

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

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

THE WOODS HOLE RESEARCH CENTER, INC.

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
The Woods Hole Research Center, Inc.

We have audited the accompanying statements of financial position of The Woods Hole Research Center, Inc. (the Center) as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The schedules of functional expenses and research program expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. All accompanying 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 basic 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 basic financial statements as a whole.

*Calibre CPA Group, PLLC*

Washington, DC  
September 30, 2011



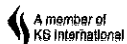
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**THE WOODS HOLE RESEARCH CENTER, INC.**

**STATEMENTS OF FINANCIAL POSITION**

JUNE 30, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,943,178	\$ 5,849,325
U.S. Government contributions receivable	834,033	759,279
Other contributions receivable, net	2,803,756	4,766,376
Prepaid expenses and other receivables	<u>591,437</u>	<u>422,761</u>
Total current assets	<u>6,172,404</u>	<u>11,797,741</u>
<b>INVESTMENTS</b>		
Endowment and quasi-endowment investments	5,187,098	4,628,452
Other investments	<u>679,510</u>	<u>976</u>
	<u>5,866,608</u>	<u>4,629,428</u>
<b>NET PROPERTY AND EQUIPMENT</b>		
	<u>8,568,746</u>	<u>8,621,054</u>
<b>OTHER ASSETS</b>		
Other contributions receivable, net of current portion	85,977	296,826
Beneficial interest in real estate trust assets	212,651	212,651
Bond proceeds held in trust for debt retirement	<u>23,070</u>	<u>24,236</u>
Total other assets	<u>321,698</u>	<u>533,713</u>
Total assets	<u>\$ 20,929,456</u>	<u>\$ 25,581,936</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 469,992	\$ 314,243
Accrued expenses	788,302	651,025
Liability under charitable gift annuities	9,163	8,984
Refundable advances	354,001	220,936
Loan payable	<u>114,192</u>	<u>114,192</u>
Total current liabilities	1,735,650	1,309,380
<b>LONG-TERM LIABILITIES</b>		
Liability under charitable gift annuities, net of current portion	65,764	70,389
Loan payable, net of current portion	<u>2,189,671</u>	<u>2,305,029</u>
Total liabilities	<u>3,991,085</u>	<u>3,684,798</u>
<b>NET ASSETS</b>		
Unrestricted		
Operating	501,566	1,733,091
Board designated for quasi-endowment	860,000	860,000
Net investment in property and equipment	<u>6,287,953</u>	<u>6,226,069</u>
Total unrestricted	7,649,519	8,819,160
Temporarily restricted	5,621,123	9,415,399
Permanently restricted	<u>3,667,729</u>	<u>3,662,579</u>
Total net assets	<u>16,938,371</u>	<u>21,897,138</u>
Total liabilities and net assets	<u>\$ 20,929,456</u>	<u>\$ 25,581,936</u>

See accompanying notes to financial statements.

THE WOODS HOLE RESEARCH CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>								
Contributions								
U.S. Government	\$ -	\$ 3,486,145	\$ -	\$ 3,486,145	\$ -	\$ 3,846,682	\$ -	\$ 3,846,682
Foundations and other	1,124,649	1,871,515	5,150	3,001,314	996,541	4,577,427	36,100	5,610,068
Investment income	250,784	507,979	-	758,763	475,677	146,183	-	621,860
Donated equipment	267,811	-	-	267,811	54,148	-	-	54,148
Change in value of split-interest agreements	(7,726)	9,720	-	1,994	(8,741)	(14,701)	-	(23,442)
Gain on sale of property and equipment	-	-	-	-	551,240	-	-	551,240
Other income	21,516	-	-	21,516	16,107	-	-	16,107
Net assets released from restrictions	9,669,635	(9,669,635)	-	-	10,874,772	(10,874,772)	-	-
<b>Total support and revenue</b>	<b>11,326,669</b>	<b>(3,794,276)</b>	<b>5,150</b>	<b>7,537,543</b>	<b>12,959,744</b>	<b>(2,319,181)</b>	<b>36,100</b>	<b>10,676,663</b>
<b>EXPENSES</b>								
Research programs	9,340,908	-	-	9,340,908	8,759,918	-	-	8,759,918
General and administrative	2,692,525	-	-	2,692,525	2,152,530	-	-	2,152,530
Development and fund raising	462,877	-	-	462,877	437,876	-	-	437,876
<b>Total expenses</b>	<b>12,496,310</b>	<b>-</b>	<b>-</b>	<b>12,496,310</b>	<b>11,350,324</b>	<b>-</b>	<b>-</b>	<b>11,350,324</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,169,641)</b>	<b>(3,794,276)</b>	<b>5,150</b>	<b>(4,958,767)</b>	<b>1,609,420</b>	<b>(2,319,181)</b>	<b>36,100</b>	<b>(673,661)</b>
<b>NET ASSETS</b>								
Beginning of year (as restated)	8,819,160	9,415,399	3,662,579	21,897,138	7,209,740	11,734,580	3,626,479	22,570,799
End of year	\$ 7,649,519	\$ 5,621,123	\$ 3,667,729	\$ 16,938,371	\$ 8,819,160	\$ 9,415,399	\$ 3,662,579	\$ 21,897,138

See accompanying notes to financial statements.

THE WOODS HOLE RESEARCH CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received		
U.S. Government	\$ 3,415,789	\$ 3,778,965
Foundations and other	5,306,026	7,369,910
Investment income received	118,307	121,222
Other operating receipts	23,510	(1,294)
Payments to vendors, suppliers, employees and annuitants	(11,771,488)	(10,836,799)
Interest payments	<u>(5,516)</u>	<u>(9,187)</u>
Net cash provided by (used for) operating activities	<u>(2,913,372)</u>	<u>422,817</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(8,144,598)	(4,235,227)
Proceeds from sales of investments	7,547,874	4,099,424
Purchases of property and equipment	(287,009)	(1,604,868)
Proceeds from sale of property and equipment	<u>-</u>	<u>850,000</u>
Net cash used for investing activities	<u>(883,733)</u>	<u>(890,671)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Use of (additions to) bond proceeds held in trust	1,166	(4,959)
Bond proceeds received	-	603,900
Repayments of loans payable	(115,358)	(112,265)
Endowment contributions received	<u>5,150</u>	<u>36,100</u>
Net cash provided by (used for) financing activities	<u>(109,042)</u>	<u>522,776</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,906,147)</b>	<b>54,922</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>5,849,325</u>	<u>5,794,403</u>
End of year	<u>\$ 1,943,178</u>	<u>\$ 5,849,325</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET</b>		
<b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Change in net assets	\$ (4,958,767)	\$ (673,661)
Adjustments		
Endowment contributions	(5,150)	(36,100)
Donated equipment	(267,811)	(54,148)
Depreciation and amortization	686,086	560,870
Gain on sale of property and equipment	-	(551,240)
Net realized and unrealized gains on investments	(640,456)	(500,638)
Change in assets and liabilities		
U.S. Government contributions receivable	(74,754)	(68,712)
Other contributions receivable	2,173,469	1,601,718
Prepaid expenses and other receivables	(168,676)	(130,232)
Accounts payable, net of amounts for property and equipment	76,791	(18,368)
Accrued expenses	137,277	104,242
Liability under charitable gift annuities	(4,446)	(3,433)
Refundable advances	133,065	195,219
Tenant security deposits	<u>-</u>	<u>(2,700)</u>
Net cash provided by (used for) operating activities	<u>\$ (2,913,372)</u>	<u>\$ 422,817</u>

See accompanying notes to financial statements.

# THE WOODS HOLE RESEARCH CENTER, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Statement Presentation** - Financial statement presentation follows the recommendations of U.S. generally accepted accounting principles related to *Financial Statements of Not-for-Profit Organization*, formerly Statement of Financial Accounting Standards (SFAS) No. 117. 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.

**Subsequent Events Review** - Subsequent events have been evaluated through September 30, 2011 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.

**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.

**NOTE 3. INVESTMENTS**

Investments as of June 30, 2011 consist of amounts held in cash equivalents, fixed income and equities. Investments as of June 30, 2010 consist of amounts held in a money market account and invested in mutual funds. The original cost and fair values of investments are as follows:

	<u>2011</u>	<u>2010</u>
Cost	\$ 5,551,552	\$ 4,798,229
Accumulated unrealized gain (loss)	<u>315,056</u>	<u>(168,801)</u>
Total fair value	<u>\$ 5,866,608</u>	<u>\$ 4,629,428</u>

**NOTE 3. INVESTMENTS (CONTINUED)**

	<u>2011</u>	<u>2010</u>
Board-designated quasi-endowment	\$ 860,000	\$ 860,000
Unappropriated earnings on permanent endowments	659,369	105,873
Donor-restricted permanent endowment	<u>3,667,729</u>	<u>3,662,579</u>
	5,187,098	4,628,452
Net other investments	<u>679,510</u>	<u>976</u>
	<u>\$ 5,866,608</u>	<u>\$ 4,629,428</u>

Included in investment income for the years ended June 30, 2011 and 2010 is net appreciation in the fair value of investments of \$640,456 and \$500,638 respectively.

**NOTE 4. 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.

All of the Center's financial investments were measured at fair value on a recurring basis as of June 30, 2011 and 2010 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, 2011 and 2010 using Level 2 inputs. The Center's remainder interest in split-interest agreements under which the Center has been designated the sole remainder man were measured at fair value on a recurring basis as of June 30, 2011 and 2010 using level 2 inputs.

**NOTE 4. FAIR VALUE (CONTINUED)**

Inputs used to determine the fair values of investments measured on a recurring basis at June 30, 2011, by investment class, are as follows:

Description	Total	Quoted Market Price for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investment funds	\$ 67,010	\$ 67,010	\$ -	\$ -
Equities				
Energy	424,660	424,660	-	-
Materials	140,898	140,898	-	-
Industrial goods	402,136	402,136	-	-
Consumer discretionary	379,210	379,210	-	-
Consumer staples	363,520	363,520	-	-
Health care	493,021	493,021	-	-
Financial services	580,732	580,732	-	-
Technology	676,650	676,650	-	-
Telecommunications	82,912	82,912	-	-
Utilities	175,792	175,792	-	-
Fixed income				
Corporate	1,033,979	1,033,979	-	-
Government	383,771	383,771	-	-
Other	662,317	662,317	-	-
	<u>\$ 5,866,608</u>	<u>\$ 5,866,608</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5. CONTRIBUTIONS RECEIVABLE**

Unconditional promises receivable as of June 30, 2011 and 2010, are as follows:

	2011	2010
Due in less than one year	\$3,637,789	\$5,525,655
Due in one to five years	85,977	250,000
Due in more than five years	-	65,000
	3,723,766	5,840,655
Less: Unamortized discount	-	(18,174)
Total unconditional receivable	<u>\$3,723,766</u>	<u>\$5,822,481</u>

Amounts due in more than five years as of June 30, 2010 consist of the Center's remainder interests in split-interest agreements under which the Center has been designated the sole remainderman. The carrying value was actuarially determined based on the age and life expectancy of the donor and an assumed interest rate of 5.6%, in accordance with guidelines published by the Internal Revenue Service. During the year ended June 30, 2011, the donor passed away and the entire amount due of \$65,000 is expected to be received within one year.

**NOTE 5. CONTRIBUTIONS RECEIVABLE (CONTINUED)**

Conditional promises receivable as of June 30, 2011 total \$4,408,336 consisting of unexpended U.S. Government grant awards.

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2011 and 2010, consists of the following:

	<u>2011</u>	<u>2010</u>
Placed in service		
Land	\$ 517,571	\$ 236,571
Building and improvements	10,872,642	8,821,309
Furniture and equipment	<u>1,837,118</u>	<u>1,381,270</u>
	13,227,331	10,439,150
Less accumulated depreciation and amortization	<u>(4,658,585)</u>	<u>(4,003,908)</u>
Net property and equipment in service	8,568,746	6,435,242
Land, building and construction in progress	<u>-</u>	<u>2,185,812</u>
Net property and equipment	<u>\$ 8,568,746</u>	<u>\$ 8,621,054</u>

On July 23, 2009, the Center sold its property at 565 Woods Hole Road for \$850,000 in cash to the Penikese Island School, which had been leasing the space for several years. The property along with its improvements had a net book value of \$298,758 at date of sale. The gain on this sale was recognized in full during the year ended June 30, 2010. Certain expenses associated with the operation of this property were previously recovered as indirect costs in connection with the Center's federal award programs. Federal cost principles therefore require that a portion of the gain on sale be credited against otherwise allowable indirect costs charged to current federal award program. As part of its annual indirect cost rate negotiation process, the Center has been allowed to take the gain on sale into account over a period of years rather than in full during the year ended June 30, 2010.

**NOTE 7. CONSTRUCTION AND 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).

**NOTE 7. CONSTRUCTION AND FINANCING OF HEADQUARTERS BUILDING (CONTINUED)**

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, 0.06% and 0.304% as of June 30, 2011 and 2010, 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 \$2,283,823 in annual installments of \$114,192 through June 2031. The remaining outstanding principal of \$20,040 will be retired through annual draws against the debt service reserve funds held in trust. Interest expense totaled \$5,516 and \$9,187 for the years ended June 30, 2011 and 2010, respectively.

**NOTE 8. 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,	2012	\$11,359
	2013	11,359
	2014	11,359
	2015	<u>11,359</u>
Total		<u>\$45,436</u>

Rental expense for office equipment for the years ended June 30, 2011 and 2010 totaled \$11,464 and \$5,348, respectively.

**NOTE 9. 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, 2011 and 2010.

**NOTE 10. NET ASSETS**

**Unrestricted Net Assets** - Unrestricted net assets are not subject to donor restrictions. Revenues are reported as 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

The Board has designated \$860,000 as a quasi-endowment fund for future use as the Board deems appropriate.

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>2011</u>	<u>2010</u>
Net property and equipment	\$ 8,568,746	\$ 8,621,054
Bond proceeds held in trust for debt retirement	23,070	24,236
Loan payable – current portion	(114,192)	(114,192)
Loan payable – long-term portion	<u>(2,189,671)</u>	<u>(2,305,029)</u>
	<u>\$ 6,287,953</u>	<u>\$ 6,226,069</u>

**Temporary Restrictions** - Temporarily restricted net assets as of June 30, 2011 and 2010, 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, 2011 and 2010 were subject to restriction as follows.

	<u>2011</u>	<u>2010</u>
Research grants from foundations and others	\$ 4,880,754	\$ 9,204,003
Unappropriated earnings on permanent endowment funds	659,369	156,116
Time restrictions only	<u>81,000</u>	<u>55,280</u>
	<u>\$ 5,621,123</u>	<u>\$ 9,415,399</u>

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

The following are the net assets released from donor-imposed restrictions during the years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Research grants		
U.S. Government	\$ 3,486,145	\$ 3,846,682
Foundations and International	6,183,490	6,528,090
General support	<u>-</u>	<u>500,000</u>
	<u>\$ 9,669,635</u>	<u>\$ 10,874,772</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 received contributions totaling \$5,150 and \$36,100 during the years ended June 30, 2011 and 2010, respectively, 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. The total net assets that are considered permanently restricted at June 30, 2011 and 2010 amount to \$3,667,729 and \$3,662,579, respectively, and are broken down as follows:

	<u>2011</u>	<u>2010</u>
Sara Shallenberger Brown Chair and Endowment	\$2,500,000	\$ 2,500,000
George Woodwell Chair of Conservation	1,014,129	1,014,129
General support	<u>153,600</u>	<u>148,450</u>
	<u>\$3,667,729</u>	<u>\$ 3,662,579</u>

***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 funds invested have been included in temporarily restricted investment income on the statement of activities.

## 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, 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009 (as restated)	\$ (395,343)	\$ 13,522	\$ 3,626,479	\$ 3,244,658
Contributions	-	-	36,100	36,100
Investment income	<u>345,100</u>	<u>142,594</u>	<u>-</u>	<u>487,694</u>
Endowment net assets, June 30, 2010	(50,243)	156,116	3,662,579	3,768,452
Contributions	-	-	5,150	5,150
Investment income	<u>50,243</u>	<u>503,253</u>	<u>-</u>	<u>553,496</u>
Endowment net assets, June 30, 2011	<u>\$ -</u>	<u>\$ 659,369</u>	<u>\$ 3,667,729</u>	<u>\$ 4,327,098</u>

### *Return Objectives and Risk Parameters*

The Center has invested its endowment assets in a manner that attempt to earn a return which will place the portfolio's performance in the top half of the respective fixed income style sample from the database used in conjunction with the portfolio, over a market cycle of 3-5 years. Under this policy, the endowment assets are invested in a manner that is intended to achieve a nominal rate of return which equals or surpasses the appropriate benchmark – (Lehman Brothers Intermediate Government/Credit Bond Index or the Lehman Brothers Aggregate Bond Index for the Intermediate Term Portfolio and Lehman Brothers 1-3 Year Aggregate Bond Index for Short-Term Portfolio). Actual returns in a given year may vary from this amount.

### *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. The investments generated significant losses for the year ended June 30, 2009, and eliminated the accumulated investment income balance remaining in temporarily restricted net assets. Investment earnings for the year ended June 30, 2010 were sufficient to totally offset the accumulated net losses, so earnings for that year have been reported as increases in unrestricted net assets to offset the losses reported in the years ended June 30, 2008 and 2009. The remaining investment income for the year ended June 30, 2010 and all investment income for the year ended June 30, 2011 was reported as increases in temporarily restricted net assets as the amounts have not been appropriated by the Board of Directors.

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

**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. As of June 30, 2011, the Board has not made an appropriation of the investment income generated by this Chair. The investments generated significant losses for the years ended June 30, 2008 and 2009, and more than eliminated the accumulated investment income balance remaining in temporarily restricted net assets. Investment earnings for the year ended June 30, 2010 were not sufficient to totally offset the accumulated net losses, so earnings for that year have been reported as increases in unrestricted net assets to offset the losses reported in the years ended June 30, 2008 and 2009. The investment income for the year ended June 30, 2011 was reported as an increase in unrestricted net assets in an amount sufficient to offset the remaining accumulated losses and the remaining investment income was reported as an increase in temporarily restricted net assets as the amounts have not been appropriated by the Board of Directors.

**General Support Endowments** - Investment income or loss are reported as changes in temporarily restricted net assets until appropriated by the Board of Directors.

**Restatements** - During the year ended June 30, 2011, amounts previously reported related to endowment funds were reclassified among net asset classes to properly reflect the treatment described above. Although there were reallocations among net asset classes, there was no change in total net assets.

#### **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, 2011 and 2010 was \$333,602 and \$325,199, 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, except for amounts held in noninterest-bearing accounts, which are fully-insured through an FDIC program that expires December 31, 2012. As of June 30, 2011, the Center's cash balances in excess of FDIC insurance coverage totaled approximately \$22,500. Included in Other Assets as Bond proceeds held for debt retirement was an amount of \$23,070 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.

**NOTE 12. SIGNIFICANT CONCENTRATIONS (CONTINUED)**

During the years ended June 30, 2011 and 2010, the Center received approximately 46% and 36% 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, 2011 and 2010, 20% and 15%, respectively, of the Center's total expenses were incurred in support of foreign activities and, as of June 30, 2011 and 2010, the Center has assets in foreign countries totaling \$336,041 and \$174,792, respectively.

**ADDITIONAL INFORMATION**

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

**SCHEDULES OF FUNCTIONAL EXPENSES**

YEARS ENDED JUNE 30, 2011 AND 2010

	2011			Total
	Research Programs	General and Administrative	Development and Fundraising	
Salaries, wages and benefits	\$ 3,984,845	\$ 1,997,649	\$ 318,380	\$ 6,300,874
Professional fees and other wages	230,314	165,322	41,000	436,636
Travel	515,098	57,316	40,312	612,726
Materials and supplies	203,760	303,365	18,744	525,869
Equipment	296,216	5,427	-	301,643
Communication	414,641	49,891	8,777	473,309
Facilities	-	182,839	-	182,839
Depreciation and amortization	-	686,086	-	686,086
Subcontracts	2,976,328	-	-	2,976,328
	<u>8,621,202</u>	<u>3,447,895</u>	<u>427,213</u>	<u>12,496,310</u>
Allocation of common costs	<u>719,706</u>	<u>(755,370)</u>	<u>35,664</u>	<u>-</u>
Total expenses	<u>\$ 9,340,908</u>	<u>\$ 2,692,525</u>	<u>\$ 462,877</u>	<u>\$12,496,310</u>

	2010			Total
	Research Programs	General and Administrative	Development and Fund Raising	
Salaries, wages and benefits	\$ 3,782,411	\$ 1,512,452	\$ 314,778	\$ 5,609,641
Professional fees and other wages	435,535	245,110	47,127	727,772
Travel	610,126	53,642	18,822	682,590
Materials and supplies	239,071	247,452	13,850	500,373
Equipment	221,997	16,014	-	238,011
Communication	436,866	67,439	8,276	512,581
Facilities	950	185,220	-	186,170
Depreciation and amortization	-	560,870	-	560,870
Subcontracts	2,332,316	-	-	2,332,316
	<u>8,059,272</u>	<u>2,888,199</u>	<u>402,853</u>	<u>11,350,324</u>
Allocation of common costs	<u>700,646</u>	<u>(735,669)</u>	<u>35,023</u>	<u>-</u>
Total expenses	<u>\$ 8,759,918</u>	<u>\$ 2,152,530</u>	<u>\$ 437,876</u>	<u>\$11,350,324</u>





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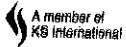
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## REPORT OF INDEPENDENT AUDITORS ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
The Woods Hole Research Center, Inc.

Our report on our audit of the basic financial statements of The Woods Hole Research Center, Inc. as of June 30, 2011 appears on page one. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. All accompanying 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 basic 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 basic financial statements as a whole.

*Calibre CPA Group, PLLC*

Washington, DC  
September 30, 2011

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2011

	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Disbursements/ Expenditures
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>			
<u>U.S. Agency for International Development</u>			
USAID Foreign Assistance for Programs Overseas			
Pass-through from:			
University of Florida	98.001	UF06130	\$ 909
University of Florida	98.001	UF08104	38,013
Total U.S. Agency for International Development			<u>38,922</u>
<u>Department of Agriculture</u>			
Forest Service			
Direct programs			
Agricultural research	10.206		126,765
Forestry Research	10.652		45,550
Forestry Research	10.652		5,228
Total Department of Agriculture			<u>177,543</u>
<u>Department of Commerce</u>			
Climate and Atmospheric Research	11.431		132,058
Total Department of Commerce			<u>132,058</u>
<u>National Aeronautics and Space Administration</u>			
Direct programs	N/A		1,123,578
Aerospace Education Services Program			
Pass-through from:			
Montana State University	43.001	G219-07-W1439	89,554
University of Maryland	43.000	Z641402	44,648
Other Programs			
Pass-through from:			
University of Wisconsin	N/A	064K.606	20,308
University of Maryland	N/A	Z648003	1,901
Total National Aeronautics and Space Administration			<u>1,279,989</u>
<u>National Science Foundation</u>			
Direct programs			
Geosciences	47.050		405,565
Biological Sciences	47.074		522,173
Social, Behavioral, and Economic Sciences	47.075		139,597
Education and Human Resources	47.076		142,354
Polar Programs	47.078		406,534
ARRA-Trans-NSF Recovery Act Research Support	47.082		22,452
Biological Sciences			
Pass-through from:			
State University of New Jersey, Rutgers	47.074	2195	75,410
Total National Science Foundation			<u>1,714,085</u>
<u>Department of Energy</u>			
Office of Science Financial Assistance Program			
Direct programs	81.049		36,943
Pass-through from:			
Pennsylvania State University	81.049	4131-WHRC-USDOE-4157	106,605
Total Department of Energy			<u>143,548</u>
Total research and development cluster			<u>\$ 3,486,145</u>

THE WOODS HOLE RESEARCH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

**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 basic 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	\$ 171,627
	47.075	65,245
	47.050	<u>11,729</u>
		248,601
Department of Energy	81.049	9,999
National Aeronautics and Space Administration	N/A	<u>392,559</u>
		<u>\$ 651,159</u>



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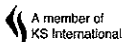
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
The Woods Hole Research Center, Inc.

We have audited the financial statements of The Woods Hole Research Center, Inc. as of and for the year ended June 30, 2011 and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered The Woods Hole Research Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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*.

We noted certain other matters that we have reported to the management of The Woods Hole Research Center, Inc. in a separate letter dated September 30, 2011.

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Calibre CPA Group, PLLC*

Washington, DC  
September 30, 2011



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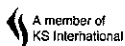
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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
The Woods Hole Research Center, Inc.

### COMPLIANCE

We have audited the compliance of The Woods Hole Research Center, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2011. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

### INTERNAL CONTROL OVER COMPLIANCE

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our

opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Calibre CPA Group, PLLC*

Washington, DC  
September 30, 2011

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2011

**SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified 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 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 on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for major federal award programs for The Woods Hole Research Center, Inc. expresses an unqualified 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. qualified as a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS**

None

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None