



MARINE BIOLOGICAL LABORATORY

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

MARINE BIOLOGICAL LABORATORY

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Marine Biological Laboratory:

We have audited the accompanying financial statements of Marine Biological Laboratory (the Laboratory), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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.

Auditors' 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. Those standards require that we plan and perform the audit 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 Laboratory'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 Laboratory'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 Laboratory 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.



Emphasis of Matter

As discussed in Note 2(t) to the financial statements, in 2018, the laboratory adopted Accounting Standard Update (ASU) No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

KPMG LLP

Boston, Massachusetts
November 14, 2018

MARINE BIOLOGICAL LABORATORY

Statements of Financial Position

June 30, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents	\$ 571,951	1,147,090
Cash held for others	1,103,599	730,445
Accounts receivable, net of allowance for doubtful accounts of \$35,000 at June 30, 2018 and 2017	1,004,284	1,093,795
Receivables due for costs incurred on grants and contracts	2,524,516	3,025,155
Prepaid expenses	975,684	1,267,338
Contributions receivable, net	2,804,515	3,623,928
Investments, at fair value	93,248,299	90,355,849
Charitable remainder trusts	1,100,000	1,222,360
Plant assets, net	105,566,743	106,782,685
Other assets	2,189,244	1,998,815
Total assets	\$ 211,088,835	211,247,460
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 4,166,557	3,978,124
Future program resources	1,103,599	730,445
Deferred income	3,444,940	4,382,818
Annuities and trusts payable	501,715	507,771
Interest rate swap	2,977,253	4,267,883
Long-term debt	26,408,933	27,210,817
Total liabilities	38,602,997	41,077,858
Net assets:		
Without donor restrictions	90,151,446	89,382,881
With donor restrictions	82,334,392	80,786,721
Total net assets	172,485,838	170,169,602
Total liabilities and net assets	\$ 211,088,835	211,247,460

See accompanying notes to financial statements.

MARINE BIOLOGICAL LABORATORY

Statement of Activities

Year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating support and revenues:			
Federal grants	\$ 12,709,637	—	12,709,637
Non-federal grants and contracts	4,637,681	—	4,637,681
Support from affiliate	10,488,000	—	10,488,000
Fees for conferences and services	3,985,216	—	3,985,216
Contributions	1,108,322	2,763,705	3,872,027
Investment earnings used for operations	546,626	3,884,396	4,431,022
Laboratory rentals	521,882	—	521,882
Tuition, net	500,835	—	500,835
Other revenue	533,250	—	533,250
Investment income	56,499	—	56,499
Net assets released from restrictions and reclassifications	6,756,016	(6,756,016)	—
Total operating support and revenues	<u>41,843,964</u>	<u>(107,915)</u>	<u>41,736,049</u>
Expenses:			
Resident research	24,155,722	—	24,155,722
Education	10,717,710	—	10,717,710
Whitman research	3,468,090	—	3,468,090
Conferences, housing and dining	2,561,047	—	2,561,047
Other programs	2,296,514	—	2,296,514
Total expenses	<u>43,199,083</u>	<u>—</u>	<u>43,199,083</u>
Change in net assets before nonoperating activities	<u>(1,355,119)</u>	<u>(107,915)</u>	<u>(1,463,034)</u>
Nonoperating revenue (expense):			
Change in value of interest rate swap	1,290,630	—	1,290,630
Change in value of annuities	(58,045)	8,107	(49,938)
Post retirement pension costs	249,882	—	249,882
Support from affiliate	340,000	—	340,000
Other	91,408	—	91,408
Change in net assets from nonoperating activities	<u>1,913,875</u>	<u>8,107</u>	<u>1,921,982</u>
Investment income and gains:			
Net investment income	756,435	5,531,875	6,288,310
Less investment earnings used for operations	<u>(546,626)</u>	<u>(3,884,396)</u>	<u>(4,431,022)</u>
Investment income and gains	<u>209,809</u>	<u>1,647,479</u>	<u>1,857,288</u>
Changes in net assets	768,565	1,547,671	2,316,236
Net assets, June 30, 2017	<u>89,382,881</u>	<u>80,786,721</u>	<u>170,169,602</u>
Net assets, June 30, 2018	\$ <u>90,151,446</u>	<u>82,334,392</u>	<u>172,485,838</u>

See accompanying notes to financial statements.

MARINE BIOLOGICAL LABORATORY

Statement of Activities

Year ended June 30, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating support and revenues:			
Federal grants	\$ 12,545,269	—	12,545,269
Non-federal grants and contracts	4,554,258	—	4,554,258
Support from affiliate	8,500,000	—	8,500,000
Fees for conferences and services	4,521,298	—	4,521,298
Contributions	1,196,173	2,619,602	3,815,775
Investment earnings used for operations	563,703	3,839,123	4,402,826
Laboratory rentals	594,495	—	594,495
Tuition, net	489,170	—	489,170
Other revenue	610,356	1	610,357
Investment income	5,536	—	5,536
Net assets released from restrictions and reclassifications	5,999,493	(5,999,493)	—
Total operating support and revenues	39,579,751	459,233	40,038,984
Expenses:			
Resident research	23,944,595	—	23,944,595
Education	10,217,638	—	10,217,638
Whitman research	3,804,912	—	3,804,912
Conferences, housing and dining	2,528,391	—	2,528,391
Other programs	2,356,036	—	2,356,036
Total expenses	42,851,572	—	42,851,572
Change in net assets before nonoperating activities	(3,271,821)	459,233	(2,812,588)
Nonoperating revenue (expense):			
Change in value of interest rate swap	2,006,986	—	2,006,986
Change in value of annuities	(16,127)	8,364	(7,763)
Post retirement pension costs	649,100	—	649,100
Support from affiliate	1,075,000	—	1,075,000
Gain on sale of asset	106,736	—	106,736
Change in net assets from nonoperating activities	3,821,695	8,364	3,830,059
Investment income and gains:			
Net investment income	977,613	7,087,032	8,064,645
Less investment earnings used for operations	(563,703)	(3,839,123)	(4,402,826)
Investment income and gains	413,910	3,247,909	3,661,819
Changes in net assets	963,784	3,715,506	4,679,290
Net assets, June 30, 2016	88,419,097	77,071,215	165,490,312
Net assets, June 30, 2017	\$ <u>89,382,881</u>	<u>80,786,721</u>	<u>170,169,602</u>

See accompanying notes to financial statements.

MARINE BIOLOGICAL LABORATORY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 2,316,236	4,679,290
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,417,283	4,470,643
Change in value of interest rate swap	(1,290,630)	(2,006,986)
Net unrealized gain on investments	(1,165,378)	(4,481,263)
Reinvested investment income	(5,183,081)	(3,588,838)
Change in charitable remainder trusts	122,360	(4,945)
Change in reserve for and present value discount of contributions receivable	(443,366)	665,110
Contributions of equipment	(25,228)	—
Contributions restricted for long-term investment	(507,981)	(81,986)
Post-retirement benefit changes	(235,093)	(625,283)
Loss (gain) on disposal of assets	40,858	(106,736)
Changes in assets and liabilities:		
Accounts receivable	89,511	(82,062)
Receivables due for costs incurred on grants and contracts	500,639	164,164
Prepaid expenses and other assets	336,317	(762,919)
Contributions receivable	1,262,780	419,242
Accounts payable and accrued expenses	188,433	763,746
Deferred income	(937,878)	27,483
Annuities and trusts payable	49,938	4,684
Net cash used in operating activities	(464,280)	(546,656)
Cash flows from investing activities:		
Proceeds from sale of plant assets	—	553,165
Purchase of plant assets	(3,216,970)	(2,973,160)
Proceeds from sale of investments	7,073,426	6,024,707
Purchase of investments	(3,617,418)	(3,709,324)
Net cash provided by (used in) investing activities	239,038	(104,612)
Cash flows from financing activities:		
Payments on annuities and trusts payable	(55,994)	(55,980)
Contributions received for long-term investment	507,981	81,986
Contributions restricted for purchasing plant assets	—	—
Principal payments on long-term debt	(801,884)	(771,884)
Net cash used in financing activities	(349,897)	(745,878)
Change in cash and cash equivalents	(575,139)	(1,397,146)
Cash and cash equivalents at beginning of year	1,147,090	2,544,236
Cash and cash equivalents at end of year	\$ 571,951	1,147,090
Supplemental disclosures of cash flows information:		
Cash paid during the year for interest	\$ 1,026,710	1,067,308
Accounts payable and accrued expenses for capital additions	481,447	485,450

See accompanying notes to financial statements.

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

June 30, 2018 and 2017

(1) Background

The Marine Biological Laboratory (the Laboratory) is a private, not-for-profit research and educational institution dedicated to establishing and maintaining a laboratory and station for scientific study and investigation, and a school for instruction in biology and natural history. The Laboratory was founded in 1888 and is located in Woods Hole, Massachusetts.

On July 1, 2013, the Laboratory entered into an affiliation agreement with the University of Chicago (the University) located in Chicago, Illinois. Under this affiliation, the University became the sole member of the Laboratory, and has pledged ongoing operating support to the Laboratory. During the years ended June 30, 2018 and 2017, the Laboratory received \$10.5 million and \$8.5 million from the University. The University is committed to funding MBL's operating deficit through June 30, 2019. In addition to this operational support, the University provided \$0.3 million and \$1.1 million in nonoperating funding to support capital projects during the years ended June 30, 2018 and 2017.

(2) Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

(b) Classification of Net Assets

The financial statements have been prepared to focus on the Laboratory as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Without Donor Restriction – Net assets not subject to donor-imposed stipulations but which may be designated for specific purposes by the Laboratory's Trustees.
- With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Laboratory or the passage of time. In addition, unspent appreciation of donor restricted endowment funds in excess of their historic dollar value is classified as net assets with donor restrictions until appropriated by the Laboratory and spent in accordance with the standard prudence imposed by Massachusetts State law.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Laboratory, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations. Other permanently restricted items in this net asset category include annuity and life income gifts for which the ultimate purpose of the proceeds is permanently restricted.

(c) Operating and Nonoperating Activities

The statement of activities reports changes in net assets from operating and nonoperating activities.

Operating activities of the Laboratory include ongoing research, conferences and training programs. Included in operating revenues is investment return appropriated to support operations under the total return utilization policy approved by the Board of Trustees.

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

June 30, 2018 and 2017

Nonoperating revenues and expenses include realized and unrealized gains and losses on investments as well as changes in value of an interest rate swap, certain post retirement expenses, and other nonoperating items. To the extent that nonoperating investment income and gains are used for operations, they are reclassified from nonoperating to operating as investment earnings used for operations in the statement of activities.

(d) Cash Equivalents

Cash equivalents consist of resources invested in overnight repurchase agreements, money market funds and other highly liquid investments with original maturities of three months or less.

(e) Cash Held for Others

Cash held for others represents funds deposited at the Laboratory by visiting scientists and conference organizers. These funds are typically used to offset future charges for services provided by the Laboratory on the depositor's behalf. The funds remain the property of the depositor. Accordingly, an offsetting liability entitled future program resources is shown in the statement of financial position to reflect the Laboratory's obligation.

(f) Concentration of Credit Risk

The Laboratory maintains cash balances at several banks in excess of federally insured limits. The Laboratory also maintains cash balances in money market funds which are not insured. The Laboratory has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

The majority of the Laboratory's investments are held in the University of Chicago's Total Return Investment Pool. The investment represents units in a pool of diversified assets.

(g) Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Credit is generally extended to customers on a short-term basis; thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectibility based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts on accounts receivable are determined on the basis of loss experience, known and inherent risks and current economic conditions.

(h) Contributions

Contribution revenue, including gifts and unconditional promises to give, is recognized as revenue in the period received. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in the appropriate net asset category in the year received and are recorded at the present value of expected future cash flows, net of an allowance for doubtful accounts. Gifts and promises to give other assets are recorded at fair value at the date of contribution. Donor-restricted contributions whose restrictions are met within the same year received are reported as unrestricted contributions in the accompanying financial statements. There are \$9,510,754 of conditional promises to give not yet recognized as revenue.

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

June 30, 2018 and 2017

(i) Prepaid Expenses

Prepaid expenses are expenditures paid in advance of when the benefit of the outlay will be realized. These costs will be expensed in a future period when the purchased service is received or purchased good is consumed.

(j) Investments

Investments are reported at estimated fair value. If an investment is held directly by the Laboratory and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Laboratory's shares in the University of Chicago's Total Return Investment Pool (TRIP) are valued quarterly based on the market value of the TRIP investment portfolio and the number of outstanding shares at the end of each quarter. Additional contributions to the TRIP purchase additional shares in the pool at the most recent quarterly per share price.

(k) Investment Income and Distribution

For the pooled investments, the Laboratory employs a total return utilization policy that establishes the amount of the investment return made available for spending each year. The Board of Trustees has approved a spending policy that the withdrawal will be based on a percentage of the twelve quarter average ending market value of the funds. The market value includes the principal plus reinvested income, realized and unrealized gains and losses. For fiscal years 2018 and 2017, the Laboratory obtained approval to expend 5.5% of the latest twelve quarter average ending market values of the long-term investments.

Investment income from the pooled investments is allocated using a unitized system whereby components are valued using a fair value unit basis, and each component subscribes to or disposes of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place.

(l) Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

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Notes to Financial Statements

June 30, 2018 and 2017

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

(m) Charitable Remainder Trusts and Planned Giving

The Laboratory is a beneficiary of certain charitable remainder trusts, gift annuities, and a pooled gift income fund with principal reverting to the Laboratory upon the death of donors or other beneficiaries. Charitable remainder trusts have been recorded at fair value, which is based on the market value of the assets contributed by the donor, net of an adjustment for the estimated life expectancies of the beneficiaries, the terms of the agreements, the expected return on the invested assets, and a discount rate.

Gift annuities and pooled income trusts are recorded at fair value, with offsetting estimated liabilities due to the donors based on the amount due to the donors, discounted for the estimated life expectancies of the beneficiaries. This recurring fair value measurement is based upon Level 1 inputs using market returns for similar assets for two of the charitable remainder trusts. The remaining two charitable remainder trusts have Level 3 inputs as the trusts do not provide transparent annual information and the fair value is estimated in accordance with an estimate of market performance. Included within charitable remainder trusts are two life estates in certain real estate whereby the fair value is determined using an appraisal which is a Level 3 input.

(n) Plant Assets

Plant assets are recorded at cost. Donated plant assets are recorded at the fair value at the time of gift. Depreciation expense is calculated using the straight-line method over the useful life of the asset. Estimated useful lives are generally 3 to 15 years for equipment and 15 to 60 years for buildings. Improvements to buildings used in sponsored research activities are depreciated based on the distinct useful life of each major building component. These range from 15 to 40 years. Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$4,417,283 and \$4,470,643 and has been recorded in the statements of activities in the appropriate functionalized categories.

(o) Deferred Income

Deferred income includes prepayments received on Laboratory publications, funding received for grants and contracts and laboratory rentals before it is earned.

(p) Revenue Recognition

Sources of operating revenue include grant payments from governmental agencies, contracts from private organizations and income from the rental of laboratories and classrooms for research and educational programs. The Laboratory recognizes revenue associated with grants and contracts at the time the related direct costs are incurred or expended. Recovery of related indirect costs is recorded at predetermined fixed rates negotiated with the government. Revenue related to conferences and services is recognized at the time the services are provided while tuition revenue is recognized as classes are offered. The tuition income is net of student financial aid of \$1,622,744 and \$1,346,687 for the years ended June 30, 2018 and 2017. Fees for conferences and other services include fees for housing, dining, library, scientific journals, aquatic resources, and research services.

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

June 30, 2018 and 2017

(q) Expenses

Expenses are recognized when incurred and are charged to the functions to which they are directly related. Expenses that relate to more than one function are allocated among functions based upon either modified total direct cost or square footage allocations.

The statements of activities presents expenses in functional categories without distinguishing program versus supporting service expenses. Administration expenses of \$6,910,257 and \$6,726,510 for the years ended June 30, 2018 and 2017 have been allocated among the categories presented. Those costs relating to the administration of sponsored programs are allocated based upon a category's historical level of program support while the remaining general administration expenses are allocated based upon historical levels of direct costs. Included in administration expenses are fund-raising expenses totaling \$1,273,114 and \$1,179,642 for the years ended June 30, 2018 and 2017.

(r) Use of Estimates

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

(s) Tax-Exempt Status

The Laboratory is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the Code), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The Laboratory is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

Management believes that the Laboratory's income tax returns for years ended prior to 2015 are no longer subject to examination by tax authorities in its major tax jurisdiction.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Laboratory has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(t) Recent Accounting Pronouncements

i) Post-Retirement Benefit Cost

In 2018, the Laboratory adopted Accounting Standards Update (ASU) No. 2017-07 – Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance requires the service cost component of net periodic benefit cost for pension and other postretirement benefits be presented as a component part of employee benefit expense. The other components of net periodic benefit cost, such as interest, expected return on plan assets, and amortization of other actuarially determined amounts, are required to be presented as a nonoperating change in net assets without donor restrictions.

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

June 30, 2018 and 2017

These changes have been applied retrospectively in the 2017 statement of activities by reclassifying all non-service related components of net periodic benefit cost from benefit expense to nonoperating revenue (expense) in net assets without donor restrictions which did not result in a material change in the financial statements.

ii) Not-for-Profit Financial Statement Presentation

In 2018, the Laboratory adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include presentation of two classes of net assets versus the previously required three and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. This guidance also enhances disclosures for the board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassification driven by the adoption of ASU 2016-14 as of June 30, 2017 follows:

<u>Net assets classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
As previously presented:			
Unrestricted	\$ 89,369,603	—	89,369,603
Temporarily restricted	—	25,178,163	25,178,163
Permanently restricted	—	55,621,836	55,621,836
Net assets as previously presented	89,369,603	80,799,999	170,169,602
Reclassifications to implement ASU 2016-14:			
Underwater endowments	13,278	(13,278)	—
Net assets as reclassified	<u>\$ 89,382,881</u>	<u>80,786,721</u>	<u>170,169,602</u>

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

June 30, 2018 and 2017

(3) Financial Assets and Liquidity Resources

As of June 30, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and scheduled principal payments on debt, were as follows:

Financial assets:

Cash and cash equivalents	\$	571,951
Short-term investments		9,910,742
Accounts receivable, net		1,004,284
Receivables due for costs incurred on grants and contracts		2,524,516
Pledge payments available for operations		594,407

Board designations:

Fiscal 2019 endowment payout		4,442,943
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Total financial assets available within one year		19,048,843
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Liquidity resources:

Bank line of credit		2,775,000
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Total financial assets and liquidity resources available within one year	\$	21,823,843
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The Laboratory's cash flows have seasonal variations during the year attributable to tuition and conference billing, Whitman research, and a concentration of contributions received at calendar and fiscal year-end. To manage liquidity, the Laboratory maintains a line of credit with a bank. The Laboratory has no outstanding borrowings under the line of credit at June 30, 2018. Additionally, as of June 30, 2018, the Laboratory had an additional \$9,887,526 in institutional funds which is available for general expenditures with Board approval.

(4) Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2018	2017
Unconditional promises expected to be collected in:		
In one year or less	\$ 954,407	1,810,442
Between one and five years	2,382,740	2,789,485
	3,337,147	4,599,927
Less discount	(382,798)	(322,000)
Less allowance for uncollectible pledges	(149,834)	(653,999)
Contributions receivable, net	\$ 2,804,515	3,623,928

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Notes to Financial Statements

June 30, 2018 and 2017

The risk adjusted discount rate, which ranged from 5.25% to 7.00%, is utilized in determining the fair value of such contributions receivable.

(5) Investments, Charitable Remainder Trusts & Interest Rate Swap Agreement

The following table sets forth the Laboratory's investments and other assets by major category in the fair value hierarchy as of June 30, 2018, as well as related strategy, liquidity and funding commitments:

Description	Level 1	Level 2	Level 3	Total	Liquidity	Days' notice
Investments:						
Cash equivalents	\$ 9,943,792	—	—	9,943,792	Daily	1
Fixed income mutual funds	187,356	—	—	187,356	Daily	1
Equity mutual funds	14,387	—	—	14,387	Daily	1
University of Chicago Total Return Investment Pool	—	—	83,102,764	83,102,764	Quarterly	30–270
Total investments	<u>\$ 10,145,535</u>	<u>—</u>	<u>83,102,764</u>	<u>93,248,299</u>		
Charitable remainder trusts	\$ —	—	1,100,000	1,100,000	N/A	N/A
Interest rate swap	—	(2,977,253)	—	(2,977,253)	N/A	N/A

The following table presents a roll-forward of assets measured at fair market value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2018.

	University of Chicago Total Return Investment Pool	Charitable remainder trusts
Beginning balance	\$ 80,129,471	1,222,360
Total gains or losses included in changes in net assets	6,286,898	—
Purchases and settlements	<u>(3,313,605)</u>	<u>(122,360)</u>
Ending balance	<u>\$ 83,102,764</u>	<u>1,100,000</u>

MARINE BIOLOGICAL LABORATORY

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The following table sets forth the Laboratory's investments and other assets by major category in the fair value hierarchy as of June 30, 2017, as well as related strategy, liquidity and funding commitments:

Description	Level 1	Level 2	Level 3	Total	Liquidity	Days' notice
Investments:						
Cash equivalents	\$ 10,022,565	—	—	10,022,565	Daily	1
Fixed income mutual funds	189,472	—	—	189,472	Daily	1
Equity mutual funds	14,341	—	—	14,341	Daily	1
University of Chicago Total Return Investment Pool	—	—	80,129,471	80,129,471	Quarterly	30–270
Total investments	<u>\$ 10,226,378</u>	<u>—</u>	<u>80,129,471</u>	<u>90,355,849</u>		
Charitable remainder trusts	\$ 122,360	75,000	1,025,000	1,222,360	N/A	N/A
Interest rate sw ap	—	(4,267,883)	—	(4,267,883)	N/A	N/A

The following table presents a roll-forward of assets measured at fair market value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2017.

	University of Chicago Total Return Investment Pool	Charitable remainder trusts
Beginning balance	\$ 76,261,128	1,025,000
Total gains or losses included in changes in net assets	8,061,845	—
Purchases and settlements	(4,193,502)	—
Ending balance	<u>\$ 80,129,471</u>	<u>1,025,000</u>

The Laboratory's overall investment objective is to invest its assets in a prudent manner that will achieve a long term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation.

The TRIP diversifies its investments among various asset classes incorporating multiple strategies and external investment managers. MBL does not directly own these securities, but owns shares in the TRIP.

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The TRIP is composed of the following as of June 30, 2018 and 2017:

	2018	2017
Cash equivalents	1.30 %	4.70 %
Global public equities (primarily international)	27.06	23.21
Private debt	4.67	4.86
Private equity:		
U.S. venture capital	5.50	5.12
U.S. corporate finance	3.56	3.91
International	6.21	5.76
Real estate	6.25	6.00
Natural resources	7.63	7.59
Absolute return:		
Equity-oriented	10.27	9.92
Global macro/relative value	6.02	6.66
Multi-strategy	7.59	7.80
Credit-oriented	5.69	5.64
Protection-oriented	1.91	1.82
Fixed income:		
U.S. treasuries, including TIPS	6.34	6.21
Other fixed income (primarily credit funds)	—	0.80
Total	100.00 %	100.00 %

- Cash equivalent investments include cash equivalents and fixed-income investments, with maturities of less than one year, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts.
- Global public equity investments consist of separate accounts, commingled funds with liquidity ranging from daily to monthly, and limited partnerships. Securities held in separate accounts and daily traded commingled funds are generally valued based on quoted market prices in active markets. Commingled funds with monthly liquidity are valued based on independently determined net asset value (NAV). Limited partnership interests in equity-oriented funds are valued based upon NAV provided by external fund managers.
- Investments in private debt, private equity, real estate, and natural resources are in the form of limited partnership interests, which typically invest in private securities for which there is no readily determinable market value. In these cases, market value is determined by external managers based on a combination of discounted cash flow analysis, industry comparables, and outside appraisals. Where private equity, real estate, and natural resources managers hold publicly traded securities, these securities are generally valued based on market prices. The value of the limited partnership interests are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of these external investments vary by asset class. The University monitors the valuation methodologies and practices of managers.

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- The absolute return portfolio is comprised of investments of limited partnership interests in hedge funds and drawdown private equity style partnerships whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. The majority of the underlying holdings are marketable securities. The remainder of the underlying holdings is held in marketable securities that trade infrequently or in private investments, which are valued by the manager on the basis of an appraised value, discounted cash flow, industry comparables, or some other method. Most hedge funds that hold illiquid investments designate them in special side pockets, which are subject to special restrictions on redemption.
- Fixed-income investments consist of directly held actively traded treasuries, separately managed accounts, commingled funds, and bond mutual funds that hold securities, the majority of which have maturities greater than one year and are valued based on quoted market prices in active markets, except for a commingled fund that is valued on independently determined NAV.

(6) Endowment

The Laboratory's endowment pool consists of approximately 180 individual funds established for a variety of purposes. This includes both donor restricted "endowment funds" and funds designated by the Laboratory to function as "institutional funds". Net assets associated with endowment funds, including funds designated by the Laboratory to function as institutional funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Laboratory views *Massachusetts Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as requiring the Laboratory to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Laboratory has classified as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund (although no existing donor instruments have so directed). Accumulations to the endowment that do not have to be maintained in perpetuity remain classified as net assets with donor restriction until they are appropriated for expenditure by the Board in a manner consistent with the Laboratory's spending policy, UPMIFA, other applicable laws, and any donor-imposed restrictions.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the historic dollar value. Deficiencies of this nature are reported in net assets with donor restrictions. These totaled \$16,021 and \$13,278 as of June 30, 2018 and 2017.

(c) Endowment Investment Policy

The Laboratory has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under the Laboratory's Investment Policy and Spending Rate, both of which are approved by the Board

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of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

(d) Strategies Employed for Achieving Objectives

By investing in the University's Total Return Investment Pool, the Laboratory has effectively adopted the University's investment objectives and strategies as its own. The University's overall investment objective is to invest its assets in a prudent manner that will achieve a long term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation.

(e) Endowment Fund Activity

Endowment net assets consisted of the following fund types as of June 30, 2018:

	Without donor restrictions	With donor restrictions	Total
Donor restricted endowment funds:			
Historical gift value	\$ —	55,455,718	55,455,718
Appreciation	—	18,026,445	18,026,445
Total donor restricted endowment funds	—	73,482,163	73,482,163
Board-designated institutional funds	9,887,526	—	9,887,526
	\$ 9,887,526	73,482,163	83,369,689

The changes in endowment net assets for the period ended June 30, 2018 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 9,678,429	70,473,623	80,152,052
Investment return:			
Investment income	87,731	642,424	730,155
Net appreciation	667,992	4,888,747	5,556,739
Total investment return	755,723	5,531,171	6,286,894
New gifts/pledge payments	—	1,377,308	1,377,308
Appropriation of endowment assets for operations (draw)	(546,626)	(3,884,396)	(4,431,022)
Other	—	(15,543)	(15,543)
Endowment net assets, end of year	\$ 9,887,526	73,482,163	83,369,689

MARINE BIOLOGICAL LABORATORY

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As of June 30, 2017 endowment net assets consisted of the following fund types:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor restricted endowment funds:			
Historical gift value	\$ —	54,294,905	54,294,905
Appreciation	—	16,178,718	16,178,718
	<hr/>	<hr/>	<hr/>
Total donor restricted endowment funds	—	70,473,623	70,473,623
Board-designated institutional funds	9,678,429	—	9,678,429
	<hr/>	<hr/>	<hr/>
	\$ <u>9,678,429</u>	<u>70,473,623</u>	<u>80,152,052</u>

The changes in endowment net assets for the period ended June 30, 2017 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,264,640	67,023,353	76,287,993
Investment return:			
Investment income	98,537	713,908	812,445
Net appreciation	878,955	6,370,446	7,249,401
	<hr/>	<hr/>	<hr/>
Total investment return	977,492	7,084,354	8,061,846
New gifts/pledge payments	—	205,039	205,039
Appropriation of endowment assets for operations (draw)	(563,703)	(3,839,123)	(4,402,826)
	<hr/>	<hr/>	<hr/>
Endowment net assets, end of year	\$ <u>9,678,429</u>	<u>70,473,623</u>	<u>80,152,052</u>

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

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(7) Plant Assets

Plant assets consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 52,931,085	52,931,085
Buildings	105,153,955	104,282,879
Equipment	28,460,889	26,646,443
Construction in progress	<u>540,531</u>	<u>171,513</u>
	187,086,460	184,031,920
Less accumulated depreciation	<u>(81,519,717)</u>	<u>(77,249,235)</u>
Plant assets, net	<u>\$ 105,566,743</u>	<u>106,782,685</u>

(8) Debt

Long-term debt consisted of Massachusetts Development Finance Agency, Variable Rate Demand Revenue Bonds, Series 2006, payable in annual installments from 2008 through 2036. The principal balance outstanding at June 30, 2018 and 2017 was \$26,555,000 and \$27,365,000. The interest rate at June 30, 2018 and 2017 was 1.5% and 0.9%.

The aggregate amount of principal due on long-term debt for each of the next five years ending June 30 and thereafter is as follows:

2019	\$ 840,000
2020	875,000
2021	910,000
2022	945,000
2023	980,000
Thereafter	<u>22,005,000</u>
	<u>\$ 26,555,000</u>

The balance of outstanding principal and accrued debt issuance costs at June 30, 2018 and 2017 was:

	<u>2018</u>	<u>2017</u>
Principal balance	\$ 26,555,000	27,365,000
Debt issuance costs	<u>(146,067)</u>	<u>(154,183)</u>
Long-term debt net of issuance costs	<u>\$ 26,408,933</u>	<u>27,210,817</u>

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In 2006, the Massachusetts Development Finance Agency issued the Laboratory Variable Rate Revenue Bonds (the Bonds) in the amount of \$34,000,000. The interest rate on the Bonds resets weekly, and is payable monthly. The Bonds are scheduled to mature on October 1, 2036. The Laboratory was required to make interest only payments for the first two years. The first principal payment was due October 1, 2008. As collateral for the Bonds, the Laboratory has entered into a Letter of Credit Reimbursement Agreement with PNC Bank which is set to expire on June 2, 2020. The Laboratory may request to extend the expiration date of this agreement for an additional year, following the first anniversary date of issuance and subsequently each year thereafter. The Letter of Credit Reimbursement Agreement is in an amount sufficient to pay the aggregate principal amount of the Bonds and up to thirty-four days' interest. The Bonds are subject to certain covenants; including a minimum debt service coverage ratio. At June 30, 2018 and 2017, the Laboratory was in compliance with these debt covenants.

During 2006, the Laboratory entered into an interest rate swap agreement (the Agreement) with a counterparty whose credit rating was A3 at June 30, 2018. The Laboratory entered into this Agreement to manage interest rate risk exposure. Under the terms of this agreement, the Laboratory effectively changed its interest rate exposure on a notional amount of \$30,000,000 of the Bonds to a fixed rate of 3.3%. This swap agreement was modified on March 3, 2009 to change the floating rate paid to the Laboratory from 67% of one month LIBOR to 67% of three month LIBOR and in return the fixed rate the Laboratory paid was increased to 3.413%.

The Agreement expires in 2036. The fair value of the Agreement was \$2,977,253 and \$4,267,883, at June 30, 2018 and 2017, and is separately presented in the statement of financial position. Because the swap fair values are primarily based on observable inputs such as the interest yield curve that are corroborated by market data, they are categorized as Level 2 in the fair value hierarchy.

On April 15, 2014, the Laboratory established an unsecured line of credit with PNC Bank. The line of credit allows for a maximum borrowing capacity of \$3,000,000. The line of credit expires on April 11, 2019. The line carries a borrowing rate option equal to the daily LIBOR rate plus 1.50%. The Laboratory had no outstanding borrowings under the line of credit at June 30, 2018.

For the years ended June 30, 2018 and 2017, the Laboratory recognized interest expense of \$1,018,634 and \$1,058,719.

(9) Retirement Plan

The Laboratory participates in the defined contribution pension plan with TIAA-CREF (the Plan). Eligible employees become participants upon completion of two years of service, as defined in the plan document. Under the Plan, the Laboratory contributes 10% of compensation, as defined in the plan document, subject to certain limitations, for each participant. Contributions amounted to \$1,313,031 and \$1,313,932 for the years ended June 30, 2018 and 2017.

(10) Post-retirement Benefits

The Laboratory provides certain health care benefits for retired employees covered under the Laboratory's Post-Retirement Health Care Plan (the PRHC Plan).

MARINE BIOLOGICAL LABORATORY

Notes to Financial Statements

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The Laboratory's policy is that all retirees who retired prior to June 1, 1994 receive post-retirement health benefits as defined by the PRHC Plan. The remaining active employees as of June 1, 1994 will receive limited benefits upon their retirement as defined by the PRHC Plan. Employees hired on or after January 1, 1995 are not eligible to participate in the PRHC Plan.

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Post-retirement benefit obligation at beginning of year	\$ 1,266,370	1,579,022
Service cost	14,789	23,817
Interest cost	65,881	61,076
Actuarial gain	(31,479)	(469,685)
Benefits paid	(68,031)	(132,778)
Adjustment for Medicare Part D subsidy	(1,878)	204,918
	<u>1,245,652</u>	<u>1,266,370</u>
Post-retirement benefit obligation at end of year		
Change in plan assets:		
Fair value of plan assets at beginning of year	2,925,667	2,613,037
Employer contribution	59,987	132,778
Actual return on plan assets	214,375	302,919
Benefits paid	(68,031)	(132,778)
Medicare Part D subsidy payment	8,044	9,711
	<u>3,140,042</u>	<u>2,925,667</u>
Fair value of plan assets at end of year		
Net benefit asset recognized in the statement of financial position, included in other assets	\$ <u>1,894,390</u>	<u>1,659,297</u>

Weighted average assumptions as of June 30, to determine benefit obligations at year end:

	<u>2018</u>	<u>2017</u>
Discount rate	3.85%	3.35%
Rate of compensation increase	N/A	N/A

Weighted average assumptions as of June 30, to determine net periodic benefit cost at year end:

	<u>2018</u>	<u>2017</u>
Discount rate	3.35%	2.90%
Expected long-term return on plan assets	7.00%	7.00
Rate of compensation increase	N/A	N/A
Average future years of service	4.08	4.75

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Notes to Financial Statements

June 30, 2018 and 2017

The PRHC Plan assets and weighted average asset allocations at June 30, by asset category are as follows:

	<u>2018</u>	<u>2017</u>
Equity securities	\$ 1,951,563	1,752,404
Fixed income securities	1,011,661	1,003,691
Cash equivalents	<u>176,818</u>	<u>169,572</u>
	<u>\$ 3,140,042</u>	<u>2,925,667</u>

As of June 30, 2018 and 2017 the Laboratory's PRHC Plan assets were accounted for at fair value. All PRHC Plan assets were Level 1 assets.

The Executive Committee of the Board of Trustees has selected a balanced strategy of 45% equity securities, 45% fixed income securities and 10% cash equivalents as a target asset allocation for the PRHC Plan investments. All of the debt and equity securities included in the PRHC Plan assets are publicly traded securities and are carried at fair value based upon quoted market prices.

For purposes of measuring the benefit obligation, a 5.50% annual rate of increase in the per capita cost of covered health benefits was assumed for 2018. The rate was assumed to decrease gradually to 3.8% in 2075 and remain at that level thereafter.

	<u>2018</u>	<u>2017</u>
Components of net periodic benefit cost:		
Operating – service cost	\$ 14,789	23,817
Nonoperating:		
Interest cost	65,881	61,076
Expected return on assets	(204,797)	(182,913)
Recognized net actuarial loss	(16,219)	37,425
Adjustment for Medicare Part D Subsidy	<u>(192,785)</u>	<u>(188,481)</u>
Total nonoperating	<u>(347,920)</u>	<u>(272,893)</u>
Net periodic benefit cost	<u>\$ (333,131)</u>	<u>(249,076)</u>
Impact of 1% increase in healthcare cost trend:		
On interest cost plus service cost during past year	\$ 1,299	1,487
On accumulated post-retirement benefit obligation	39,826	53,543
Impact of 1% decrease in healthcare cost trend:		
On interest cost plus service cost during past year	(1,588)	(1,799)
On accumulated post-retirement benefit obligation	(44,103)	(56,786)

The Laboratory expects to contribute \$146,000 to the PRHC Plan during the fiscal year ending June 30, 2019.

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The expected future benefit payments for the next ten years are as follows:

2019	\$	146,000
2020		151,000
2021		146,000
2022		139,000
2023		139,000
2024–2028		558,000

At June 30, 2018 and 2017, the items not yet recognized as a component of net periodic post-retirement benefit cost including the effect of the adjustment for Medicare Part D subsidy are as follows:

	<u>2018</u>	<u>2017</u>
Net actuarial gain	\$ (492,595)	(650,620)
Total unamortized items	\$ <u>(492,595)</u>	<u>(650,620)</u>

In addition to interest and service costs, the estimated net actuarial losses, excluding the effect of the adjustment for Medicare Part D subsidy, and transition obligation for the Plan to be amortized into net periodic post-retirement benefit cost for fiscal 2018 and 2017 are \$38,000 and \$25,000.

(11) Restricted Net Assets

The Laboratory classifies gifts that have donor-imposed restrictions regarding time or the purposes to which the gift is to be used as net assets with donor restrictions. The Laboratory classifies pledges to give as time restricted until collected. When collected, a gift is reclassified to its purpose restriction or if unrestricted, released from restriction. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases to net assets with donor restriction.

(a) Net Assets with Donor Restriction

Net assets with donor restrictions consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Operating	\$ 4,635,290	5,386,241
Endowment	73,482,163	70,473,623
Annuity and life income	155,457	154,752
Pledges	3,750,176	4,672,082
Nonoperating (plant)	<u>311,306</u>	<u>100,023</u>
	\$ <u>82,334,392</u>	<u>80,786,721</u>

MARINE BIOLOGICAL LABORATORY

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(b) Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors are as follows:

		2018	2017
Appropriation of endowment assets for operations	\$	3,884,396	3,839,123
Operating		2,769,869	2,198,277
Endowment		(36,966)	(97,510)
Annuity and life income		—	56,583
Non-operating (plant)		138,717	3,019
	\$	6,756,016	5,999,493

(12) Functional Classification of Expenses

Expenses by functional and natural classification for the year ended June 30, 2018.

	Resident research	Education	Whitman research	Conferences, housing, and dining	Other programs	Administration	Facilities	Library services	Research services	Total
Salaries	\$ 6,419,726	1,264,522	—	622,508	171,782	3,360,281	2,352,813	1,008,485	1,147,195	16,347,312
Fringe benefits	2,156,150	329,285	—	195,074	42,230	1,623,959	789,456	335,783	381,636	5,853,573
Professional services	39,676	746,137	1,805	—	—	483,229	73,569	1,177	39,740	1,385,333
Equipment	63,255	(2,893)	—	10,060	3,725	1,323	55,212	22,294	1,244	154,220
Supplies	992,827	746,680	10,094	55,365	55,762	126,726	216,606	64,989	483,394	2,752,443
Travel	393,673	540,211	(2,438)	1,268	3,639	55,888	(1,093)	4,938	5,412	1,001,498
Interest expense, net	—	—	—	—	—	—	1,018,634	—	—	1,018,634
Other expenses	464,307	505,599	(45,973)	247,472	23,798	1,403,689	1,127,808	251,980	337,662	4,316,342
Inter-departmental charges, net	812,375	2,433,623	631,202	(3,478,321)	570,962	(165,668)	(64,586)	(108,115)	(631,472)	—
Subcontracts	1,303,745	—	—	1,926,021	—	19,416	—	—	—	3,249,182
Serials and books	580	7,661	—	—	—	312	2,887	465,749	—	477,189
Utilities	13,822	984	(1)	2,851	173	1,102	2,120,666	83,378	3,099	2,226,074
Depreciation	—	—	—	—	—	—	4,417,283	—	—	4,417,283
Total	12,660,136	6,571,809	594,689	(417,702)	872,071	6,910,257	12,109,255	2,130,658	1,767,910	43,199,083
Overhead expense allocations	11,495,586	4,145,901	2,873,401	2,978,749	1,424,443	(6,910,257)	(12,109,255)	(2,130,658)	(1,767,910)	—
Total expenses	\$ 24,155,722	10,717,710	3,468,090	2,561,047	2,296,514	—	—	—	—	43,199,083

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June 30, 2018 and 2017

Expenses by functional and natural classification for the year ended June 30, 2017.

	Resident research	Education	Whitman research	Conferences, housing, and dining	Other programs	Administration	Facilities	Library services	Research services	Total
Salaries	\$ 6,494,339	1,123,432	16,623	595,663	180,682	3,503,300	2,132,339	986,710	1,225,721	16,258,809
Fringe benefits	2,276,842	342,250	5,248	209,674	63,600	1,062,173	750,583	347,322	431,454	5,489,146
Professional services	55,684	692,275	850	25	1,000	423,024	30,660	45,315	5,097	1,253,930
Equipment	27,931	14,535	414	3,703	—	4,684	(24,897)	25,264	612	52,246
Supplies	722,119	572,721	82,532	82,450	77,595	239,139	164,229	12,366	421,512	2,374,663
Travel	361,875	528,102	135,716	12,446	13,221	70,119	3,390	4,629	6,873	1,136,371
Interest expense, net	—	—	—	—	—	—	1,058,719	—	—	1,058,719
Other expenses	578,746	473,021	125,737	235,623	72,984	1,683,074	1,009,885	288,374	303,420	4,770,864
Inter-departmental charges, net	780,220	2,493,919	706,828	(3,252,813)	601,141	(278,098)	(69,246)	(165,906)	(816,045)	—
Subcontracts	1,642,819	22,130	—	1,821,669	—	18,442	—	—	—	3,505,060
Serials and books	—	5,756	—	—	—	125	2,119	248,305	814	257,119
Utilities	34,709	831	677	3,667	791	528	2,070,540	109,750	2,509	2,224,002
Depreciation	—	—	—	—	—	—	4,470,643	—	—	4,470,643
Total	12,975,284	6,268,972	1,074,625	(287,893)	1,011,014	6,726,510	11,598,964	1,902,129	1,581,967	42,851,572
Overhead expense allocations	10,969,311	3,948,666	2,730,287	2,816,284	1,345,022	(6,726,510)	(11,598,964)	(1,902,129)	(1,581,967)	—
Total expenses	\$ 23,944,595	10,217,638	3,804,912	2,528,391	2,356,036	—	—	—	—	42,851,572

(13) Related Parties

In addition to affiliate activity previously disclosed, the Laboratory had the following other related party activities.

A former trustee of the Laboratory also serves as an officer of a privately held microscopy and imaging company. During 2018 and 2017, equipment and services were provided to the Laboratory by this company at prevailing rates and totaled \$236,745 and \$175,489.

Current and former trustees of the Laboratory have outstanding pledged contributions of \$2,787,000 and \$3,999,169 at June 30, 2018 and 2017. These amounts are included in contributions receivable in the statement of financial position.

(14) Subsequent Events

In connection with the preparation of these financial statements, the Laboratory has evaluated events and transactions through November 14, 2018, which is the date these financial statements were available for issuance.