,064)	(228,943)	(28,832,829)	5,160,082
Total change in net assets	(6,008,344)		(6,142,700)	10,330,766	(1,820,278)	15,638,470
Net assets at beginning of year	109,890,818	-	186,367,906	42,523,014	338,781,738	323,143,268
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Net assets at end of year	\$ 103,882,474	\$ -	\$ 180,225,206	\$ 52,853,780	\$ 336,961,460	\$ 338,781,738

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, 2001 (with comparative information for the year ended December 31, 2000)

		2001		2000
Cash flows from operating activities:				
Total change in net assets	\$	(1,820,278)	\$	15,638,470
Adjustments to reconcile (decrease) increase in net assets to net cash				
provided by operating activities:				
Depreciation		3,683,710		3,338,844
Contributions and change in value of remainder trusts		(10,608,626)		530,166
Allowance for uncollectible pledges		200,000		· -
Discount on pledges		58,064		-
Gain on sale of property		-		(481,000)
Net realized and unrealized (gain)/loss on investments		24,307,603		(3,235,539)
Contributions to be used for long-term investment		(1,080,551)		(4,787,404)
(Increase) decrease in assets:		246 256		(1.547.266)
Restricted cash Interest and dividends receivable		246,356 88,097		(1,547,366) (301,974)
Reimbursable costs and fees:		00,097		(301,974)
Billed		247,406		(153,145)
Unbilled		(1,141,998)		672,100
Receivable for investments sold		(1,111,550)		152,708
Other receivables		(73,658)		(59,862)
Pledges receivable		779,647		2,533,839
Inventory		(267,897)		(261,384)
Deferred charges and prepaid expenses		(317,893)		(255,270)
Prepaid pension and postretirement benefit cost		(2,566,404)		(2,401,239)
Other assets		478,672		261,408
Supplemental retirement		694,028		575,317
Increase (decrease) in liabilities:		2 0 40 4 60		146006
Accounts payable and other liabilities		2,040,160		146,806
Accrued payroll and related liabilities		298,685		238,499
Payable for investments purchased Deferred revenue and refundable advances		(120,645) (48,142)		402,557 3,462,346
Accrued supplemental retirement benefits		(694,028)		(575,317)
Deferred fixed rate variances		(1,398,779)		525,277
Net cash provided by operating activities		12,983,529	_	14,418,837
Cash flows from investing activities:				
Capital expenditures:		(5.045.070)		(5.414.075)
Additions to property and equipment Disposals of property and equipment		(5,045,978) 200,697		(5,414,975) 697,065
Short-term investments:		200,697		097,003
Purchase of investments		(5,573,145)		_
Endowment:		(3,373,143)		_
Proceeds from the sale of investments		197,143,639		203,949,829
Purchase of investments		(198,293,388)		(214,112,022)
Net cash used in investing activities		(11,568,175)		(14,880,103)
Cash flows from financing activities:				
Borrowings under debt agreement		1,146,435		922,302
Contributions to be used for long-term investment		1,080,551		4,787,404
Net cash provided by financing activities				
		2,226,986	_	5,709,706
Net increase in cash and cash equivalents		3,642,340		5,248,440
Cash and cash equivalents, beginning of year	_	21,637,368	_	16,388,928
Cash and cash equivalents, end of year	\$	25,279,708	\$	21,637,368
Supplemental disclosures: Interest paid	\$	154,472	\$	116,690

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

#### 1. 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 for education and scientific purposes.

#### 2. 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.

The financial statements include certain prior-year summarized comparative information, but do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institution's audited financial statements for the year ended December 31, 2000, 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.

#### 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 and released to operations when spent for the appropriate purpose, or as deferred revenue if expenditures have yet to be incurred.

### Woods Hole Oceanographic Institution

#### **Notes to Financial Statements**

#### 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 statement 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 3). 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, 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 restricted cash at December 31, 2001 and 2000 is \$1,890,053 and \$2,143,974, 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 restricted cash at December 31, 2001 and 2000 is \$237,266 and \$229,701, 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.

#### **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 counterparts 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 Unitization**

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.

### Woods Hole Oceanographic Institution

#### **Notes to Financial Statements**

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 \$11,106,742 and \$10,109,203 for the years ending December 31, 2001 and 2000, 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 \$3,583,734 and \$3,238,068 in 2001 and 2000, respectively, has been charged to operating activities.

Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to \$99,976 and \$100,776 in 2001 and 2000, respectively, has been charged to nonoperating expenses as these assets were gifted by the Government.

Included in construction in process is \$526,059 and \$42,700 at December 31, 2001 and 2000, respectively, relating to campus planning.

#### **Use of Estimates**

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America 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, 2001 presentation.

#### 3. Investments

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

	2001		20	2000	
	Cost	Market	Cost	Market	
U.S. Government and government agencies Corporate bonds International bonds Equity securities and mutual funds International equities Hedge fund limited partnerships Venture Capital and private equity Other	\$ 10,884,250 39,449,169 11,463,914 90,717,251 42,946,376 23,920,000 15,974,232 192,773	\$ 10,706,678 39,747,540 11,719,036 108,384,925 38,653,939 31,516,655 14,590,510 192,773	\$ 6,010,333 42,266,542 6,290,635 95,417,513 50,557,666 18,920,000 13,410,006 299,465	\$ 6,205,973 42,396,551 5,911,656 123,939,867 47,850,287 32,251,037 19,800,254 299,465	
Subtotal investments	235,547,965	255,512,056	233,172,160	278,655,090	
Purchased call options Written call options Written put options	59,618 (1,358) (20,394)	21,903 (40) (485)	66,294 (19,653) (17,625)	38,387 (1,006) (1,184)	
Total investments	\$ 235,585,831	\$ 255,533,434	\$ 233,201,176	\$ 278,691,287	

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 \$7,773,970 and \$7,095,950 for the years ended December 31, 2001 and 2000, 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 statement of activities:

	τ	J <b>nrestricted</b>	1	Cemporarily restricted		2001 Total	2000 Total
Dividend and interest income Investment management costs	\$	4,526,534 (1,233,720)	\$	1,579,582	\$	6,106,116 (1,233,720)	\$ 5,550,890 (1,307,813)
Net realized gains		394,069		840,836		1,234,905	15,826,500
Change in unrealized appreciation	-	(2,259,124)		(23,283,384)	_	(25,542,508)	 (5,796,075)
Total return on investments		1,427,759		(20,862,966)	_	(19,435,207)	 14,273,502
Investment return designated for:							
Sponsored research		(3,347,125)		-		(3,347,125)	(2,917,752)
Education		(3,507,720)		(1,579,582)		(5,087,302)	(4,772,920)
Current operations		(3,324,643)			_	(3,324,643)	 (3,347,291)
Total distributions to operations	_	(10,179,488)		(1,579,582)		(11,759,070)	 (11,037,963)
Investment return (less than) in excess of amounts designated for sponsored research, education and current operations	\$	(8,751,729)	\$	(22,442,548)	\$	(31,194,277)	\$ 3,235,539

Investment return distributed to operations includes \$652,328 and \$928,760 earned on non-endowment investments for the years ended December 31, 2001 and 2000, respectively.

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:

	2001	2000
Unit value, beginning of year Unit value, end of year	\$ 4.5650 4.0787	\$ 4.5884 4.5650
Net change for the year Investment income per unit for the year	 (.4863) .0655	(.0234) .0536
Total return per unit	\$ (.4208)	\$ .0302

#### 4. Pledges Receivable

Pledges receivable consist of the following at December 31:

	2001	2000
Unconditional promises expected to be collected in: Less than one year One year to five years Reserve for uncollectible pledges receivable Unamortized discount	\$ 982,658 1,112,839 (200,000) (58,064)	\$ 1,979,540 895,604 -
	\$ 1,837,433	\$ 2,875,144

#### 5. Contribution Receivable from Remainder Trusts

The Institution recorded \$10,819,303 and \$570,317 at December 31, 2001 and 2000, respectively, relating to various charitable remainder trusts in its statement of financial position. The receivable and related revenue is measured at the present value of estimated future cash flows to be received and recorded in the appropriate net asset category based on donor stipulation. During the term of these agreements, changes in the value are recognized based on amortization of discounts and changes in actuarial assumptions.

#### 6. 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, 1999	\$ (3,070,148)
2000 indirect costs 2000 adjustment Amounts recovered	34,876,295 (76,092) (35,325,480)
2000 change in liability	(525,277)
Deferred Fixed Rate Variance (liability), December 31, 2000	(3,595,425)
2001 indirect costs 2001 adjustment Amounts recovered	39,546,829 (63,312) (38,084,738)
2001 change in liability	1,398,779
Deferred Fixed Rate Variance (liability), December 31, 2001	\$ (2,196,646)

As of December 31, 2001, the Institution has recovered a cumulative amount in excess of expended amounts of \$2,196,646 which will be reflected as a reduction of future year recoveries. This amount has been reported as a liability of the Institution.

#### 7. 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, 2001, \$5,067,952 had been drawn down on the loan and was outstanding at year-end. Drawdowns are expected to occur during an eighteenmonth 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 drawdowns at a variable rate established by the Authority, which was 3.25% at December 31, 2001. Once the final drawdown has occurred or the eighteen-month period has lapsed, a schedule of principal payments will be established by the Authority until the final payment due on July 1, 2010.

On March 1, 2001, the Institution entered into an \$11,000,000 loan agreement with the Authority to finance additional capital projects. As of December 31, 2001, no amount had been drawn down on the loan. Drawdowns are expected to occur during an eighteen-month period. During this period, no principal payments are due on the loan, but the Institution is required to pay interest on the drawdowns at a variable rate established by the Authority. Once the final drawdown has occurred or the eighteen-month period has lapsed, a schedule of principal payments will be established by the Authority until the final payment due on July 1, 2010.

The loan agreements have 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.

#### 8. 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.

		Qualifi Pension 2001		
Change in benefit obligation: Benefit obligation at beginning of year Service cost Interest cost Actuarial (gain)/loss Benefits paid	\$	127,889,230 3,933,908 9,652,748 9,003,337 (8,315,517)	\$	115,969,678 3,669,981 9,085,277 4,860,581 (5,696,287)
Benefit obligation at end of year	\$	142,163,706	\$	127,889,230
Change in plan assets: Fair value of plan assets at beginning of year Actual return on plan assets Benefits paid		182,595,594 (14,025,221) (8,315,517)		179,573,553 8,718,328 (5,696,287)
Fair value of plan assets at end of year	\$	160,254,856	\$	182,595,594
Funded status Unrecognized actuarial (gain)/loss Unrecognized portion of net obligation/(asset) at transition Unrecognized prior service cost	\$	18,091,150 (21,492,494) 9,808,545	\$	54,706,364 (61,207,888) (642,223) 10,984,544
Net amount recognized	\$	6,407,201	\$	3,840,797
Amounts recognized in the statement of financial position consist of: Prepaid benefit cost	\$	6,407,201	\$	3,840,797
Weighted average assumptions: Discount rate as of December 31 Expected return on plan assets for the year Rate of compensation increase as of December 31		7.25% 10.00% 3.50%		7.75% 10.00% 3.50%
Components of net periodic benefit cost: Service cost Interest cost Expected return on plan assets and reserves Amortization of: Transition obligation/(asset)	\$	3,933,908 9,652,748 (15,167,435) (642,223)	\$	3,669,981 9,085,277 (13,982,038) (647,070)
Prior service cost		1,175,999		1,247,238
Actuarial loss/(gain)  Net periodic benefit cost/(income)	\$	(1,519,401) (2,566,404)	\$	(1,774,627) (2,401,239)
	_		_	

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

	Supplemental Plan			
	Pension 2001	Benefits 2000		
	2001	2000		
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 3,178,410	\$ 3,277,024		
Service cost	84,148	90,501		
Interest cost	227,879	233,808		
Actuarial (gain)/loss	2,918	(154,526)		
Benefits paid	(250,334)	(268,397)		
Benefit obligation at end of year	\$ 3,243,021	\$ 3,178,410		
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ -	\$ -		
Employer contribution	250,334	268,397		
Benefits paid	(250,334)	(268,397)		
Fair value of plan assets at end of year	\$ -	\$ -		
T 11.	ф. (2.2.12.021)	Φ (0.150.410)		
Funded status	\$ (3,243,021)	\$ (3,178,410)		
Unrecognized actuarial (gain)/loss	(405,902)	(534,216)		
Unrecognized portion of net obligation/(asset) at transition		127,993		
Net amount recognized	(3,648,923)	(3,584,633)		
True up to earmarked reserves	(2,815,663)	(3,573,981)		
Total earmarked reserves	\$ (6,464,586)	\$ (7,158,614)		
Amounts recognized in the statement				
of financial position consist of:				
Accrued benefit liability	\$ (6,464,586)	\$ (7,158,614)		
Weighted average assumptions:				
Discount rate as of December 31	7.25%	7.75%		
Expected return on plan assets for the year	10.00%	10.00%		
Rate of compensation increase as of December 31	3.50%	3.50%		
rate of compensation increase as of Beccinion 51	3.5070	3.5070		
Components of net periodic benefit cost:				
Service cost	\$ 84,148	\$ 90,501		
Interest cost	227,879	233,808		
Expected return on plan assets	(270,575)	(279,486)		
Amortization of:				
Transition obligation	127,993	128,957		
Actuarial loss/(gain)	(39,384)	(50,131)		
Net periodic benefit cost	130,061	123,649		
Investment return on invested reserves	184,563	184,631		
Total periodic cost	\$ 314,624	\$ 308,280		

The earmarked reserves are matched by a "Rabbi" Trust with \$6,464,586 and \$7,158,614, respectively, as of December 31, 2001 and 2000.

#### 9. 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			
	Postretirem 2001	Benefits 2000		
Change in benefit obligation:  Benefit obligation at beginning of year Service cost Interest cost Plan participants' contributions * Actuarial (gain)/loss Benefits paid Plan participants' contributions	\$ 20,694,387 449,011 1,692,874 - 2,409,584 (1,046,819) 106,619	\$	19,030,443 361,902 1,490,203 - 630,033 (907,756) 89,562	
Benefit obligation at end of year	\$ 24,305,656	\$	20,694,387	
Change in plan assets: Fair value of plan assets at beginning of year Actual return on plan assets Employer contribution Plan participants' contributions * Benefits paid net of plan participants' contributions	\$ 15,642,206 (1,069,644) 900,520 - (940,200)	\$	15,866,313 129,370 464,718 (818,195)	
Fair value of plan assets at end of year	\$ 14,532,882	\$	15,642,206	
* plan participants' contributions are netted out of benefit claims				
Funded status Unrecognized actuarial (gain)/loss Unrecognized portion of net obligation/(asset) at transition Unrecognized prior service cost/(credit)	\$ (9,772,774) 4,332,017 9,389,045 (3,159,462)	\$	(5,052,181) (715,548) 10,242,594 (3,686,039)	
Net amount recognized	\$ 788,826	\$	788,826	
Amounts recognized in the statement of financial position consist of: Prepaid benefit cost	\$ 788,826	\$	788,826	
Weighted average assumptions: Discount rate as of December 31 Expected return on plan assets for the year	7.25% 10.00%		7.75% 10.00%	

For measurement purposes, a 10.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2002 for both pre-65 and post-65 benefits.

### Woods Hole Oceanographic Institution

#### **Notes to Financial Statements**

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

	2001	2000
Components of net periodic benefit cost:		
Service cost	\$ 449,011	\$ 361,902
Interest cost	1,692,874	1,490,203
Expected return on plan assets and reserves	(1,568,337)	(1,574,077)
Recognized actuarial (gain)/loss	-	(69,043)
Amortization of:		
Transition obligation	853,549	853,549
Prior service cost/(credit)	(526,577)	(526,577)
Net periodic benefit cost/(income)	\$ 900,520	\$ 535,957

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:

	<b>December 31, 2001</b>	
	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service cost and interest cost Effect on the postretirement benefit obligation:	\$ 403,732 \$ 3,588,614	\$ (296,270) \$ (2,915,007)

#### 10. 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 2000. The current indirect costs recovery rates, which are fixed, include the impact of prior year settlements. While the 2001 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 \$53,040,000 in certain venture capital and investment partnerships, of which \$20,104,260 has been contributed as of December 31, 2001.

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.