Woods Hole Oceanographic Institution

Financial Statements
December 31, 2006

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Report of Independent Auditors

To the Board of Trustees of
Woods Hole Oceanographic Institution

In our opinion, the accompanying statement of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Woods Hole Oceanographic Institution (the "Institution") at December 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Institution's 2005 financial statements, and in our report dated April 24, 2006, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements 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 of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 25, 2007

Woods Hole Oceanographic Institution
Statement of Financial Position
December 31, 2006 (with summarized information as of December 31, 2005)

	2006	2005
Assets		
Cash, unrestricted	$ 16,923,603	$ 21,360,187
Cash, restricted	1,295,112	1,027,019
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $113,910 for 2006 and $210,351 for 2005)	3,473,723	2,056,178
Unbilled	5,766,906	6,865,329
Receivable for investments sold	194,440	-
Interest and dividends receivable	671,182	328,632
Other receivables	750,846	771,182
Pledges receivable, net	13,231,894	4,807,837
Inventory	1,435,985	1,171,878
Deferred charges and prepaid expenses	1,434,441	651,835
Investments, pooled (Note 3)	343,217,764	307,996,468
Investments, nonpooled (Note 3)	7,137,628	5,070,498
Deposits with trustees for construction	1,063,695	3,038,552
Deposits with trustees for debt service	118,986	1,898,102
Prepaid postretirement benefit cost	788,826	788,826
Supplemental retirement	7,173,633	6,585,207
Intangible pension asset	-	13,674,720
Other assets	9,196,523	9,155,667
Deferred financing costs	1,182,978	1,225,865
	415,058,165	388,473,982
Property, plant and equipment		
Land, buildings and improvements	121,110,015	113,546,891
Vessels and dock facilities	7,391,436	7,180,241
Laboratory and other equipment	24,444,600	21,098,120
Construction in process	973,754	3,253,157
	153,919,805	145,078,409
Accumulated depreciation	(65,285,849)	(58,641,890)
Net property, plant and equipment	88,633,956	86,436,519
Remainder trusts (Note 5)	11,311,983	10,390,619
Total assets	$ 515,004,104	$ 485,301,120
Liabilities		
Accounts payable and other liabilities	$ 9,251,502	$ 14,445,771
Accrued payroll and related liabilities	5,241,173	5,166,992
Payable for investments purchased	506,007	32,435
Deferred fixed rate variance	1,685,926	3,121,743
Accrued supplemental retirement benefits	7,173,633	6,585,207
Accrued pension liability	21,374,109	28,795,900
Deferred revenue and refundable advances	7,517,056	7,115,866
Bonds and loans payable	54,850,000	54,850,000
Total liabilities	107,599,406	120,113,914

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006	2005
Net Assets					
Undesignated and plant	$ 41,775,293	$ -	$ -	41,775,293	43,158,823
Pension	(21,384,575)	-	-	(21,384,575)	(14,039,903)
Designated	5,229,974	8,042,379	-	13,272,353	11,834,399
Pledges and other	-	13,598,380	10,765,122	24,363,502	15,689,445
Education	-	2,420,555	-	2,420,555	2,846,933
Endowment and similar funds	80,788,042	204,450,605	61,718,923	346,957,570	305,697,509
Total net assets	$ 106,408,734	$ 228,511,919	$ 72,484,045	407,404,698	365,187,206
Total liabilities and net assets				$ 515,004,104	$ 485,301,120

The accompanying notes are an integral part of these financial statements.

Woods Hole Oceanographic Institution
Statement of Activities
Year Ended December 31, 2006
(with summarized information for the year ended December 31, 2005)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2006	2005
Operating revenues						
Fees	$ 657,159				$ 657,159	$ 232,291
Sponsored research						
Government		$ 69,878,315			69,878,315	70,174,037
Subcontract and nongovernment		17,647,222	$ 5,247,872		22,895,094	21,162,173
Ships and subs operations		21,851,478			21,851,478	20,895,382
Sponsored research assets released to operations	114,477,724	(109,377,015)	(5,100,709)		-	-
Education						
Joint program income	3,924,277				3,924,277	3,773,444
Endowment income	4,060,618		1,858,882		5,919,500	5,628,845
Gifts					-	209,503
Education funds released from restriction	2,541,156		(2,541,156)		-	-
Investment return designated for current operations	3,738,766		-		3,738,766	3,464,870
Contributions and gifts, net of releases from restrictions of $1,020,108 and $737,803 in 2006 and 2005, respectively	9,561,435		9,766,621	$ 1,204,680	20,532,736	12,812,343
Contributions in kind	186,854				186,854	622,183
Rental income	773,049				773,049	743,687
Communication and publications	175,980				175,980	252,830
Other	316,085				316,085	533,062
Total revenues	140,413,103	-	9,231,510	1,204,680	150,849,293	140,504,650
Expenses						
Sponsored research						
National Science Foundation	40,577,466				40,577,466	42,551,224
United States Navy	13,618,180				13,618,180	12,094,074
Subcontracts	10,587,315				10,587,315	10,174,343
National Oceanic & Atmospheric Administration	11,054,410				11,054,410	10,480,622
Department of Energy	729,007				729,007	521,065
United States Geological Survey	1,054,337				1,054,337	1,469,623
National Aeronautics & Space Administration	1,065,550				1,065,550	980,943
Ships Operations	16,505,047				16,505,047	15,307,124
Submersible and ROV operations	5,346,431				5,346,431	5,588,258
Privately funded grants	4,275,110				4,275,110	4,323,674
Other	9,664,871				9,664,871	8,918,468
Education						
Faculty expense	3,688,362				3,688,362	3,583,387
Student expense	4,466,502				4,466,502	4,175,946
Postdoctoral programs	342,510				342,510	413,616
Other	674,412				674,412	721,291
Rental expenses	579,731				579,731	538,897
Communication, publications and development	2,304,657				2,304,657	2,628,541
Fundraising expenses	2,145,717				2,145,717	2,620,896
Unsponsored programs	8,456,654				8,456,654	6,182,535
Other expenses	2,288,862				2,288,862	1,284,272
Total expenses	139,425,131	-	-	-	139,425,131	134,558,799
Change in net assets from operating activities	987,972	-	9,231,510	1,204,680	11,424,162	5,945,851
Nonoperating income						
Investment return in excess of amounts designated for sponsored research, education and current operations	8,308,083		28,242,344		36,550,427	12,275,300
Net realized/unrealized gains (losses) on interest swap	888,848				888,848	(640,157)
Change in split interest agreements	(13,918)		31,829	881,843	899,754	378,137
Contributions and gifts			15,000		15,000	5,000
Net assets released from restriction	15,000		(15,000)		-	
Nonoperating expenses						
Other nonoperating expenses	(99,976)				(99,976)	(99,976)
Net periodic pension costs	(7,300,134)				(7,300,134)	(4,389,971)
Redesignation of gifts	(280,000)		130,369	33,580	(116,051)	(1,493,268)
Change in net assets from nonoperating activities	1,517,903	-	28,404,542	915,423	30,837,868	6,035,065
Change in net assets from operating and nonoperating activities	2,505,875	-	37,636,052	2,120,103	42,262,030	11,980,916
Change in additional pension minimum liability (Note 8)	(44,538)	-	-	-	(44,538)	14,055,206
Total change in net assets	2,461,337	-	37,636,052	2,120,103	42,217,492	26,036,122
Net assets at beginning of year	103,947,397	-	190,875,867	70,363,942	365,187,206	339,151,084
Net assets at end of year	$ 106,408,734	$ -	$ 228,511,919	$ 72,484,045	$ 407,404,698	$ 365,187,206

The accompanying notes are an integral part of these financial statements.

Woods Hole Oceanographic Institution
Statement of Cash Flows
Year Ended December 31, 2006
(with summarized information for the year ended December 31, 2005)

	2006	2005
Cash flows from operating activities		
Total change in net assets	$ 42,217,492	$ 26,036,122
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	7,476,043	5,882,972
Change in split interest agreements	(899,754)	(378,137)
Allowance for uncollectible pledges	676,945	75,098
Discount on pledges	569,641	(127,932)
Net realized and unrealized (gain) loss on investments	(41,707,373)	(24,591,314)
Unrealized (gain) loss on interest swap	(1,110,370)	227,302
Change in additional minimum pension liability	44,538	(14,055,206)
Contributions to be used for long-term investment	(3,289,386)	(2,395,237)
Gift in kind	(2,497,104)	-
(Increase) decrease in assets		
Restricted cash	(268,093)	(644,598)
Interest and dividends receivable	(342,550)	(52,502)
Reimbursable costs and fees		
Billed	(1,417,545)	1,279,187
Unbilled	1,098,423	(406,399)
Other receivables	20,336	2,199,348
Pledges receivable	(9,670,643)	2,124,187
Inventory	(264,107)	61,868
Deferred charges and prepaid expenses	(396,804)	750,522
Other assets	(40,856)	8,228,770
Prepaid pension cost	-	(149,529)
Supplemental retirement	(588,426)	(47,286)
Increase (decrease) in liabilities		
Accrued pension liability	6,208,391	4,478,979
Accounts payable and other liabilities	(1,865,132)	(5,837,128)
Accrued payroll and related liabilities	74,181	(124,222)
Deferred revenue and refundable advances	401,190	376,634
Accrued supplemental retirement benefits	588,426	47,286
Deferred fixed rate variance	(1,435,817)	2,992,243
Net cash (used in) provided by operating activities	(6,418,354)	5,951,028
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(9,759,668)	(26,175,431)
Short-term investments		
Purchase of investments	(2,000,000)	-
Endowment		
Receivable for investments sold	(194,440)	-
Payable for investments purchased	473,572	(14,816)
Proceeds from the sale of investments	110,531,930	95,045,755
Purchase of investments	(104,112,983)	(91,006,910)
Change in construction fund	1,974,857	21,239,529
Change in debt service funds	1,779,116	1,256,248
Net cash (used in) provided by investing activities	(1,307,616)	344,375
Cash flows from financing activities		
Contributions to be used for long-term investment	3,289,386	2,395,237
Net cash provided by financing activities	3,289,386	2,395,237
Net (decrease) increase in cash and cash equivalents	(4,436,584)	8,690,640
Cash and cash equivalents, beginning of year	21,360,187	12,669,547
Cash and cash equivalents, end of year	$ 16,923,603	$ 21,360,187
Supplemental disclosures		
Cash paid for interest	$ 2,078,593	$ 2,184,971
Noncash activity		
Construction in process additions remaining in accounts payable	-	2,240,377
Change in intangible pension asset	(13,674,720)	13,674,720
Gift in kind	2,497,104	-

The accompanying notes are an integral part of these financial statements.

1. Background

Woods Hole Oceanographic Institution (the "Institution") is a private, independent not-for-profit research and educational institution located in Woods Hole, Massachusetts. Founded in 1930, the Institution is dedicated to working and learning at the frontier of ocean science and attaining maximum return on intellectual and material investments in oceanographic research.

The Institution is a qualified tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code as it is organized and operated for education and scientific purposes.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting.

The financial statements include certain prior-year summarized comparative information, but do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institution's audited financial statements for the year ended December 31, 2005, from which the summarized information was derived.

Net assets, revenues, and realized and unrealized gains and losses are classified based on the existence or absence of donor-imposed restrictions and legal restrictions imposed under Massachusetts State law. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Institution. Generally the donors of these assets permit the Institution to use all or part of the income earned and capital appreciation, if any, on related investments for general or specific purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Institution and/or the passage of time. Unspent gains on permanent endowment are classified as temporarily restricted until the Institution appropriates and spends such sums in accordance with the terms of the underlying endowment funds and in accordance with Massachusetts law, at which time they will be released to unrestricted revenues.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Amounts received for sponsored research (under exchange transactions) are reflected in unrestricted sponsored research and released to operations when spent for the appropriate purpose, or as deferred revenue if expenditures have yet to be incurred.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or items' restrictions are met. Certain releases from temporarily restricted amounting to $1,020,108 and $737,803 for the years ended December 31, 2006 and 2005, respectively, are netted against contributions and are included in unrestricted sponsored research. Promises to give, subject to donor-imposed stipulations that the corpus be maintained permanently, are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The Institution has received $3,405,000 in conditional pledges as of December 31, 2006. Contributions other than cash are generally recorded at market value on the date of the gift (or an estimate of fair value), although certain noncash gifts, for which a readily determinable market value cannot be established, are recorded at a nominal value until such time as the value becomes known. Contributions to be received after one year are discounted at the appropriate rate commensurate with risk. Amortization of such discount is recorded as additional contribution revenue in accordance with restrictions imposed by the donor on the original contribution, as applicable. Amounts receivable for contributions are reflected net of an applicable reserve for collectibility.

The Institution reports contributions in the form of land, buildings, or equipment as unrestricted operating support at fair market value when received.

Dividends, interest and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net realized and unrealized gains; and
- as increases in unrestricted net assets in all other cases.

Operations

The statement of activities report the Institution's operating and nonoperating activities. Operating revenues and expenses consist of those activities attributable to the Institution's current annual research or educational programs, all gifts received except those received for property, plant and equipment purposes and a component of endowment income appropriated for operations (Note 3). Unrestricted endowment investment income and gains over the amount appropriated under the Institution's spending plan are reported as nonoperating revenue as investment return in excess of amounts designated for sponsored research, education and current operations. Nonoperating revenue also includes the change in value of split interest agreements, contributions restricted for property, plant and equipment purposes, gains or losses on disposals of fixed assets, net realized/unrealized gains (losses) on interest swaps and the net periodic pension cost on the noncontributory defined benefit pension plan that is not reimbursed by the employee benefit fixed rate. Additionally, nonoperating activities includes redesignation of donor gifts and depreciation on certain government-funded facilities.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash, money market accounts, certificates of deposit and overnight repurchase agreements with initial maturities of three months or less when purchased which are stated at cost and approximates market value.

Included in restricted cash at December 31, 2006 and 2005 is $1,041,361 and $782,927, respectively, representing advances received from the United States Navy and other U.S. Government and state agencies. Such amounts are restricted as to use for research programs. Interest earned on unspent funds is remitted to the federal government.

Also included in restricted cash at December 31, 2006 and 2005 is $253,751 and $244,092, respectively, representing cash restricted by the Massachusetts Department of Public Health. Interest earned on unspent funds is reinvested within the restricted cash account.

In addition, cash and cash equivalents include uninvested amounts from each classification of net assets (e.g., endowment).

Investments
Investment securities are carried at market value determined as follows: securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sales prices were reported on that day are valued at closing bid prices. The value of publicly traded securities is based upon quoted market prices and net asset values. Other securities, such as private equity funds, venture capital funds and hedge funds for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The Institution reviews and evaluates the valuations provided by investment managers and believes that these valuations are a reasonable estimate of fair value as of December 31, 2006 and 2005 but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Purchases and sales of investment securities are recorded on a trade date basis. Realized gains and losses are computed on a specific identification method. Investment income, net of investment expenses, is distributed on the unit method.

Investment Income Unitization
The Institution's investments are pooled in an endowment fund and the investments and allocation of income are tracked on a unitized basis. The Institution distributes to operations for each individual fund an amount of investment income earned by each of the fund's proportionate share of investments based on a total return policy.

The Board of Trustees has appropriated all of the income and a specified percentage of the net appreciation (depreciation) to operations as prudent considering the Institution's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the Institution's current endowment spending policy, which is within the guidelines specified under state law, between 4% and 5.5% of a 36-month average market value of qualifying endowment investments is appropriated. This amounted to $14,351,257 and $13,562,503 for the years ending December 31, 2006 and 2005, respectively, and is classified in operating revenues (research, education, and operations).

Deposits with Trustees

Deposits with trustees consists principally of investments in United States Government obligations and have been deposited with trustees as required under certain loan agreements. At December 31, 2006 and 2005, respectively, the amounts consist of $118,986 and $1,898,102 for debt service and $1,063,695 and $3,038,552 for construction purposes. Interest income on debt service amounted to $55,590 in 2006 and $61,265 in 2005 and is reflected in the statement of activities within other income. Interest income on construction funds amounted to $49,855 and $248,171 in 2006 and 2005, respectively, and is reflected in the statement of activities within other income.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Contracts and Grants

Revenues earned on contracts and grants for research are recognized as related costs are incurred.

The Institution received approximately 89% and 90% of its sponsored research revenues from government agencies including 50% and 55% of its operating revenues from the National Science Foundation and 14% and 11% from the United States Navy in fiscal years 2006 and 2005, respectively. Although applications for research funding to federal agencies historically have been funded, authorizations are subject to annual Congressional appropriations and payment.

Deferred Financing Costs

Costs incurred in connection with the placement of the Massachusetts Health and Educational Facilities Authority, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series 2004, have been deferred and are being amortized over the term of the obligation on a straight line basis.

Interest Rate Swap

The Institution has entered into an interest rate swap agreement on the Massachusetts Health and Educational Facilities Authority, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series 2004 Bonds in order to convert a portion of the variable rate debt to fixed rate, thereby economically hedging against changes in the cash flow requirements of the Institution's variable rate debt obligations.

Net payments or receipts (difference between variable and fixed rate) under the swap agreement along with the change in fair value of the swap are recorded in nonoperating activities as net realized/unrealized gains (losses) on interest swap.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis at annual rates of 12 to 39 years on buildings and improvements, 10 to 15 years on vessels and dock facilities and 5 to 10 years on laboratory and other equipment. Depreciation expense on property, plant, and equipment purchased by the Institution in the amounts of $7,333,180 and $5,740,108 in 2006 and 2005, respectively, has been charged to operating activities. Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to $99,976 in 2006 and in 2005 has been charged to nonoperating expenses as these assets were gifted by the Government.

Construction commitments totaled $177,464 and $2,264,844 at December 31, 2006 and 2005, respectively.

During fiscal 2005, the Institution capitalized interest of $716,427. The Institution did not capitalize any interest in fiscal 2006.

Conditional Asset Retirement Obligations
The Institution implemented Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* during 2005. The effects of implementing this interpretation in 2005 were immaterial.

Use of Estimates
The preparation of the financial statements in accordance 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Reclassifications
Certain amounts have been reclassified in the prior year financial statements to conform with current year classification.

3. Investments

The cost and market value of pooled investments held at December 31 are as follows:

	2006		2005	
	Cost	Market	Cost	Market
US treasury bonds	$ 25,200,000	$ 26,572,667	$ 27,200,000	$ 27,650,867
Corporate bonds	14,267,726	14,087,327	17,330,371	17,194,079
International bond funds	9,706,165	9,298,994	9,619,483	9,070,163
Private equity funds	23,548,495	43,422,205	35,438,353	52,271,102
Hedge funds	51,920,000	63,357,787	39,545,000	43,752,216
Domestic equities	60,951,427	73,147,399	53,578,718	63,344,351
International equities	61,438,755	79,847,542	54,023,352	67,964,025
Venture capital	29,621,866	33,437,150	28,375,188	26,702,972
Other	46,693	46,693	46,693	46,693
Total investments	$ 276,701,127	$ 343,217,764	$ 265,157,158	$ 307,996,468

Included in bonds and equities are alternative investment vehicles including commingled funds with a market value of $61,591,215 and $49,274,056 at December 31, 2006 and 2005, respectively, whose holdings are bonds and equities. Total alternative investments (as described in the American Institute of Certified Public Accountants document, "*A Practice Aid for Auditors: Alternative Investments - Audit Considerations*) included in the above categories at December 31, 2006 and 2005, respectively, were $201,808,357 and $172,000,346.

The nonpooled investments with a cost of $7,200,020 and $5,200,020 and a market value of $7,137,628 and $5,070,498 at December 31, 2006 and 2005, respectively, are invested in a common/collective trust fund investing in bonds.

The following schedule summarizes the investment return on pooled and nonpooled investments and its classification in the statement of activities:

	Unrestricted	Temporarily restricted	2006 Total	2005 Total
Dividend and interest income	$ 9,745,924	$ 1,858,882	$ 11,604,806	$ 3,758,281
Investment management costs	(1,855,614)	-	(1,855,614)	(2,069,753)
Net realized gains	4,176,667	13,794,620	17,971,287	16,890,020
Change in unrealized appreciation	4,040,490	19,695,596	23,736,086	7,701,294
Total return on investments	16,107,467	35,349,098	51,456,565	26,279,842
Investment return designated for				
Sponsored research	-	(5,247,872)	(5,247,872)	(4,910,827)
Education	(4,060,618)	(1,858,882)	(5,919,500)	(5,628,845)
Current operations	(3,738,766)	-	(3,738,766)	(3,464,870)
Total distributions to operations	(7,799,384)	(7,106,754)	(14,906,138)	(14,004,542)
Investment return in excess of amounts designated for sponsored research, education and current operations	$ 8,308,083	$ 28,242,344	$ 36,550,427	$ 12,275,300

Investment return distributed to operations includes $554,881 and $442,039 earned on non-endowment investments for the years ended December 31, 2006 and 2005, respectively.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the market values and the amounts reported in the statement of financial position.

Endowment income for pooled investments is allocated to each individual fund based on a per unit valuation. The value of an investment unit at December 31 is as follows:

	2006	2005
Unit value, beginning of year	$ 4.3755	$ 4.1517
Unit value, end of year	4.7179	4.3755
Net change for the year	.3424	.2238
Investment income per unit for the year	.1256	.0173
Total return per unit	$ .4680	$ .2411

4. Pledges Receivable

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured utilizing a discount rate equivalent to U.S. Treasury yields of similar maturity (ranging from 2.36% – 4.74%, depending upon the anticipated pledge fulfillment date).

Pledges receivable consist of the following at December 31:

	2006	2005
Unconditional promises expected to be collected in:		
Less than one year	$ 2,341,468	$ 2,127,027
One year to five years	12,664,674	3,208,472
Reserve for uncollectible pledges receivable	(1,050,430)	(373,485)
Unamortized discount	(723,818)	(154,177)
	$ 13,231,894	$ 4,807,837

5. Contribution Receivable from Remainder Trusts

Contributions receivable from remainder trusts balance at December 31, 2006 and 2005 was $11,311,983 and $10,390,619, respectively. The receivable and related revenue is measured at the present value of estimated future cash flows to be received and recorded in the appropriate net asset category based on donor stipulation. During the term of these agreements, changes in the value are recognized based on amortization of discounts and changes in actuarial assumptions.

6. Deferred Fixed Rate Variance

The Institution receives funding or reimbursement from federal government agencies for sponsored research under government grants and contracts. Revenue is recognized as related costs are incurred. The Institution has negotiated fixed rates with the federal government for the recovery of certain fringe benefits and indirect costs on these grants and contracts. Such recoveries are subject to carryforward provisions that provide for adjustments to be included in the negotiation of future fixed rates. The deferred fixed rate variance accounts represent the cumulative amount owed to or due from the federal government. The Institution's rates are negotiated with the Office of Naval Research (ONR), the Institution's cognizant agency.

The composition of the deferred fixed rate variance is as follows:

Deferred Fixed Rate Variance liability, December 31, 2004	$ (129,500)
2005 indirect costs	53,394,255
2004 adjustment	(5,572)
Amounts recovered	(56,380,926)
2005 change	(2,992,243)
Deferred Fixed Rate Variance liability, December 31, 2005	(3,121,743)
2006 indirect costs	60,969,335
2005 adjustment	(135,153)
Amounts recovered	(59,398,365)
2006 change	1,435,817
Deferred Fixed Rate Variance liability, December 31, 2006	$ (1,685,926)

As of December 31, 2006 the Institution has received a cumulative recovery in excess of expended amounts of $1,685,926 which will be reflected as a deduction to future year recoveries. This amount has been reported as liability of the Institution.

7. Bonds Payable

In fiscal 2004, proceeds were received from the offering of the $54,850,000 Massachusetts Health and Educational Facilities Authority (MHEFA) Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series 2004, which were used to repay the MHEFA B Pool loans and are currently being used for campus construction. The bonds contain certain restrictive covenants including limitations on obtaining additional debt, filings of annual financial statements and limitations on the creation of liens. In addition, the Institution agrees that, subject to any governmental restrictions, its fiduciary obligations and limitations imposed by law, it will maintain unrestricted resources at a market value equal to at least 75% of all outstanding indebtedness. The bonds also require a debt service fund to be established. Included in deposits with trustees on the statement of financial position is the market value of the debt service fund of $118,986 and $1,898,102 at December 31, 2006 and 2005, respectively. The Series 2004 Bonds are collateralized by the Institution's unrestricted revenues. The interest rate for the Series 2004 Bonds is variable and set weekly, and at December 31, 2006, the rate was 3.84%. Interest expense for the years ended December 31, 2006 and 2005 was $2,078,593 and $2,184,971, respectively.

The aggregate maturities due on long-term debt at December 31, 2006 are as follows:

Fiscal Year	Principal Amount
2008	$ 1,150,000
2009	1,200,000
2010	1,250,000
2011	1,300,000
2012	1,350,000
Thereafter	48,600,000
	$ 54,850,000

In June 2004, the Institution entered into an interest rate swap agreement, with a term through June 1, 2034. This swap effectively locks in a fixed rate of 3.79% per annum. The agreement has a notional amount of $54,850,000. At December 31, 2006 and 2005, respectively, the market value of the swap agreement amounted to a liability of $1,960,456 and $3,070,826 which is included in accounts payable and other liabilities. The value of the interest rate swap is reflected within accounts payable and other liabilities and nonoperating income/expense in the financial statements. Additionally, the Institution paid interest expense in association with the swap agreement of $221,522 and $867,459 which is reflected as part of the net realized/unrealized gains (losses) on interest swap at December 31, 2006 and 2005, respectively. For internal financial reporting purposes, the realized/unrealized loss on the interest rate swap is reflected in operating expenses, and interest income and interest expense related to the debt is reflected in operating income and operating expenses, respectively.

8. Retirement Plans

The Institution maintains a noncontributory defined benefit pension plan covering substantially all employees of the Institution, a restoration plan for certain senior employees and a supplemental benefit plan for certain other employees. Pension benefits are earned based on years of service and compensation received. The Institution's policy is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974.

The Institution uses a December 31 measurement date for all of its plans.

	Restoration Plan Pension Benefits	
	2006	2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 1,640,939	$ 1,319,056
Service cost	-	20,615
Interest cost	70,523	66,098
Plan amendments	-	510,796
Actuarial (gain) loss	68,617	(275,626)
Settlements	(1,746,005)	-
Benefit obligation at end of year	$ 34,074	$ 1,640,939
Funded status	$ (34,074)	$ (1,640,939)
Unrecognized net actuarial loss	44,538	33,773
Unrecognized prior service cost	-	525,887
Net amount recognized	$ 10,464	$ (1,081,279)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (34,074)	$ (1,405,839)
Intangible asset	-	324,560
Additional minimum liability	44,538	-
Net amount recognized	$ 10,464	$ (1,081,279)

	Restoration Plan Pension Benefits	
	2006	2005
Change in net assets attributable to change in additional minimum liability recognition	$ 44,538	$ (98,447)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	34,074	1,640,939
Accumulated benefit obligation	(34,074)	1,405,828
Fair value of plan assets	-	-
Components of net periodic benefit cost		
Service cost	-	20,615
Interest cost	70,523	66,098
Amortization of prior service cost	-	(44,032)
Recognized actuarial loss	-	46,326
Net periodic benefit cost	$ 70,523	$ 89,007
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	5.75%
Rate of compensation increase	4.50%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.75%	5.75%
Rate of compensation increase	4.50%	6.00%

As a result of plan amendments made to the Institution's noncontributory defined benefit pension plan in 2005, the Restoration Plan pension benefits had a corresponding change (see qualified plan for a summary of plan amendments).

During fiscal 2006, the main participant in the Restoration Plan terminated employment and elected to receive benefits as a single lump-sum payment. Due to the termination a curtailment of future benefits occurred, which resulted in a curtailment loss of $526,000. Additionally, as a result of the lump-sum distribution, a settlement loss of $58,000 occurred.

Expected Contributions
The Institution anticipates contributing $34,074 to the Restoration Plan in 2007.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service are expected to be paid as follows:

Years	Benefit Payments
2007	$ 34,074

	Qualified Plan Pension Benefits 2006	Qualified Plan Pension Benefits 2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 214,770,764	$ 177,927,242
Service cost	6,137,340	5,922,793
Interest cost	11,980,814	9,751,495
Plan amendments	-	34,734,251
Actuarial (gain) loss	(483,219)	(3,985,084)
Benefits paid	(16,514,458)	(9,579,933)
Benefit obligation at end of year	$ 215,891,241	$ 214,770,764
Change in plan assets		
Fair value of plan assets at beginning of year	$ 155,921,888	$ 150,616,331
Adjustment to beginning balance for additional fair value of investments	2,605,614	-
Employer contributions	5,242,851	1,927,020
Actual return on plan assets	24,086,255	12,958,470
Benefits paid	(16,514,458)	(9,579,933)
Fair value of plan assets at end of year	$ 171,342,150	$ 155,921,888
Funded status	$ (44,549,091)	$ (58,848,876)
Unrecognized net actuarial loss	7,885,799	27,551,799
Unrecognized prior service cost	15,323,257	17,257,176
Net amount recognized	$ (21,340,035)	$ (14,039,901)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (21,340,035)	$ (27,390,061)
Intangible asset	-	13,350,160
Net amount recognized	$ (21,340,035)	$ (14,039,901)
Change in net assets attributable to change in additional minimum liability recognition	$ -	$ (13,956,759)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	215,891,241	214,770,764
Accumulated benefit obligation	180,744,218	183,311,949
Fair value of plan assets	171,342,150	155,921,888
Components of net periodic benefit cost		
Service cost	6,137,340	5,922,793
Interest cost	11,980,814	9,751,495
Expected return on plan assets	(10,140,183)	(10,689,353)
Amortization of prior service cost	1,933,919	(969,926)
Recognized actuarial loss	2,631,095	2,301,982
Net periodic benefit cost	$ 12,542,985	$ 6,316,991

The Institution has reflected $5,242,851 and $1,927,020 for the years ending December 31, 2006 and 2005, respectively, of the net periodic benefit cost in the operating section of the statement of activities which represents the amount reimbursed through the employee benefit fixed rate as negotiated with the United States Government. The remaining $7,300,134 and $4,389,971 for the years ending December 31, 2006 and 2005, respectively, of net periodic benefit cost is reflected in nonoperating expenses.

	Qualified Plan Pension Benefits	
	2006	**2005**
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	5.75%
Rate of compensation increase	4.50%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	-

To develop the expected long-term rate of return on assets assumption, the Institution considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio, net of expenses expected to be paid. This resulted in the selection of the 8.00% assumption.

Effective December 31, 2004, final average compensation for the Plan was frozen and equal to a participant's final average compensation determined as of December 31, 2004. A one year index of 4.5% will be applied to the frozen December 31, 2004 final average compensation for service performed during 2005. In addition, effective December 31, 2004, the minimum lump-sum benefit was amended to eliminate the 8% pay credit for years after 2005. These changes have been reflected in the liabilities as of December 31, 2004.

Effective January 1, 2006, the Qualified Plan was amended. The lump sum (introduced in 1999) will no longer be available on benefits earned after January 1, 2006. Benefits for service from 25 to 35 years introduced in 1999 will be removed. The lifetime benefit payable upon early retirement has changed from a 6% per year reduction to a 5% per year reduction. Minimum lump sum benefits equal to 5% of final average compensation times service replaces the minimum introduced in 1999 of approximately 8%. The preretirement death benefit has been reduced from 100% of the accrued pension benefit to 50% of the accrued pension benefit but not less than the participant's accrued benefit as of December 31, 2006. The 3-year vesting period (introduced in 1999) will change to a 5-year vesting service for employees hired after December 31, 2005. These changes have been reflected in the intangible asset and in the liability as of December 31, 2005.

Plan Assets

The Institution's pension plan weighted-average asset allocations at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	2006	2005
Domestic equity	31%	33%
International equity	30%	24%
Hedge funds	14%	13%
Private equity and venture capital	12%	10%
Bonds (US treasury, corporate, and international)	13%	20%
	100%	100%

The following target asset allocation is used:

Asset Category	Target Allocation
Domestic equity	30%
International equity	20%
Hedge funds	15%
Private equity and venture capital	20%
Bonds (US treasury, corporate, and international)	15%

The primary financial objectives of the assets of the Plan are to (1) provide a stream of relatively predictable, stable and constant earnings in support of the Qualified Plan's annual benefit payment obligations; and (2) preserve and enhance the real (inflation-adjusted) value of assets, over time, with the goal of meeting the anticipated future benefit obligations of the qualified plan.

The long-term investment objectives of the assets of the Plan are to (1) attain the average annual total return assumed in the Plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; and (2) outperform the custom benchmark.

Expected Contributions

The Institution anticipates contributing $6,000,000 to the Qualified Plan in 2007.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service are expected to be paid as follows:

Years	Benefit Payments
2007	$ 14,149,039
2008	14,522,695
2009	14,514,332
2010	14,279,220
2011	14,282,551
2012 - 2016	80,360,563

	Supplemental Plan Pension Benefits 2006	Supplemental Plan Pension Benefits 2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 3,595,900	$ 3,922,283
Service cost	55,341	71,554
Interest cost	168,532	186,266
Actuarial loss	(535,722)	(428,816)
Benefits paid	(170,729)	(193,737)
Plan change	-	38,350
Benefit obligation at end of year	$ 3,113,322	$ 3,595,900
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	170,729	193,737
Benefits paid	(170,729)	(193,737)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (3,113,322)	$ (3,595,900)
Unrecognized actuarial (gain) loss	(557,044)	(59,160)
Unrecognized prior service cost	32,731	39,351
Net amount recognized	$ (3,637,635)	$ (3,615,709)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (3,637,635)	$ (3,615,709)

Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 3,113,322	$ 3,595,900
Accumulated benefit obligation	2,919,806	3,277,938
Fair value of plan assets	-	-
Components of net periodic benefit cost		
Service cost	$ 55,341	$ 71,554
Interest cost	168,532	186,266
Expected return on earmarked reserves	(190,256)	(192,649)
Amortization of prior year service cost	6,620	315
Recognized actuarial loss	(47,831)	-
Net periodic benefit cost	$ (7,594)	$ 65,486
Actual return on earmarked reserves	$ 200,249	$ 154,541
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	5.75%
Rate of compensation increase	4.50%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

The accrued supplemental retirement is matched by a "Rabbi" Trust with $7,173,633 and $6,585,207, respectively, as of December 31, 2006 and 2005. An additional accrual of $3,535,998 and $2,969,498 has been established for the excess of the "Rabbi" Trust assets over the accrued supplemental retirement benefits at December 31, 2006 and 2005, respectively. Income earned on the investments earmarked for the supplemental retirement plan amounted to $200,249 and $154,541 for the years ended December 31, 2006 and 2005, respectively.

Expected Contributions
The Institution does not anticipate contributing to the Supplemental Plan in 2007.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service are expected to be paid as follows:

Years	Benefit Payments
2007	$ 404,977
2008	490,490
2009	428,540
2010	498,307
2011	482,032
Years 2012 - 2016	1,531,226

On September 29, 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 158 (FAS 158) which addressed changes to accounting for pensions and other postretirement benefit plans. One of the key requirements of FAS 158 is that the over or underfunded status of postretirement benefit plans must be recognized on the balance sheet. Another key element of FAS 158 is to eliminate an entity's ability to select a date to measure plan assets and obligations that is prior to its year-end balance sheet date. This new standard is effective for nonpublic entities with fiscal year ending on or after June 15, 2007. If FAS 158 had been adopted by the Institution in fiscal 2006, the estimated effect for the retirement plans and other postretirement benefit plans would have been a decrease to unrestricted net assets of approximately $34,000,000 and a corresponding increase to the pension and postretirement benefit liabilities.

9. Other Postretirement Benefits

In addition to providing retirement plan benefits, the Institution provides certain health care benefits for retired employees and their spouses. Substantially all of the Institution's employees may become eligible for the benefits if they reach normal retirement age (as defined) or elect early retirement after having met certain time in service criteria.

	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 25,605,822	$ 26,594,502
Service cost	754,521	693,340
Interest cost	1,591,037	1,385,648
Plan amendment	(241,938)	-
Benefits paid	(1,044,207)	(1,440,682)
Actuarial loss	4,626,528	(1,626,986)
Benefit obligation at end of year	$ 31,291,763	$ 25,605,822
Change in plan assets		
Fair value of plan assets at beginning of year	$ 19,323,651	$ 19,042,401
Employer contributions	884,556	683,853
Actual return on plan assets	2,112,483	1,038,079
Benefits paid	(1,044,207)	(1,440,682)
Fair value of plan assets at end of year	$ 21,276,483	$ 19,323,651
Funded status	$ (10,015,280)	$ (6,282,171)
Unrecognized net actuarial loss	21,105,885	18,497,259
Unrecognized prior service cost (credit)	(10,301,779)	(11,426,262)
Net amount recognized	$ 788,826	$ 788,826

	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Amounts recognized in the statement of financial position consist of		
Prepaid benefit cost	$ 788,826	$ 788,826
Components of net periodic benefit cost		
Service cost	$ 754,521	$ 693,340
Interest cost	1,591,037	1,385,648
Expected return on plan assets	(1,528,948)	(1,475,831)
Amortization of prior service cost	(1,366,423)	(1,340,156)
Recognized actuarial loss	1,434,365	1,271,325
Net periodic benefit cost	$ 884,552	$ 534,326

The Institution has reflected the net periodic benefit cost in operating expenses, as the amount is reimbursed through federal awards.

	2006	2005
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	5.75%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	8.00%	8.00%

The plan does not provide prescription drug benefits for post-65 retirees; therefore, there is no anticipated Medicare employer subsidy.

	2006		2005	
	Pre-65	Post-65	Pre-65	Post-65
Assumed health care cost trend rates at December 31				
Health care cost trend rate assumed for next year	9.0%	7.0%	10.0%	7.3%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%	5.0%	4.3%
Year that the rate reaches the ultimate trend rate	2015	2012	2014	2013

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	2006 One-Percentage-Point Increase in Trend	2005 One-Percentage-Point Increase in Trend
Effect on total of service cost and interest cost components	$ 424,894	$ 365,522
Effect on year-end postretirement benefit obligation	4,772,870	3,709,195
	One-Percentage-Point Decrease in Trend	**One-Percentage-Point Decrease in Trend**
Effect on total of service cost and interest cost components	$ (337,831)	$ (292,004)
Effect on year-end postretirement benefit obligation	(3,890,358)	(3,048,587)

Plan Assets
The Institution's postretirement benefit plan weighted-average asset allocations at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	2006	2005
Equity securities	92%	100%
Debt securities	-	-
Cash	8%	-
	100%	100%

To develop the expected long-term rate of return on assets assumption, the Institution considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio, net of expenses expected to be paid. This resulted in the selection of the 8.00% assumption.

As of January 1, 2006, the required copayments and other features of the underlying medical benefit plan were updated resulting in a decrease in the obligation of $242,000.

Expected Contributions
The Institution anticipates contributing $900,000 to the Retiree Medical Plan in 2007.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service are expected to be paid as follows:

Years	Benefit Payments
2007	$ 1,390,120
2008	1,499,706
2009	1,582,826
2010	1,758,612
2011	10,381,810
Years 2012 - 2016	

10. Commitments and Contingencies

The Defense Contract Audit Agency (DCAA) is responsible for auditing both direct and indirect charges to grants and contracts on behalf of the ONR. The Institution and the ONR have settled the years through 2004. The current indirect cost recovery rates, which are fixed, include the impact of prior year settlements. The DCAA issued an audit report on the completed audit of direct and indirect costs for the year ended December 31, 2005 on October 27, 2006. The 2006 costs remain subject to audit. Any adjustments will be recorded in the years they become known.

The Institution through its pooled investments is committed to invest $23,970,000 in certain venture capital and investment partnerships as of December 31, 2006.

The Institution is a defendant in legal proceedings incidental to the nature of its operations. The Institution believes that the outcome of these proceedings will not materially affect its financial position.

11. Related Party Transactions

In fiscal year 2006, the Institution passed through Federal Awards of approximately $437,000 and $794,000 for the years ended December 31, 2006 and 2005, respectively, to subgrantee organizations in which an individual associated with the subgrantee organization is also a member of the Institution's Board of Trustees or Corporation. The Institution also has other transactions such as legal services and other items with organizations where members of the Board of Trustees or Corporation are affiliated with the organizations. Total expenditures for these legal and other transactions were approximately $1,005,000 and $353,000 for the years ended December 31, 2006 and 2005, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are approximately $613,000 and $693,000 at December 31, 2006 and 2005, respectively.