

2008 Annual Report: Letter from Christopher J. Winslow, CFO and Vice President for Finance and Administration

We are pleased to present the 2008 financial statements of the Woods Hole Oceanographic Institution (WHOI) and to describe some of the new reporting requirements that impacted the statements. WHOI completed 2008 in good financial condition largely because of the strong returns of the endowment and the support of organizations and individuals who recognize the long term benefits of basic research.

Statement of Financial Position

WHOI continues to have a strong balance sheet. At December 31, 2008, WHOI's total assets were \$488 million, total liabilities were \$254 million and total net assets were \$234 million.

Net assets represent the accumulated financial strength of a not for profit organization and are an important gauge of its ability to carry out its mission. Included in the liabilities is the Massachusetts Health and Educational Facilities Authority bond debt of \$117.8 million. On December 2, 2008 WHOI refinanced the Series A Bond and retired the bonds on January 2, 2009, the earliest possible call date, using the Series B bond proceeds maintained in the debt service fund at December 31, 2008. The Series A Bond was \$53.7 million, with a net outstanding debt of \$64.1 million as of December 2008.

The endowment, \$265 million represents 54% of the total assets. This reduction in the Institution's endowment was due solely to market conditions. Its growth from \$347 million in 2006 to \$384 million in 2007 accounts for the increase in total net assets within those years.

Statement of Activities

WHOI's total operating revenues increased by \$10 million: from \$154 million in 2007 to \$164 million in 2008.

\$16.5 million of endowment income and appreciation was distributed to operations as follows:

- Education \$6.7 million
- Research \$6.1 million
- Unrestricted \$3.7 million

The Institution had overhead costs of \$65.0 million, and approximately 77% of that amount, \$49.8 million, was recovered from the government and non-government research. The remainder was an institutional expense.

WHOI paid \$4.3 million in interest during 2008 and \$1.2 million in principal payments on the \$54.9 million outstanding debt in 2008. The Federal government allows us to include interest and depreciation in our overhead rates and will reimburse us for these expenses.

New Reporting Requirements

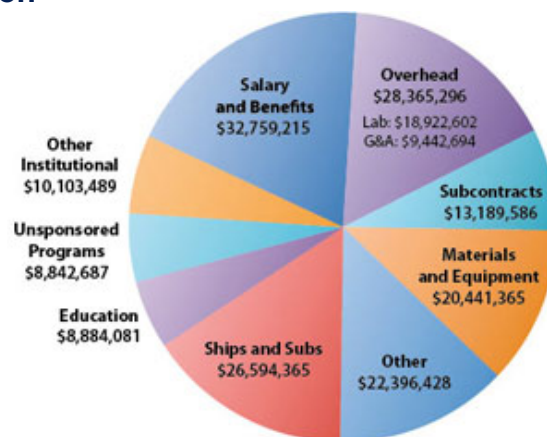
The Financial Standards Accounting Board (FASB), The American Institute of Certified Public Accountants (AICPA) and the Internal Revenue Service (IRS) have issued new guidelines, interpretations and rules on topics such as fair value measurement and a revised Form 990.

FAS 157 FAIR VALUE MEASUREMENTS

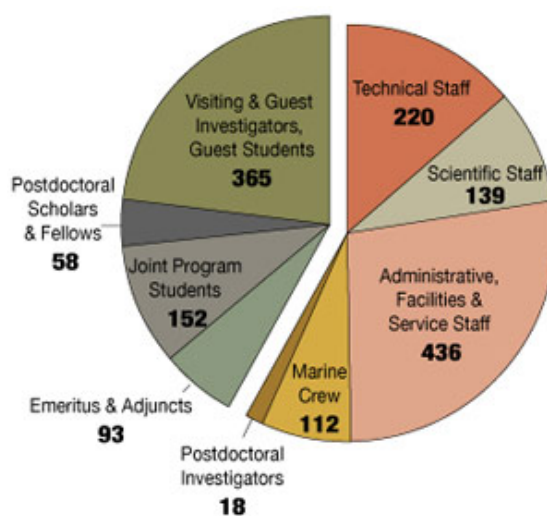
On January 1, 2008, the Institution adopted Financial Accounting Standards Board ("FASB")

Statement No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. FASB Statement No. 157 clarifies that 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, FASB Statement No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* – Observable inputs such as quoted prices in active markets;
- *Level 2* – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- *Level 3* – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own



2008 Operating Expenses



2008 People

WHOI employees totaled 925 in 2008; others affiliated with the Institution (separate wedge) totaled 668.

assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuations techniques noted in FASB Statement No. 157. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions
- involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset
- (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount
- based on market expectations (including present value techniques).

REVISED IRS FORM 990

On December 20, 2007, the IRS released an updated version of the Form 990 for the 2008 tax year that retains the format of the redesigned draft form issued in June, but includes major revisions in response to public comments. According to the IRS, the new form allows greater opportunity for an organization to describe its activities. Major changes were made to the form's summary page, governance section, and various schedules, including those relating to executive compensation, related organizations, foreign activities, non-cash contributions and tax-exempt bonds. These changes are in an effort to achieve greater transparency.

Summary

The Institution's commitment to understanding the oceans is unchanged; however, the federal funding environment continues to challenge our investigators. WHOI has responded by finding new funding sources in other government agencies and in industry. We are also continuing the process of evaluating our administrative systems and allocating resources to support an evolving strategic plan.

—[Christopher J. Winslow](#), *Vice President for Finance & Administration/Chief Financial Officer*

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