

**THE WOODS HOLE RESEARCH CENTER, INC.**

FINANCIAL STATEMENTS AND REPORTS  
REQUIRED BY OMB CIRCULAR A-133

YEARS ENDED JUNE 30, 2014 AND 2013

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**CONTENTS**

	PAGE
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Additional Information	
Schedules of Functional Expenses	16
Schedules of Research Program Expenses	17
Report of Independent Auditors on Schedule of Expenditures of Federal Awards	18
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	23
Schedule of Findings and Questioned Costs	25
Views of Responsible Officials and Corrective Action Plan	29

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
The Woods Hole Research Center, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Woods Hole Research Center, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Woods Hole Research Center, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses and of research program expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015, on our consideration of The Woods Hole Research Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Woods Hole Research Center, Inc.'s internal control over financial reporting and compliance.

*Calibre CPA Group, PLLC*

Bethesda, MD  
February 11, 2015

**THE WOODS HOLE RESEARCH CENTER, INC.**

**STATEMENTS OF FINANCIAL POSITION**

JUNE 30, 2014 AND 2013

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,803,857	\$ 1,914,343
U.S. Government contributions receivable	1,034,367	1,008,095
Other contributions receivable, net	548,122	493,910
Prepaid expenses and other receivables	198,201	500,785
Total current assets	3,584,547	3,917,133
<b>INVESTMENTS</b>		
Endowment and quasi-endowment investments	5,016,353	4,567,091
Other investments	897,111	757,208
	5,913,464	5,324,299
<b>NET PROPERTY AND EQUIPMENT</b>		
	6,781,952	7,494,898
<b>OTHER ASSETS</b>		
Other contributions receivable, net of current portion	69,065	140,190
Beneficial interest in real estate trust assets	212,651	212,651
Bond proceeds held in trust for debt retirement	19,420	20,560
Total other assets	301,136	373,401
Total assets	\$ 16,581,099	\$ 17,109,731
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 352,321	\$ 187,444
Accrued expenses	237,154	411,020
Liability under charitable gift annuities	9,533	9,439
Refundable advances	16,297	51,760
Loan payable	114,192	114,192
Total current liabilities	729,497	773,855
<b>LONG-TERM LIABILITIES</b>		
Liability under charitable gift annuities, net of current portion	56,230	58,650
Loan payable, net of current portion	2,843,442	2,958,774
Total liabilities	3,629,169	3,791,279
<b>NET ASSETS</b>		
Unrestricted		
Operating	2,474,464	2,190,153
Board designated for quasi-endowment	532,488	532,488
Net investment in property and equipment	3,843,738	4,442,492
Total unrestricted	6,850,690	7,165,133
Temporarily restricted	2,413,461	2,476,640
Permanently restricted	3,687,779	3,676,679
Total net assets	12,951,930	13,318,452
Total liabilities and net assets	\$ 16,581,099	\$ 17,109,731

See accompanying notes to financial statements.

**THE WOODS HOLE RESEARCH CENTER, INC.**

**STATEMENTS OF ACTIVITIES**

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>								
Contributions								
U.S. Government	\$ -	\$ 4,984,373	\$ -	\$ 4,984,373	\$ -	\$ 5,131,067	\$ -	\$ 5,131,067
Foundations and other	2,068,335	1,026,806	11,100	3,106,241	1,353,105	2,335,378	2,850	3,691,333
Investment income	242,180	615,475	-	857,655	213,352	558,432	-	771,784
Donated equipment	10,991	-	-	10,991	6,431	-	-	6,431
In-kind donations	21,588	-	-	21,588	35,340	-	-	35,340
Change in value of split-interest agreements	(9,849)	-	-	(9,849)	(7,593)	-	-	(7,593)
Other income	9,810	-	-	9,810	26,515	-	-	26,515
Net assets released from restrictions	<u>6,689,833</u>	<u>(6,689,833)</u>	<u>-</u>	<u>-</u>	<u>7,840,684</u>	<u>(7,840,684)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>9,032,888</u>	<u>(63,179)</u>	<u>11,100</u>	<u>8,980,809</u>	<u>9,467,834</u>	<u>184,193</u>	<u>2,850</u>	<u>9,654,877</u>
<b>EXPENSES</b>								
Research programs	6,286,338	-	-	6,286,338	6,902,959	-	-	6,902,959
General and administrative	2,477,491	-	-	2,477,491	2,226,167	-	-	2,226,167
Development and fund raising	<u>583,502</u>	<u>-</u>	<u>-</u>	<u>583,502</u>	<u>594,527</u>	<u>-</u>	<u>-</u>	<u>594,527</u>
Total expenses	<u>9,347,331</u>	<u>-</u>	<u>-</u>	<u>9,347,331</u>	<u>9,723,653</u>	<u>-</u>	<u>-</u>	<u>9,723,653</u>
CHANGE IN NET ASSETS	(314,443)	(63,179)	11,100	(366,522)	(255,819)	184,193	2,850	(68,776)
<b>NET ASSETS</b>								
Beginning of year	<u>7,165,133</u>	<u>2,476,640</u>	<u>3,676,679</u>	<u>13,318,452</u>	<u>7,420,952</u>	<u>2,292,447</u>	<u>3,673,829</u>	<u>13,387,228</u>
End of year	<u>\$ 6,850,690</u>	<u>\$ 2,413,461</u>	<u>\$ 3,687,779</u>	<u>\$ 12,951,930</u>	<u>\$ 7,165,133</u>	<u>\$ 2,476,640</u>	<u>\$ 3,676,679</u>	<u>\$ 13,318,452</u>

See accompanying notes to financial statements.

**THE WOODS HOLE RESEARCH CENTER, INC.**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30 2014 AND 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received		
U.S. Government	\$ 4,922,638	\$ 4,962,717
Foundations and other	3,112,054	4,359,528
Investment income received	116,023	118,484
Other operating receipts	9,807	26,514
Payments to vendors, suppliers, employees and annuitants	(8,289,302)	(9,158,465)
Interest payments	(9,657)	(2,946)
Net cash provided by (used for) operating activities	(138,437)	305,832
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(4,416,595)	(2,220,951)
Proceeds from sales of investments	4,569,062	2,399,007
Purchases of property and equipment	(21,424)	(47,547)
Net cash provided by investing activities	131,043	130,509
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Use of bond proceeds held in trust	1,140	1,370
Loan proceeds received	-	1,000,000
Repayments of loans payable	(115,332)	(115,565)
Endowment contributions received	11,100	2,850
Net cash provided by (used for) financing activities	(103,092)	888,655
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(110,486)	1,324,996
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	1,914,343	589,347
End of year	\$ 1,803,857	\$ 1,914,343
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET</b>		
<b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	\$ (366,522)	\$ (68,776)
Change in net assets		
Adjustments		
Endowment contributions	(11,100)	(2,850)
Donated equipment	(10,991)	(6,431)
Depreciation and amortization	723,566	747,814
Loss on sale of property and equipment	21,795	-
Net realized and unrealized gains on investments	(741,632)	(653,300)
Change in assets and liabilities		
U.S. Government contributions receivable	(26,272)	(220,110)
Other contributions receivable	16,913	671,045
Prepaid expenses and other receivables	302,584	(321,257)
Accounts payable, net of amounts for property and equipment	164,877	(2,379)
Accrued expenses	(173,866)	114,896
Liability under charitable gift annuities	(2,326)	(4,580)
Refundable advances	(35,463)	51,760
Net cash provided by (used for) operating activities	\$ (138,437)	\$ 305,832

See accompanying notes to financial statements.

# THE WOODS HOLE RESEARCH CENTER, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Statement Presentation** - Financial statement presentation follows the recommendations of U.S. generally accepted accounting principles in accordance with FASB Accounting Standards Codification 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under those principles, the Center is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Cash and Cash Equivalents** - Cash consists of monies held in demand deposit and money market accounts, unless designated for long-term purposes. Cash equivalents are all highly liquid, short-term investments with initial maturities of three months or less when purchased, which are stated at cost which approximates market value.

**Investments** - Investments consist of amounts held in money market accounts and short-term investment funds and amounts invested in fixed income, equities and mutual funds which are carried at fair value, as determined by published market prices. Income earned is derived from both dividends and changes in fair value. Unrealized gains (losses) resulting from increases (decreases) in fair value of shares held as well as the net realized gains (losses) arising from sales of shares are included in investment income. The Center's investments are pooled and allocation of income is tracked on a unitized basis. The Center distributes a proportional amount of investment income based on a total return policy.

**Property and Equipment** - Property and equipment are recorded at cost. Property and equipment with a cost of \$3,000 or greater and having an expected useful life of two years or longer are capitalized. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or, where applicable, the terms of the respective capitalized lease agreements, whichever are shorter. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in income.

**Revenue and Support** - Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Federal grant awards are classified as refundable advances until expended for the purposes of the grants since they are considered to be conditional promises to give.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities of the Center have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

**NOTE 2. ORGANIZATION AND TAX STATUS**

Founded in 1985, The Woods Hole Research Center addresses global environmental problems generated by the expansion of human enterprise over a finite earth. Both privately and publicly financed, the Center offers independent scientific and policy analyses of this new realm of global environmental issues.

The Center (a Massachusetts nonprofit corporation) is exempt from federal and Massachusetts income taxes under Section 501(c)(3) of the Internal Revenue Code and Chapter 180 of the Code of the Commonwealth of Massachusetts, respectively, as a publicly supported organization. The organization is, however, subject to tax on net profits generated by activities defined as unrelated business activities under applicable tax law. To date, the Center has not engaged in such activities.

The Center's Form 990, *Return of Organization Exempt from Income Tax*, for the years ended June 30, 2011 through 2013 are subject to examination by the IRS, generally for three years after they were filed.

**NOTE 3. CONTRIBUTIONS RECEIVABLE**

Unconditional promises receivable as of June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Due in less than one year	\$ 1,888,489	\$1,502,005
Due in one to five years	<u>70,286</u>	<u>143,819</u>
	1,958,775	1,645,824
Less allowance for uncollectibles	(306,000)	-
Less discount to net present value	<u>(1,221)</u>	<u>(3,629)</u>
Total unconditional receivable	<u>\$ 1,651,554</u>	<u>\$1,642,195</u>

Conditional promises receivable as of June 30, 2014 total \$5,967,145, consisting of unexpended U.S. Government grant awards.

#### NOTE 4. INVESTMENTS

Investments consist of amounts held in cash equivalents, equities and fixed income securities. The original cost and fair values of investments are as follows:

	<u>2014</u>	<u>2013</u>
Cost	\$ 5,076,082	\$ 4,615,884
Accumulated unrealized gain	<u>837,382</u>	<u>708,415</u>
Total fair value	<u>\$ 5,913,464</u>	<u>\$ 5,324,299</u>

Investments are held in endowment, quasi-endowment or other categories as described below.

	<u>2014</u>	<u>2013</u>
Board-designated quasi-endowment	\$ 532,488	\$ 532,488
Unappropriated earnings on permanent endowments	796,086	357,924
Donor-restricted permanent endowments	<u>3,687,779</u>	<u>3,676,679</u>
	5,016,353	4,567,091
Net other investments	<u>897,111</u>	<u>757,208</u>
Total investments	<u>\$5,913,464</u>	<u>\$ 5,324,299</u>

Included in investment income for the years ended June 30, 2014 and 2013 is net appreciation in the fair value of investments of \$741,632 and \$653,300 respectively.

#### NOTE 5. FAIR VALUE

Generally accepted accounting principles related to Fair Value Measurements establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Center would use in pricing the Center's assets or liabilities based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Center are traded.

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities.

Level 2 – Valuation based on quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use in estimating fair value.

**NOTE 5. FAIR VALUE (CONTINUED)**

All of the Center's financial investments were measured at fair value on a recurring basis as of June 30, 2014 and 2013 using Level 1 inputs. The Center's liability under charitable gift annuities was measured at fair value on a recurring basis as of June 30, 2014 and 2013 using Level 2 inputs. The Center's remainder interest in split-interest agreements under which the Center has been designated the sole remainder were measured at fair value on a recurring basis as of June 30, 2014 and 2013 using Level 2 inputs.

Inputs used to determine the fair values of investments measured on a recurring basis at June 30, 2014 and 2013, by investment class, are as follows:

Description	Total at 6/30/14	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investment funds	\$ 59,588	\$ 59,588	\$ -	\$ -
Equities and ETFs				
Materials	151,715	151,715	-	-
Industrial goods	548,490	548,490	-	-
Consumer discretionary	531,826	531,826	-	-
Consumer staples	383,143	383,143	-	-
Health care	651,559	651,559	-	-
Financial services	784,493	784,493	-	-
Technology	913,902	913,902	-	-
Telecommunications	113,290	113,290	-	-
Utilities	83,977	83,977	-	-
Fixed income				
Corporate debt securities	1,291,181	1,291,181	-	-
Bond mutual fund	400,300	400,300	-	-
	<u>\$ 5,913,464</u>	<u>\$ 5,913,464</u>	<u>\$ -</u>	<u>\$ -</u>

Description	Total at 6/30/13	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investment funds	\$ 677,098	\$ 677,098	\$ -	\$ -
Equities and ETFs				
Energy	134,438	134,438	-	-
Materials	171,087	171,087	-	-
Industrial goods	352,188	352,188	-	-
Consumer discretionary	496,957	496,957	-	-
Consumer staples	400,744	400,744	-	-
Health care	474,064	474,064	-	-
Financial services	676,455	676,455	-	-
Technology	789,121	789,121	-	-
Telecommunications	87,193	87,193	-	-
Utilities	113,606	113,606	-	-
Fixed income				
Corporate debt securities	835,435	835,435	-	-
Bond mutual fund	115,913	115,913	-	-
	<u>\$ 5,324,299</u>	<u>\$ 5,324,299</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2014 and 2013, consists of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 517,571	\$ 517,571
Building and improvements	11,067,399	11,074,599
Furniture and equipment	<u>1,815,470</u>	<u>1,903,531</u>
	13,400,440	13,495,701
Less accumulated depreciation and amortization	<u>(6,618,488)</u>	<u>(6,000,803)</u>
Net property and equipment	<u>\$ 6,781,952</u>	<u>\$ 7,494,898</u>

**NOTE 7. BENEFICIAL INTEREST IN REAL ESTATE TRUST ASSETS**

The Center entered into a joint venture agreement with an unrelated third party through which a small portion of land acquired in connection with the Ordway Campus was contributed by the Center and a similar parcel of land was contributed by the joint venturer. The property was placed in trust, after which the joint venturer gifted his entire interest in the property to the Center. The carrying value of the Center's interest in the Trust was \$212,651 at both June 30, 2014 and 2013.

**NOTE 8. LOANS PAYABLE**

**Financing of Headquarters Building** - During the year ended June 30, 2003, the Center completed construction of and placed into service a new headquarters building (the Ordway Campus) in Woods Hole, Massachusetts. To finance the construction, the Center raised restricted contributions from the general public, designated a portion of unrestricted net assets to be used for the campaign, and entered into a loan agreement with the Massachusetts Health and Educational Facilities Authority (MHEFA) for a total loan amount of \$2,795,000. That loan agreement was amended during the year ended June 30, 2010, and the Center borrowed an additional \$603,900 from MHEFA to help finance improvements made to an adjacent building (the Carriage House).

The Center obtained a \$2.6 million direct pay letter of credit to provide security for the MHEFA loans, for which it pays an annual fee equal to 1.25% of the total amounts outstanding on the MHEFA loans. The loans require level annual principal payments and interest on the unpaid principal accrues and is payable monthly at a variable rate, 0.08% and 0.06% as of June 30, 2014 and 2013, respectively. The intention is to keep the fair market value of the loan equal to its outstanding principal balance. Substantially all business assets of the Center have been pledged as collateral in connection with the loan agreements. The Center is scheduled to make total remaining principal payments of \$1,941,247 in annual installments of \$114,192 through June 2031. The remaining outstanding principal of \$16,387 will be retired through annual draws against the debt service reserve funds held in trust. Interest expense totaled \$1,302 and \$2,946 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 8. LOANS PAYABLE (CONTINUED)**

**Loan Payable to Related Party** - On December 13, 2012, the Center entered into an agreement to borrow \$1,000,000 from a Trust established by certain members of its Board of Directors. The note is secured by a mortgage on the Center's real property located at 149 Woods Hole Road as well as its beneficial interest in the Quissett Circle real estate trust assets (both subordinated to the Center's bond financing described in Note 7). Interest accrues at the annual rate of .95%. Interest only of \$9,500 is due on October 31, 2013 and 2014. Principal and accrued interest totaling \$309,500 is due on October 31, 2015; principal and accrued interest totaling \$356,650 is due on October 31, 2016, and all remaining principal and accrued interest is due on October 31, 2017.

As of June 30, 2014, principal repayments on these loans are due by fiscal year as follows:

	<u>MHEFA Loan</u>	<u>Related Party Loan</u>	<u>Total</u>
Year ending June 30, 2015	\$ 114,192	\$ -	\$ 114,192
2016	114,192	300,000	414,192
2017	114,192	350,000	464,192
2018	114,192	350,000	464,192
2019	114,192	-	114,192
Thereafter	<u>1,386,674</u>	<u>-</u>	<u>1,386,674</u>
	<u>\$ 1,957,634</u>	<u>\$ 1,000,000</u>	<u>\$ 2,957,634</u>

**NOTE 9. NET ASSETS**

**Unrestricted Net Assets** - Unrestricted net assets are not subject to donor restrictions. Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Board Designated Fund

As each of June 30, 2014 and 2013, the Board designated quasi-endowment fund balance was \$532,488.

Net investment in property and equipment

The Center has unrestricted net assets which are invested in property and equipment owned by the Center. The net investment in property and equipment consists of:

	<u>2014</u>	<u>2013</u>
Net property and equipment	\$ 6,781,952	\$ 7,494,898
Bond proceeds held in trust for debt retirement	19,420	20,560
Loans payable – current portion	(114,192)	(114,192)
Loans payable – long-term portion	<u>(2,843,442)</u>	<u>(2,958,774)</u>
	<u>\$ 3,843,738</u>	<u>\$ 4,442,492</u>

**NOTE 9. NET ASSETS (CONTINUED)**

**Temporary Restrictions** - Temporarily restricted net assets as of June 30, 2014 and 2013, consist principally of research grants from private foundations and contributions for long-term purposes. Temporarily restricted net assets result from gifts of cash or other assets with donor imposed restrictions that require that such resources be used in a later period or after a specified date or that the resources be used for a specified purpose. The net assets will be released when spent for the appropriate purpose or upon expiration of time restriction, in compliance with donor restrictions. Temporarily restricted net assets as of June 30, 2014 and 2013 were subject to restriction as follows:

	<u>2014</u>	<u>2013</u>
Research grants from foundations and others	\$ 1,598,295	\$ 2,101,616
Other purpose restrictions	9,080	-
Unappropriated earnings on permanent endowments	796,086	357,924
Time restrictions only	<u>10,000</u>	<u>17,100</u>
	<u>\$ 2,413,461</u>	<u>\$ 2,476,640</u>

The following are the net assets released from donor-imposed restrictions during the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Research grants		
U.S. Government	\$ 4,984,373	\$ 5,131,067
Foundations and International	1,516,747	2,462,935
Other activities	6,020	-
Appropriated earnings on permanent endowments	175,593	191,682
Other general support	<u>7,100</u>	<u>55,000</u>
	<u>\$ 6,689,833</u>	<u>\$ 7,840,684</u>

**Permanent Restrictions** - The Center has received several contributions establishing permanent endowments. During 2002, the Center received a total of \$2.5 million from a single contributor that provides for a \$2 million endowment to fund the Sara Shallenberger Brown Chair of Environmental Policy. The primary focus of the Chair is to connect science, conservation, and human affairs nationally and internationally and to incorporate the findings of science into the decisions of governments. The remaining \$500,000 is to support the Center's general endowment, the earnings on which are available for general support. The Center has also received contributions to fund the George Woodwell Chair of Conservation and other smaller endowments. The Center may appropriate annually for operating purposes earnings on general endowment investments related to these gifts. Total permanently restricted net assets are as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Sara Shallenberger Brown Chair and Endowment	\$ 2,500,000	\$ 2,500,000
George Woodwell Chair of Conservation	1,024,879	1,018,879
General support	<u>162,900</u>	<u>157,800</u>
	<u>\$ 3,687,779</u>	<u>\$ 3,676,679</u>

## NOTE 9. NET ASSETS (CONTINUED)

### *Interpretation of Relevant Law*

In accordance with U. S. Generally Accepted Accounting Principles, formerly Financial Accounting Standards Board (FASB) Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds*, the Center treats all donor-restricted endowment funds as permanently restricted net assets. These endowment funds are invested in a pool with all other investments of the Center. The returns on the endowment fund investments have been included in temporarily restricted investment income in the statement of activities.

### *Change in Endowment Net Assets*

The following table represents the changes in endowment net assets for the years ended June 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ 532,488	\$ -	\$3,673,829	\$4,206,317
Contributions	-	-	2,850	2,850
Investment income	79,649	549,606	-	629,255
Appropriations	<u>(79,649)</u>	<u>(191,682)</u>	<u>-</u>	<u>(271,331)</u>
Endowment net assets, June 30, 2013	532,488	357,924	3,676,679	4,567,091
Contributions	-	-	11,100	11,100
Investment income	80,940	613,755	-	694,695
Appropriations	<u>(80,940)</u>	<u>(175,593)</u>	<u>-</u>	<u>(256,533)</u>
Endowment net assets, June 30, 2014	<u>\$ 532,488</u>	<u>\$ 796,086</u>	<u>\$ 3,687,779</u>	<u>\$ 5,016,353</u>

### *Return Objectives and Risk Parameters*

The Center has adopted an asset allocation policy, monitored through its Investment Policy, that is a moderate balance of equities, fixed income and cash with a target of 60-70% equities and 30-40% fixed income. These change slightly as risk is monitored and the fund manager is given a target and 5% latitude for market impact and manager decisions. The equity investment style is an "All Cap Strategy" which is benchmarked to the S&P 1500. Equity performance, if applicable, is measured against the benchmark index over market cycle (typically 3-5 years). The equity portion of the portfolio uses a growth-at-a-reasonable-price discipline. The fixed income allocation may hold taxable government agency bonds and socially screened corporate bonds. Fixed income performance is benchmarked to the Barclay's Gov/Credit Interim Bond Index. Allocation percentages are meant to be soft guidelines rather than absolute portfolio mandates as described above. Investment goals are primarily capital appreciation and secondarily income generation at this time.

**NOTE 9. NET ASSETS (CONTINUED)**

***Spending Policies of the Endowments***

**Sara Shallenberger Brown Chair and Endowment** - The donor requested that the investment income generated by the Chair and the endowment each year be used for general operations. During March of 2003, the Organization's Board of Directors approved a motion to appropriate, annually for operating purposes, total earned income up to 5% of the principal balance for the Sara Shallenberger Brown Chair and Endowment. For the years ended June 30, 2014 and 2013, the Board of Directors appropriated for expenditure \$119,402 and \$130,437, respectively, of accumulated earnings.

**George Woodwell Chair of Conservation** - The donors requested that the investment income generated by the Chair each year be used for general operations once the Chair reached a certain monetary level. For the years ended June 30, 2014 and 2013, the Board of Directors appropriated for expenditure \$48,654 and \$53,017, respectively.

**General Support Endowments** - Investment income or loss are reported as changes in temporarily restricted net assets until appropriated by the Board of Directors. For the years ended June 30, 2014 and 2013 the Board of Directors appropriated for expenditure \$7,537 and \$8,228, respectively.

**NOTE 10. PENSION PLAN**

The Center has a contributory defined contribution pension plan covering substantially all full-time employees. Plan contributions are made on behalf of eligible employees through individual annuities with the Teachers Insurance and Annuity Association and College Retirement Equities Fund. The contributions are made on a semi-monthly basis at 10% of eligible compensation. Pension expense for the years ended June 30, 2014 and 2013 was \$346,120 and \$352,223, respectively.

**NOTE 11. OPERATING LEASES**

The Center leases office equipment under two five-year operating leases that commenced July 1, 2010. Future minimum rental payments associated with these leases are due as follows:

Year ending June 30,	2015	\$ 13,907
	2016	<u>310</u>
Total		<u>\$ 14,217</u>

Rental expense for office equipment for the years ended June 30, 2014 and 2013 totaled \$13,788 and \$13,680, respectively.

## **NOTE 12. SIGNIFICANT CONCENTRATIONS**

**Cash Balances** - The Center maintains its operating cash at three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of June 30, 2014, the Center's cash balances in excess of FDIC insurance coverage totaled approximately \$1,043,000. Included in other assets as bond proceeds held for debt retirement was an amount of \$19,420 which is not federally insured. In addition, at June 30, 2014, the Center had cash balances on deposit in an uninsured foreign account in the amount of \$351,000.

**Major Contributors** - The Center receives revenue from U.S. Government funded grants and cooperative agreements, all of which are subject to audit by government agencies. The ultimate determination of amounts received is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amounts received in excess of allowed costs.

During the years ended June 30, 2014 and 2013, the Center received approximately 54% and 53% of its total support and revenue from the U.S. Government.

**Foreign Operations** - The Center conducts substantial research activities in foreign countries. During the years ended June 30, 2014 and 2013, 6% and 5%, respectively, of the Center's total expenses were incurred in support of foreign activities and, as of June 30, 2014 and 2013, the Center has assets in foreign countries totaling \$386,000 and \$112,000, respectively.

## **NOTE 13. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 11, 2015, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statements.

## **ADDITIONAL INFORMATION**



**REPORT OF INDEPENDENT AUDITORS ON SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors  
The Woods Hole Research Center, Inc.

Our report on our audit of the financial statements of The Woods Hole Research Center, Inc. as of June 30, 2014 appears on pages 1-2. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Center's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Calibre CPA Group, PLLC*

Bethesda, MD  
February 11, 2015

**THE WOODS HOLE RESEARCH CENTER, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2014

**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Woods Hole Research Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2. SUBRECIPIENTS**

The Woods Hole Research Center, Inc. provided federal awards to subrecipients as follows:

<u>Federal Grantor/Pass-Through Grantor Program Title/Award or Subagreement Number</u>	<u>Federal CFDA number</u>	<u>Amount Provided</u>
National Science Foundation	47.074	\$ 116,522
	47.078	<u>218,457</u>
		334,979
National Aeronautics and Space Administration	43.001	<u>273,251</u>
		<u>\$ 608,230</u>

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
The Woods Hole Research Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Woods Hole Research Center, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2015.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Calibre CPA Group, PLLC*

Bethesda, MD  
February 11, 2015



**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
The Woods Hole Research Center, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited The Woods Hole Research Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Woods Hole Research Center, Inc.'s major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, The Woods Hole Research Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The Woods Hole Research Center, Inc.'s response to the noncompliance finding identified in our report is described in the accompanying management's response and planned corrective action. The Woods Hole Research Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

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

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

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

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

*Calibre CPA Group, PLLC*

Bethesda, MD  
February 11, 2015

**THE WOODS HOLE RESEARCH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2014

**SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of The Woods Hole Research Center, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the report of independent auditors on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of The Woods Hole Research Center, Inc. were disclosed during the audit.
4. No significant deficiencies relating to the audit of internal control over major federal award programs are reported in the report of independent auditors on compliance for each major program and on internal control over compliance required by OMB Circular A-133.
5. The auditors' report on compliance for major federal award programs for The Woods Hole Research Center, Inc. expresses an unmodified opinion.
6. There are no findings relative to major federal award programs for The Woods Hole Research Center, Inc. reported in this schedule.
7. The program tested as a major program was Research and Development.
8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The Woods Hole Research Center, Inc. did not qualify as a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS**

None

THE WOODS HOLE RESEARCH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2014-001**      **Noncompliance with the *Federal Funding Accountability and Transparency Act***

**Condition:**      The Woods Hole Research Center, Inc. did not comply with the requirements of the *Federal Funding Accountability and Transparency Act* (Transparency Act) that relate to subaward reporting under grants and cooperative agreements received by the Center for which the Center then made subawards to subrecipients.

As part of our testing of the Center's compliance with the reporting requirements under the Act, we selected one award from NASA and one award from NSF, under both of which the Center made first-tier subawards. For the NASA award, there was only one subaward and the subaward amounts were below the \$25,000 reporting threshold of the Act. For the NSF award, there were five subawards, four of which exceeded the \$25,000 reporting threshold. However, the Center did not report the subawards as required by the Act.

**Criteria:**      The Transparency Act applies to direct recipients of grants or cooperative agreements who make first-tier subawards. The Act requires recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds. Reporting must be accomplished by the end of the month following the month in which the reportable action occurred. Grant and cooperative agreement recipients are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report required subaward data elements through FSRS.

**Cause:**      The Center did not have adequate internal controls in place to ensure compliance with the first-tier subaward reporting requirements of the Act.

**Effect:**      Noncompliance with the requirements of the Act could impact the Center's future Federal funding awards.

**Questioned  
Costs:**      None

**THE WOODS HOLE RESEARCH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

YEAR ENDED JUNE 30, 2014

**Recommendation:**

We recommend that internal control procedures be implemented to track Federal awards for which the Center is required to comply with the Transparency Act, and to ensure required data elements are reported for first-tier subawards through FSRS within the required time deadlines.

**THE WOODS HOLE RESEARCH CENTER, INC.**

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION PLAN**

YEAR ENDED JUNE 30, 2014

**2014-001      *Noncompliance with the Federal Funding Accountability and Transparency Act***

The Woods Hole Research Center, Inc. (WHRC) agrees that the organization was not in compliance with the *Federal Funding Accountability and Transparency Act* (Act), and did not report subawards as required by the Act. WHRC is implementing the following procedures, effective immediately:

1. All new subawards will be evaluated according to the criteria of the Act prior to their issuance.
2. If the Act is applicable, the pertinent information regarding the subaward will be collected and recorded on a template developed by WHRC.
3. The office of the Director of Finance and Administration, which issues subawards, will be responsible for reporting the activity through the fdrs.gov website by the end of the month following the month in which the award is counter-signed by the subawardee. This is the point at which WHRC considers the funds to be an obligation of Federal funds and therefore subject to the Act.
4. A copy of the FDRS form will be filed electronically in our files, and will be logged in our subcontract database.
5. As an internal control, the Accountant responsible for processing subaward payments will be notified that a new award has been issued, and will confirm that the information is entered into the system within time period.

Responsible Official: Camille Romano, Controller  
508-444-1512  
[cromano@whrc.org](mailto:cromano@whrc.org)