

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

FINANCIAL STATEMENTS AND REPORTS  
REQUIRED BY THE UNIFORM GUIDANCE

JUNE 30, 2018



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

**FINANCIAL STATEMENTS AND REPORTS  
REQUIRED BY THE UNIFORM GUIDANCE**

**YEARS ENDED JUNE 30, 2018 AND 2017**

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## **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, 2018 and 2017, and the related statements of activities, functional expenses 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, 2018 and 2017, 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 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 December 11, 2018, 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  
December 11, 2018

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

**STATEMENTS OF FINANCIAL POSITION**

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,955,768	\$ 3,528,261
U.S. Government contributions receivable	502,639	641,438
Other contributions, grants and contracts receivable	1,797,351	1,316,391
Prepaid expenses and other receivables	160,646	254,459
Total current assets	6,416,404	5,740,549
INVESTMENTS		
Endowment and quasi-endowment investments	6,661,208	5,253,922
Other investments	1,275,804	1,200,778
Total investments	7,937,012	6,454,700
	14,353,416	12,195,249
NET PROPERTY AND EQUIPMENT	5,390,292	5,762,894
OTHER ASSETS		
Other contributions receivable, net of current portion	669,971	25,000
Beneficial interest in real estate trust assets	212,651	212,651
Bond proceeds held in trust for debt retirement	14,878	16,009
Total other assets	897,500	253,660
Total assets	\$ 20,641,208	\$ 18,211,803
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 370,583	\$ 357,365
Accrued expenses	387,987	419,004
Liability under charitable gift annuities	10,949	7,954
Refundable advances	364,702	30,719
Loans payable	114,192	289,192
Total current liabilities	1,248,413	1,104,234
LONG-TERM LIABILITIES		
Liability under charitable gift annuities, net of current portion	90,046	77,715
Loans payable, net of current portion	1,382,118	1,497,449
Total liabilities	2,720,577	2,679,398
NET ASSETS		
Without donor restrictions		
Operating	2,883,327	3,561,283
Board designated for endowment	1,802,488	532,488
Board designated for Fund for Climate Solutions	500,000	-
Net investment in property and equipment	3,908,860	3,992,262
Total net assets without donor restrictions	9,094,675	8,086,033
With donor restrictions		
Temporary restrictions	5,132,577	3,755,193
Perpetual restrictions	3,693,379	3,691,179
Total net assets with donor restrictions	8,825,956	7,446,372
Total net assets	17,920,631	15,532,405
Total liabilities and net assets	\$ 20,641,208	\$ 18,211,803

See accompanying notes to financial statements.

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

**STATEMENTS OF ACTIVITIES**

YEARS ENDED JUNE 30, 2018 AND 2017

	2018					2017				
	Without Donor Restrictions	With Donor Restrictions			Total	Without Donor Restrictions	With Donor Restrictions			Total
		Temporary	Perpetual	Total			Temporary	Perpetual	Total	
<b>SUPPORT AND REVENUE</b>										
Contributions, grants and contracts										
U.S. Government	\$ -	\$ 4,323,656	\$ -	\$ 4,323,656	\$ 4,323,656	\$ -	\$ 4,454,889	\$ -	\$ 4,454,889	\$ 4,454,889
Foundations and other	3,639,632	3,887,853	2,200	3,890,053	7,529,685	2,961,014	2,830,069	2,200	2,832,269	5,793,283
Investment income	118,672	317,378	-	317,378	436,050	204,339	568,403	-	568,403	772,742
Donated equipment	23,007	-	-	-	23,007	118,444	-	-	-	118,444
In-kind donations	35,000	-	-	-	35,000	7,348	-	-	-	7,348
Change in value of split-interest agreements	(11,777)	-	-	-	(11,777)	34,558	-	-	-	34,558
Other income	96,491	-	-	-	96,491	38,336	-	-	-	38,336
Net assets released from restrictions	7,151,503	(7,151,503)	-	(7,151,503)	-	6,757,148	(6,757,148)	-	(6,757,148)	-
<b>Total support and revenue</b>	<b>11,052,528</b>	<b>1,377,384</b>	<b>2,200</b>	<b>1,379,584</b>	<b>12,432,112</b>	<b>10,121,187</b>	<b>1,096,213</b>	<b>2,200</b>	<b>1,098,413</b>	<b>11,219,600</b>
<b>EXPENSES</b>										
Research programs	7,065,618	-	-	-	7,065,618	6,223,569	-	-	-	6,223,569
General and administrative	2,177,218	-	-	-	2,177,218	1,935,417	-	-	-	1,935,417
Development and fundraising	801,050	-	-	-	801,050	661,905	-	-	-	661,905
<b>Total expenses</b>	<b>10,043,886</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,043,886</b>	<b>8,820,891</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,820,891</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,008,642</b>	<b>1,377,384</b>	<b>2,200</b>	<b>1,379,584</b>	<b>2,388,226</b>	<b>1,300,296</b>	<b>1,096,213</b>	<b>2,200</b>	<b>1,098,413</b>	<b>2,398,709</b>
<b>NET ASSETS</b>										
Beginning of year	8,086,033	3,755,193	3,691,179	7,446,372	15,532,405	6,785,737	2,658,980	3,688,979	6,347,959	13,133,696
End of year	<u>\$ 9,094,675</u>	<u>\$ 5,132,577</u>	<u>\$ 3,693,379</u>	<u>\$ 8,825,956</u>	<u>\$ 17,920,631</u>	<u>\$ 8,086,033</u>	<u>\$ 3,755,193</u>	<u>\$ 3,691,179</u>	<u>\$ 7,446,372</u>	<u>\$ 15,532,405</u>

See accompanying notes to financial statements.

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

**STATEMENTS OF FUNCTIONAL EXPENSES**

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	<u>Research Programs</u>	<u>General and Administrative</u>	<u>Development and Fundraising</u>	<u>Total</u>
Salaries, wages and benefits	\$ 4,333,912	\$ 1,712,857	\$ 527,557	\$ 6,574,326
Professional fees and other wages	327,207	249,714	35,511	612,432
Travel	370,452	40,580	38,543	449,575
Materials and supplies	178,151	177,957	112,584	468,692
Equipment	23,007	15,904	-	38,911
Communication	406,039	100,248	6,866	513,153
Facilities	4,902	246,979	-	251,881
Depreciation and amortization	-	418,508	-	418,508
Subcontracts	<u>716,408</u>	<u>-</u>	<u>-</u>	<u>716,408</u>
	6,360,078	2,962,747	721,061	10,043,886
Allocation of common costs	<u>705,540</u>	<u>(785,529)</u>	<u>79,989</u>	<u>-</u>
Total expenses	<u>\$ 7,065,618</u>	<u>\$ 2,177,218</u>	<u>\$ 801,050</u>	<u>\$ 10,043,886</u>

  

	2017			
	<u>Research Programs</u>	<u>General and Administrative</u>	<u>Development and Fundraising</u>	<u>Total</u>
Salaries, wages and benefits	\$ 3,447,489	\$ 1,500,618	\$ 440,233	\$ 5,388,340
Professional fees and other wages	369,304	168,572	48,021	585,897
Travel	341,776	43,503	41,083	426,362
Materials and supplies	203,398	174,032	61,959	439,389
Equipment	81,814	-	-	81,814
Communication	179,173	90,300	4,514	273,987
Facilities	6,600	224,677	-	231,277
Depreciation and amortization	-	421,267	-	421,267
Subcontracts	<u>972,558</u>	<u>-</u>	<u>-</u>	<u>972,558</u>
	5,602,112	2,622,969	595,810	8,820,891
Allocation of common costs	<u>621,457</u>	<u>(687,552)</u>	<u>66,095</u>	<u>-</u>
Total expenses	<u>\$ 6,223,569</u>	<u>\$ 1,935,417</u>	<u>\$ 661,905</u>	<u>\$ 8,820,891</u>

See accompanying notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions, grants and contract payments received		
U.S. Government	\$ 4,784,187	\$ 4,480,999
Foundations and other	6,203,805	5,699,112
Investment income received	116,147	123,295
Other operating receipts	108,314	54,141
Payments to vendors, suppliers, employees and annuitants	(9,522,463)	(8,321,445)
Interest payments	(26,985)	(13,917)
Net cash provided by operating activities	1,663,005	2,022,185
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(3,687,975)	(2,467,187)
Proceeds from sales of investments	2,573,279	2,598,103
Purchases of property and equipment	(43,802)	(125,956)
Net cash provided by investing activities	(1,158,498)	4,960
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Use of bond proceeds held in trust	1,131	1,132
Repayments of loans payable	(80,331)	(290,331)
Endowment contributions received	2,200	2,200
Net cash used for financing activities	(77,000)	(286,999)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	427,507	1,740,146
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,528,261	1,788,115
End of year	\$ 3,955,768	\$ 3,528,261

See accompanying notes to financial statements.



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

**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2018 AND 2017

**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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *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 two classes of net assets – net assets without donor restrictions, and net assets with donor restrictions. The Center also distinguishes between donor restrictions that are temporary and those that are perpetual in nature.

**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, and 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, generally as determined by published market prices. Income earned is derived from interest, dividends and changes in fair value. Unrealized gains (losses) resulting from increases (decreases) in fair value of securities held as well as the net realized gains (losses) arising from sales of securities are included in investment income. The Center's investments are pooled, and the 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements 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. Salaries and fringe benefits are allocated based on employee time and effort. Common costs such as occupancy, depreciation and the like are allocated pro-rata based on total costs incurred.

**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's mission is to advance scientific discovery and seek science-based solutions for the world's environmental and economic challenges through research and education.

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 Center 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, 2015 through 2017 are subject to examination by the Internal Revenue Service (IRS), generally for three years after they were filed.

## **NOTE 3. LIQUIDITY AND AVAILABILITY OF RESOURCES**

The following table represents the Center's financial assets available to meet cash needs for general expenditures within one year of June 30, 2018 and 2017. Since approximately 75% of the Center's expenditures are funded by donor-restricted contributions, the related assets are considered available to meet general expenditures.

**NOTE 3. LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)**

	<u>2018</u>	<u>2017</u>
Total assets at end of year	\$20,641,208	\$18,211,803
Less nonfinancial assets		
Prepaid expenses	(148,894)	(249,766)
Net property and equipment	(5,390,292)	(5,762,894)
Beneficial interest in real estate trust assets	<u>(212,651)</u>	<u>(212,651)</u>
Total financial assets at end of year	14,889,371	11,986,492
Less amounts unavailable for general expenditures		
Amounts held in trust for debt retirement	(42,830)	(42,876)
Contributions receivable due in more than one year	(669,971)	(25,000)
Endowment investments	(6,661,208)	(5,253,923)
Add estimated amount available for appropriation	<u>266,000</u>	<u>210,000</u>
Total financial assets available for general expenditures within one year	<u>\$ 7,781,362</u>	<u>\$ 6,874,693</u>

As part of the Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center invests cash in excess of its current requirements in a portfolio of investments designed to maximize long-term earnings with acceptable risk to investment principal. The Center's Board has designated \$1,802,488 to function as an endowment, and the Center generally budgets an annual spending rate up to 4% of total endowment investments. However, in the event of unanticipated liquidity needs, the Center's Board could make available all or a portion of the amount currently designated as endowment. The Center also has the ability to draw upon an available line of credit in the amount of \$350,000.

**NOTE 4. CONTRIBUTIONS, GRANTS AND CONTRACTS RECEIVABLE**

Grants, contracts and unconditional promises receivable as of June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 2,299,990	\$ 1,957,829
Due in one to five years	<u>730,439</u>	<u>25,000</u>
	3,030,429	1,982,829
Less discount to net present value	<u>(60,468)</u>	<u>-</u>
	<u>\$ 2,969,961</u>	<u>\$ 1,982,829</u>

Grants and contribution receivables due after one year have been discounted to their net present value using a discount rate of 2.5%.

**NOTE 4. CONTRIBUTIONS, GRANTS AND CONTRACTS RECEIVABLE (CONTINUED)**

Conditional promises receivable as of June 30, 2018 total \$4,912,634, consisting of unexpended U.S. Government grant awards.

**NOTE 5. 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>2018</u>	<u>2017</u>
Cost	\$ 7,169,260	\$ 5,675,107
Accumulated unrealized gain	<u>747,473</u>	<u>766,185</u>
	7,916,733	6,441,292
Accrued interest and dividends	<u>20,279</u>	<u>13,408</u>
	<u>\$ 7,937,012</u>	<u>\$ 6,454,700</u>

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

	<u>2018</u>	<u>2017</u>
Board-designated endowment	\$ 1,802,488	\$ 532,488
Unappropriated earnings on permanent endowments	1,165,541	1,030,255
Donor-restricted permanent endowments	<u>3,693,179</u>	<u>3,691,179</u>
	6,661,208	5,253,922
Net other investments	<u>1,275,804</u>	<u>1,200,778</u>
Total investments	<u>\$ 7,937,012</u>	<u>\$ 6,454,700</u>

Net investment return consisted of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 124,147	\$ 124,319
Net appreciation	360,745	696,136
Less investment fees	<u>(48,842)</u>	<u>(47,713)</u>
	<u>\$ 436,050</u>	<u>\$ 772,742</u>

## **NOTE 6. FAIR VALUE**

U.S. 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.

All of the Center's financial investments were measured at fair value on a recurring basis as of June 30, 2018 and 2017 using Level 1 inputs, except for investments in fixed-income securities, for which the fair values were measured using Level 2 inputs. The fair values of short term investment funds, equities, mutual funds and exchange-traded funds were based on quoted market prices as of each June 30. The fair values of fixed-income securities were estimated based on yields and maturities of similar securities. The Center's liability under charitable gift annuities was measured at fair value on a recurring basis as of June 30, 2018 and 2017 using Level 2 inputs, based on market interest rates and estimated life expectancies of the annuitants.

**NOTE 6. FAIR VALUE (CONTINUED)**

Inputs used to determine the fair values of investments measured on a recurring basis at June 30, 2018 and 2017, by investment class, are as follows:

	Total at 06/30/18	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investment funds	\$ 1,350,949	\$ 1,350,949	\$ -	\$ -
Equities and ETFs				
Materials	159,280	159,280	-	-
Industrial goods	347,636	347,636	-	-
Consumer discretionary	451,760	451,760	-	-
Consumer staples	225,997	225,997	-	-
Health care	479,783	479,783	-	-
Financial services	518,052	518,052	-	-
Technology	910,534	910,534	-	-
Telecommunications	37,179	37,179	-	-
Utilities	96,941	96,941	-	-
Real estate	125,614	125,614	-	-
Mutual fund				
Green Century International Index Fund	641,998	641,998	-	-
Fixed income				
Corporate debt securities	2,028,618	-	2,028,618	-
Government securities	542,392	-	542,392	-
	<u>\$ 7,916,733</u>	<u>\$ 5,345,723</u>	<u>\$ 2,571,010</u>	<u>\$ -</u>

**NOTE 6. FAIR VALUE (CONTINUED)**

	Total at 06/30/17	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investment funds	\$ 37,314	\$ 37,314	\$ -	\$ -
Equities and ETFs				
Materials	222,661	222,661	-	-
Industrial goods	457,653	457,653	-	-
Consumer discretionary	505,789	505,789	-	-
Consumer staples	320,333	320,333	-	-
Health care	565,026	565,026	-	-
Financial services	597,641	597,641	-	-
Technology	892,900	892,900	-	-
Telecommunications	42,025	42,025	-	-
Utilities	138,620	138,620	-	-
Real estate	161,513	161,513	-	-
Fixed income				
Corporate debt securities	1,638,398	-	1,638,398	-
Bond mutual fund	861,419	861,419	-	-
	<u>\$ 6,441,292</u>	<u>\$ 4,802,894</u>	<u>\$ 1,638,398</u>	<u>\$ -</u>

**NOTE 7. PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2018 and 2017 consists of the following:

	2018	2017
Land	\$ 517,571	\$ 517,571
Building and improvements	11,125,125	11,125,125
Furniture and equipment	<u>1,891,671</u>	<u>1,957,543</u>
	13,534,367	13,600,239
Less accumulated depreciation and amortization	<u>(8,144,075)</u>	<u>(7,837,345)</u>
Net property and equipment	<u>\$ 5,390,292</u>	<u>\$ 5,762,894</u>

## **NOTE 8. 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 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, 2018 and 2017.

## **NOTE 9. 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 2.00% 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, 1.57% and 0.96% as of June 30, 2018 and 2017, 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 \$1,496,310 in annual installments of \$114,192 through June 2031. The remaining outstanding principal of \$11,814 will be retired through annual draws against the debt service reserve funds held in trust. Interest expense totaled \$17,584 and \$11,398 for the years ended June 30, 2018 and 2017, respectively.

**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 was 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 was due on October 31, 2013 and 2014. Principal and accrued interest totaling \$309,500 was originally due on October 31, 2015; principal and accrued interest totaling \$356,650 was originally due on October 31, 2016, and all remaining principal and accrued interest was due on October 31, 2017. During the years ended June 30, 2018,



**NOTE 9. LOANS PAYABLE (CONTINUED)**

2017 and 2016, certain Board members forgave loan amounts totaling \$35,000, \$210,000 and \$290,000, respectively, which are reported as contribution revenue. The remaining principal amount was paid in October 2017.

As of June 30, 2018, principal repayments on the MHEFA loan are due by fiscal year as follows:

	<u>MHEFA Loan</u>
Year ending June 30, 2019	\$ 114,192
2020	114,192
2021	114,192
2022	114,192
2023	114,192
Thereafter	<u>925,350</u>
	<u>\$ 1,496,310</u>

**Revolving Line of Credit** - The Center has a revolving demand line of credit agreement in the maximum principal amount of \$350,000, secured by substantially all of the Center's investments. As of June 30, 2018, no amounts had been drawn against the line.

**NOTE 10. NET ASSETS**

The Center has net assets both with and without donor restrictions, as described in more detail below. A summary of the Center's net assets as of June 30, 2018 and 2017 is as follows:

	<u>June 30, 2018</u>			<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Temporary</u>	<u>Perpetual</u>	
Endowment funds	\$ 1,802,488	\$ 1,165,541	\$ 3,693,379	\$ 6,661,408
Fund for Climate Solutions	500,000	1,565,406	-	2,065,406
Funds restricted for research and similar purposes	-	2,401,630	-	2,401,630
Net investment in property and equipment	3,908,860	-	-	3,908,860
Operating funds	<u>2,883,327</u>	<u>-</u>	<u>-</u>	<u>2,883,327</u>
	<u>\$ 9,094,675</u>	<u>\$ 5,132,577</u>	<u>\$ 3,693,379</u>	<u>\$ 17,920,631</u>

**NOTE 10. NET ASSETS (CONTINUED)**

	June 30, 2017			
	Without Donor	With Donor Restrictions		Total
	Restrictions	Temporary	Perpetual	
Endowment funds	\$ 532,488	\$ 1,030,255	\$ 3,691,179	\$ 5,253,922
Fund for Climate Solutions	-	125,000	-	125,000
Funds restricted for research and similar purposes	-	2,599,938	-	2,599,938
Net investment in property and equipment	3,992,262	-	-	3,992,262
Operating funds	3,561,283	-	-	3,561,283
	<u>\$ 8,086,033</u>	<u>\$ 3,755,193</u>	<u>\$ 3,691,179</u>	<u>\$ 15,532,405</u>

**Net Assets without Donor Restrictions** - Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. All expenses are reported as decreases in net assets without donor restrictions.

Board Designated Funds

The Center's Board of Directors has designated a portion of net assets without donor restrictions to function as endowment and a portion to support expenditures from the Fund for Climate Solutions, for which the Center has also raised donor-restricted support. The objective of the Fund for Climate Solutions is to provide a financial bridge to a sustainable funding model while supporting mission-critical programs over a 10-year period as the Center adapts to anticipated changes in the availability of Federal government funding for its programs.

Net Investment in Property and Equipment

The Center has net assets without donor restrictions which are invested in property and equipment owned by the Center. The net investment in property and equipment consists of:

	2018	2017
Net property and equipment	\$ 5,390,292	\$ 5,762,894
Bond proceeds held in trust for debt retirement	14,878	16,009
Loans payable - current portion	(114,192)	(289,192)
Loans payable - long-term portion	<u>(1,382,118)</u>	<u>(1,497,449)</u>
	<u>\$ 3,908,860</u>	<u>\$ 3,992,262</u>

**Net Assets with Temporary Donor Restrictions** - Net assets with temporary donor restrictions as of June 30, 2018 and 2017 consist principally of research grants from private foundations and contributions for long-term purposes. Net assets with temporary donor restrictions result from

**NOTE 10. NET ASSETS (CONTINUED)**

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 a time restriction, in compliance with donor restrictions. Net assets with temporary donor restrictions as of June 30, 2018 and 2017 were subject to restriction as follows:

	<u>2018</u>	<u>2017</u>
Research grants from foundations and others	\$ 1,920,906	\$ 2,599,938
Fund for Climate Solutions	1,565,406	125,000
Other purpose-restricted contributions	480,724	-
Unappropriated earnings on permanent endowments	<u>1,165,541</u>	<u>1,030,255</u>
	<u>\$ 5,132,577</u>	<u>\$ 3,755,193</u>

The following are the net assets released from donor-imposed restrictions during the years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Research grants		
U.S. Government	\$ 4,323,656	\$ 4,454,889
Foundations and International	2,639,815	1,648,174
Appropriated earnings on permanent endowments	180,965	194,108
Other general support	<u>7,067</u>	<u>459,977</u>
	<u>\$ 7,151,503</u>	<u>\$ 6,757,148</u>

**Net Assets with Perpetual Donor 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 net assets with perpetual donor restrictions are as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Sara Shallenberger Brown Chair and Endowment	\$ 2,500,000	\$ 2,500,000
George Woodwell Chair of Conservation	1,029,879	1,027,879
General support	<u>163,500</u>	<u>163,300</u>
	<u>\$ 3,693,379</u>	<u>\$ 3,691,179</u>

## NOTE 10. NET ASSETS (CONTINUED)

### *Interpretation of Relevant Law*

The Center is subject to the Massachusetts Prudent Management of Institutional Funds Act (MPFIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions. The original donor gifts are reported as net assets with perpetual donor restrictions as none of the donor-restricted endowments are currently underwater. These endowment funds are invested in a pool with all other investments of the Center. The returns on the endowment fund investments have been reported as increases in net assets with donor restrictions in the statements of activities. Unexpended earnings on these endowments are reported as net assets with temporary donor restrictions until appropriated for expenditure by the Center.

### *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.

### *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. For the years ended June 30, 2018 and 2017, the Board of Directors appropriated for expenditure \$122,642 and \$131,616, 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, 2018 and 2017, the Board of Directors appropriated for expenditure \$50,348 and \$53,943, respectively.

**General Support Endowments** - Investment income or loss are reported as changes in net assets with temporary donor restrictions until appropriated by the Board of Directors. For the years ended June 30, 2018 and 2017, the Board of Directors appropriated for expenditure \$7,974 and \$8,549, respectively.

**NOTE 10. NET ASSETS (CONTINUED)****Change in Endowment Net Assets**

The following table represents the changes in endowment net assets for the years ended June 30, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Perpetual	
Endowment net assets, June 30, 2016	\$ 532,488	\$ 656,065	\$ 3,688,979	\$ 4,877,532
Contributions/designations	-	-	2,200	2,200
Investment income	52,990	568,298	-	621,288
Appropriations	<u>(52,990)</u>	<u>(194,108)</u>	<u>-</u>	<u>(247,098)</u>
Endowment net assets, June 30, 2017	532,488	1,030,255	3,691,179	5,253,922
Contributions/designations	1,270,000	-	2,200	1,272,200
Investment income	49,572	316,251	-	365,823
Appropriations	<u>(49,572)</u>	<u>(180,965)</u>	<u>-</u>	<u>(230,537)</u>
Endowment net assets, June 30, 2018	<u>\$ 1,802,488</u>	<u>\$ 1,165,541</u>	<u>\$ 3,693,379</u>	<u>\$ 6,661,408</u>

**NOTE 11. 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, 2018 and 2017 was \$423,450 and \$344,795, respectively.

**NOTE 12. OPERATING LEASES**

The Center leases certain office equipment under operating leases for which future minimum rental payments are due as follows:

Year ending June 30, 2019	\$ 12,300
2020	<u>6,492</u>
Total	<u>\$ 18,792</u>

Rental expense for office equipment for the both years ended June 30, 2018 and 2017 totaled \$12,300.

### **NOTE 13. SIGNIFICANT CONCENTRATIONS**

**Cash Balances** - The Center maintains its operating cash at three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of June 30, 2018, the Center's cash balances in excess of FDIC insurance coverage totaled approximately \$5,031,000. Included in other assets as bond proceeds held for debt retirement was an amount of \$14,878 which is not federally insured.

**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, 2018 and 2017, the Center received approximately 35% and 40% 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, 2018 and 2017, 3.3% and 5%, respectively, of the Center's total expenses were incurred in support of foreign activities and, as of June 30, 2018 and 2017, the Center had assets in foreign countries totaling \$35,665 and \$27,000, respectively.

### **NOTE 14. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 11, 2018, 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.

**SUPPLEMENTAL INFORMATION**

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

**SCHEDULES OF RESEARCH PROGRAM EXPENSES**

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Center Funded Science	Policy Engagement, Education and Communication	Policy Relevant Research	Total
Salaries, wages and benefits	\$ 210,070	\$ 1,398,196	\$ 2,725,646	\$ 4,333,912
Professional fees and other wages	9,120	120,695	197,392	327,207
Travel	-	147,466	222,986	370,452
Materials and supplies	26,101	24,217	127,833	178,151
Equipment	-	-	23,007	23,007
Communication	8,775	269,825	127,439	406,039
Facilities	897	-	4,005	4,902
Depreciation and amortization	-	-	-	-
Subcontracts	-	44,958	671,450	716,408
	<u>254,963</u>	<u>2,005,357</u>	<u>4,099,758</u>	<u>6,360,078</u>
Allocation of common costs	<u>28,284</u>	<u>222,459</u>	<u>454,797</u>	<u>705,540</u>
	<u>\$ 283,247</u>	<u>\$ 2,227,816</u>	<u>\$ 4,554,555</u>	<u>\$ 7,065,618</u>

	2017			
	Center Funded Science	Policy Engagement, Education and Communication	Policy Relevant Research	Total
Salaries, wages and benefits	\$ 198,426	\$ 931,659	\$ 2,317,404	\$ 3,447,489
Professional fees and other wages	55,302	105,909	208,093	369,304
Travel	10,233	88,307	243,236	341,776
Materials and supplies	32,791	11,370	159,237	203,398
Equipment	-	6,697	75,117	81,814
Communication	17,718	113,082	48,373	179,173
Facilities	5,118	-	1,482	6,600
Depreciation and amortization	-	-	-	-
Subcontracts	-	53,178	919,380	972,558
	<u>319,588</u>	<u>1,310,202</u>	<u>3,972,322</u>	<u>5,602,112</u>
Allocation of common costs	<u>35,453</u>	<u>145,344</u>	<u>440,660</u>	<u>621,457</u>
	<u>\$ 355,041</u>	<u>\$ 1,455,546</u>	<u>\$ 4,412,982</u>	<u>\$ 6,223,569</u>





**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, 2018 appears on pages 1-2. Our audit was made for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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  
December 11, 2018

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2018

	Federal CFDA Number	Pass-Through or Awarding Entity Identifying Number	Federal Disbursements/ Expenditures	Passed Through to Subrecipients
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
<u>U.S. Department of Agriculture</u>				
Forest Service				
Direct programs				
Agriculture and Food Research Initiative (AFRI)	10.310		\$ 370,365	\$ 94,624
International Forestry Program	10.684		42,694	-
<b>Total Department of Agriculture</b>			<b>413,059</b>	<b>94,624</b>
<u>National Aeronautics and Space Administration</u>				
Science Programs				
Direct programs				
Pass-through programs from				
Virginia Polytech Institute & State University		426670-19802	\$ 62,639	-
Northern Arizona University		1002905-01	57,358	-
Northern Arizona University		1002881-01	21,537	-
Northern Arizona University		1003229-01	49,424	-
University of Colorado		1553575	34,611	-
University of Maryland		Z6901001	77,840	-
University of CA: Santa Barbara		KK1801	48,993	-
<b>Total National Aeronautics and Space Administration</b>			<b>1,338,450</b>	<b>226,477</b>
<u>National Science Foundation</u>				
Geosciences				
Direct programs				
Pass-through programs from				
Tufts University		NS3819	46,035	-
	47.050		817,243	60,186
			863,278	60,186
Biological Sciences				
Education and Human Resources				
Polar Programs				
Arctic Research Opportunities				
	47.074		1,028,764	116,743
	47.076		454,281	24,958
	47.078		154,531	61,857
	47	OPP-1304007	30,669	-
<b>Total National Science Foundation</b>			<b>2,531,523</b>	<b>263,744</b>
<u>Department of the Interior</u>				
Assistance to State Water Resources Research Institutes				
	15.805		40,624	-
<b>Total Department of the Interior</b>			<b>40,624</b>	-
Total research and development cluster			\$ 4,323,656	\$ 584,845

See accompanying notes to schedule of expenditures of federal awards.

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

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

YEAR ENDED JUNE 30, 2018

**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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2. INDIRECT COSTS**

The Woods Hole Research Center, Inc. did not elect to use the 10% de minimis indirect cost rate either in awards received directly or indirectly nor on any awards passed through to subrecipients.

**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, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2018.

**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  
December 11, 2018



**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

### **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 the Uniform Guidance, 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.

### **Purpose of this Report**

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Calibre CPA Group, PLLC*

Bethesda, MD  
December 11, 2018

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2018

**SUMMARY OF AUDIT RESULTS**

1. The auditor's 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 the Uniform Guidance.
5. The auditor's 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 \$750,000.
9. The Woods Hole Research Center, Inc. qualified as a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS**

None

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None