Woods Hole Oceanographic Institution

Financial Statements
December 31, 2007

Woods Hole Oceanographic Institution
Index
December 31, 2007

PRICEWATERHOUSECOOPERS

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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, 2007, 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 2006 financial statements, and in our report dated June 25, 2007, 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.

As described in Notes 2, 8 and 9, in 2007, the Institution changed the manner in which it accounts for its benefit plans and consideration of the effects of prior year misstatements.

PricewaterhouseCoopers LLP

August 20, 2008

Woods Hole Oceanographic Institution
Statement of Financial Position
December 31, 2007 (with summarized information as of December 31, 2006)

	2007	2006
Assets		
Cash, unrestricted	$ 28,206,655	$ 16,626,538
Cash, restricted	2,269,104	1,592,177
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $112,119 for 2007 and $113,910 for 2006)	3,558,454	3,473,723
Unbilled	5,799,835	5,766,906
Receivable for investments sold	88,117	194,440
Interest and dividends receivable	107,533	671,182
Other receivables	851,891	750,846
Pledges receivable, net	10,678,076	13,231,894
Inventory	1,919,810	1,435,985
Deferred charges and prepaid expenses	1,511,788	1,434,441
Investments, pooled (Note 3)	372,183,273	343,217,764
Investments, nonpooled (Note 3)	70,036	7,137,628
Deposits with trustees for construction	-	1,063,695
Deposits with trustees for debt service	92	118,986
Prepaid pension and postretirement benefit cost	887,243	788,826
Supplemental retirement	7,111,673	7,173,633
Other assets	13,512,160	9,196,523
Deferred financing costs	1,140,091	1,182,978
	449,895,831	415,058,165
Property, plant and equipment		
Land, buildings and improvements	127,045,920	121,110,015
Vessels and dock facilities	7,509,772	7,391,436
Laboratory and other equipment	26,720,659	24,444,600
Construction in process	880,178	973,754
	162,156,529	153,919,805
Accumulated depreciation	(72,820,520)	(65,285,849)
Net property, plant and equipment	89,336,009	88,633,956
Receivable from remainder trusts (Note 5)	11,477,118	11,311,983
Total assets	$ 550,708,958	$ 515,004,104
Liabilities		
Accounts payable and other liabilities	$ 9,817,163	$ 9,251,502
Accrued payroll and related liabilities	5,495,504	5,241,173
Payable for investments purchased	219,787	506,007
Deferred fixed rate variance	895,384	1,685,926
Accrued supplemental retirement benefits	7,111,673	7,173,633
Accrued pension liability	29,935,722	21,374,109
Accrued postretirement liability	6,829,244	-
Deferred revenue and refundable advances	7,501,719	7,517,056
Bonds and loans payable	54,850,000	54,850,000
Total liabilities	122,656,196	107,599,406

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007	2006
Net Assets					
Undesignated and plant	$ 38,604,637	$ -	$ -	38,604,637	41,775,293
Pension	(36,711,089)	-	-	(36,711,089)	(21,384,575)
Designated	5,570,855	8,265,619	-	13,836,474	13,272,353
Pledges and other	-	11,867,376	14,267,309	26,134,685	24,363,502
Education	-	2,348,066	-	2,348,066	2,420,555
Endowment and similar funds	89,443,781	229,796,930	64,599,278	383,839,989	346,957,570
Total net assets	$ 96,908,184	$ 252,277,991	$ 78,866,587	428,052,762	407,404,698
Total liabilities and net assets				$ 550,708,958	$ 515,004,104

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

Woods Hole Oceanographic Institution
Statement of Activities
Year Ended December 31, 2007
(with summarized information for the year ended December 31, 2006)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2007	2006
Revenues and releases from restriction						
Fees	$ 1,000,542	$ -	$ -	$ -	$ 1,000,542	$ 657,159
Sponsored research						
Government	-	79,220,329	-	-	79,220,329	69,878,315
Subcontract and nongovernment	-	20,469,707	5,720,852	-	26,190,559	22,895,094
Ships and subs operations	-	23,848,658	-	-	23,848,658	21,851,478
Sponsored research assets released to operations	129,065,758	(123,538,694)	(5,527,064)	-	-	-
Education						
Joint program income	4,030,683	-	-	-	4,030,683	3,924,277
Endowment income	4,263,649	-	2,075,976	-	6,339,625	5,919,500
Gifts	-	-	-	-	-	-
Education funds released from restriction	2,521,927	-	(2,521,927)	-	-	-
Investment return designated for current operations	3,675,754	-	-		3,675,754	3,738,766
Contributions and gifts	6,740,730	-	1,603,382	7,634,568	15,978,680	23,143,638
Releases from restrictions	-	-	(2,891,209)	(1,659,678)	(4,550,887)	(2,610,902)
Contributions in kind	1,107,195	-	-	-	1,107,195	186,854
Rental income	812,464	-	-	-	812,464	773,049
Communication and publications	192,469	-	-	-	192,469	175,980
Other	365,767	-	-	-	365,767	316,085
Total revenues and releases from restriction	153,776,938	-	(1,539,990)	5,974,890	158,211,838	150,849,293
Expenses						
Sponsored research						
National Science Foundation	47,894,430	-	-	-	47,894,430	40,577,466
United States Navy	14,700,120	-	-	-	14,700,120	13,618,180
Subcontracts	10,533,312	-	-	-	10,533,312	10,587,315
National Oceanic & Atmospheric Administration	11,455,058	-	-	-	11,455,058	11,054,410
Department of Energy	538,460	-	-	-	538,460	729,007
United States Geological Survey	1,141,153	-	-	-	1,141,153	1,054,337
National Aeronautics & Space Administration	1,084,372	-	-	-	1,084,372	1,065,550
Ships Operations	18,054,230	-	-	-	18,054,230	16,505,047
Submersible and ROV operations	5,794,428	-	-	-	5,794,428	5,346,431
Privately funded grants	5,179,756	-	-	-	5,179,756	4,275,110
Other	12,690,439	-	-	-	12,690,439	9,664,871
Education						
Faculty expense	3,608,015	-	-	-	3,608,015	3,688,362
Student expense	4,411,514	-	-	-	4,411,514	4,466,502
Postdoctoral programs	436,859	-	-	-	436,859	342,510
Other	689,204	-	-	-	689,204	674,412
Rental expenses	603,964	-	-	-	603,964	579,731
Communication, publications and development	2,166,487	-	-	-	2,166,487	2,304,657
Fundraising expenses	2,407,542	-	-	-	2,407,542	2,145,717
Unsponsored programs	11,065,609	-	-	-	11,065,609	8,456,654
Other expenses	1,994,089	-	-	-	1,994,089	2,288,862
Total expenses	156,449,041	-	-	-	156,449,041	139,425,131
Change in net assets from operating activities	(2,672,103)	-	(1,539,990)	5,974,890	1,762,797	11,424,162
Nonoperating income and expenses						
Investment return in excess of amounts designated for sponsored research, education and current operations	7,598,227	-	25,305,906		32,904,133	36,550,427
Net realized/unrealized losses on interest rate swap	(1,651,898)	-			(1,651,898)	888,848
Change in split interest agreements	(10,079)	-	15,219	406,652	411,792	899,754
Contributions and gifts	-	-	5,000	-	5,000	15,000
Net assets released from restriction	5,000	-	(5,000)	-	-	-
Other nonoperating expenses	(99,976)	-	-	-	(99,976)	(99,976)
Net periodic pension costs	(6,405,433)	-	-	-	(6,405,433)	(7,300,134)
Redesignation of gifts	(26,000)	-	(15,063)	1,000	(40,063)	(116,051)
Change in net assets from nonoperating activities	(590,159)	-	25,306,062	407,652	25,123,555	30,837,868
Change in net assets from operating and nonoperating activities	(3,262,262)	-	23,766,072	6,382,542	26,886,352	42,262,030
Change in additional pension minimum liability (Note 8)	-	-	-	-	-	(44,538)
Adoption of accounting principle - SFAS 158	(8,921,081)	-	-	-	(8,921,081)	-
Cumulative effect of a change in accounting principle	2,682,793	-	-	-	2,682,793	-
Total change in net assets	(9,500,550)	-	23,766,072	6,382,542	20,648,064	42,217,492
Net assets at beginning of year	106,408,734		228,511,919	72,484,045	407,404,698	365,187,206
Net assets at end of year	$ 96,908,184	$ -	$ 252,277,991	$ 78,866,587	$ 428,052,762	$ 407,404,698

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

Woods Hole Oceanographic Institution
Statement of Cash Flows
Year Ended December 31, 2007
(with summarized information for the year ended December 31, 2006)

	2007	2006
Cash flows from operating activities		
Total change in net assets	$ 20,648,064	$ 42,217,492
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation and amortization	7,890,601	7,476,043
Change in split interest agreements	(411,792)	(899,754)
Allowance for uncollectible pledges	(761,709)	676,945
Discount on pledges	433,968	569,641
Net realized and unrealized (gain) loss on investments	(40,569,822)	(41,707,373)
Unrealized (gain) loss on interest swap	1,511,543	(1,110,370)
Change in additional minimum pension liability	-	44,538
Contributions to be used for long-term investment	(1,743,205)	(1,688,591)
Gift in kind	(4,300,000)	(2,497,104)
Cumulative effect of a change in accounting principle	(2,682,793)	-
Receipt of contributed securities	(3,346,639)	(685,982)
Adoption of accounting principle	8,921,081	-
(Increase) decrease in assets		
Restricted cash	(676,927)	(565,158)
Interest and dividends receivable	563,649	(342,550)
Reimbursable costs and fees		
Billed	(84,731)	(1,417,545)
Unbilled	(32,929)	1,098,423
Other receivables	(101,045)	20,336
Pledges receivable	2,881,559	(9,670,643)
Inventory	(483,825)	(264,107)
Deferred charges and prepaid expenses	(77,347)	(396,804)
Other assets	(15,637)	(40,856)
Remainder trusts	261,759	-
Deferred finance costs	42,887	-
Prepaid pension costs	788,826	-
Supplemental retirement	61,960	(588,426)
Increase (decrease) in liabilities		
Accrued pension liability	6,371,359	6,208,391
Accrued postretirement liability	(788,826)	-
Accounts payable and other liabilities	1,456,739	(1,865,132)
Accrued payroll and related liabilities	254,331	74,181
Deferred revenue and refundable advances	(15,337)	401,190
Accrued supplemental retirement benefits	(61,960)	588,426
Deferred fixed rate variance	(790,542)	(1,435,817)
Net cash used in operating activities	(4,856,740)	(5,800,606)
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(8,327,584)	(9,759,668)
Short-term investments		
Purchase of investments	-	(2,000,000)
Sale of investments	7,000,000	-
Endowment		
Receivable for investments sold	106,323	(194,440)
Payable for investments purchased	(286,220)	473,572
Proceeds from the sale of investments	117,767,704	110,531,930
Purchase of investments	(106,095,799)	(104,112,983)
Change in construction fund	1,063,695	1,974,857
Change in debt service funds	118,894	1,779,116
Liquidation of contributed securities	3,346,639	685,982
Net cash provided by (used in) investing activities	14,693,652	(621,634)
Cash flows from financing activities		
Contributions to be used for long-term investment	1,743,205	1,688,591
Net cash provided by financing activities	1,743,205	1,688,591
Net increase (decrease) in cash and cash equivalents	11,580,117	(4,733,649)
Cash and cash equivalents, beginning of year	16,626,538	21,360,187
Cash and cash equivalents, end of year	$ 28,206,655	$ 16,626,538
Supplemental disclosures		
Cash paid for interest	$ 2,166,858	$ 2,078,593
Noncash activity		
Construction in process additions remaining in accounts payable	265,070	-
Change in intangible pension asset	-	(13,674,720)
Contributed securities	3,346,639	685,982
Gift in kind	4,300,000	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 accounting principles generally accepted in the United States of America.

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, 2006, 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 $2,891,209 and $1,020,108 for the years ended December 31, 2007 and 2006, 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 $0 and $3,405,000 conditional promises to give for the years ended December 31, 2007 and 2006, respectively. 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. During 2007, a gift of land was received which was valued at $4,300,000 and is currently being held for sale and included in other assets. 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 reports 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, depreciation on certain government-funded facilities, adoption of Financial Accounting Standards Board Statement

No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"), and change in accounting principle for Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements* ("SAB 108").

In September 2006, the Securities and Exchange Commission staff issued SAB 108. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify and assess the materiality of financial statement misstatements. Although the SAB is directly applicable to public companies, the Institution has elected to follow the prescribed guidance, by analogy.

Traditionally, there have been two accepted methods for quantifying and assessing the materiality of the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The rollover method focuses primarily on the impact of a misstatement on the statement of activities - including the reversing effect of prior year misstatements - but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year misstatements on the statement of activities. Prior to the application of SAB 108, the Institution used the rollover method for quantifying and assessing the materiality of financial statement misstatements.

SAB 108 establishes an approach that requires quantification and assessment of the materiality of financial statement misstatements based on the effects of the misstatements on each of the Institution's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification and assessment of the materiality of misstatements under both the iron curtain and the rollover methods. SAB 108 permits companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of unrestricted net assets. The Institution elected to record the effects of applying SAB 108 using the cumulative effect transition method.

Prior to fiscal 2007, the Institution had certain accumulated accruals/reserves that are no longer required. Under the rollover method, these misstatements were not material to the statement of activities in any given year. With the adoption of SAB 108 as of December 31, 2007, management eliminated certain expenses in the amount of $2,682,793 and recorded this change as a cumulative effect of a change in accounting principle in the statement of activities.

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, 2007 and 2006 is $1,477,744 and $1,041,361, 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, 2007 and 2006 is $791,360 and $550,816, respectively, representing cash restricted by the Massachusetts Radiation Control Program and Department of Environmental Protection. 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, 2007 and 2006 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 $15,555,591 and $14,351,257 for the years ending December 31, 2007 and 2006, 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, 2007 and 2006, respectively, the amounts consist of $92 and $118,986 for debt service and $0 and $1,063,695 for construction purposes. Interest income on debt service amounted to $617 in 2007 and $55,590 in 2006 and is reflected in the statement of activities within other income. Interest income on construction funds amounted to $58,323 and $49,855 in 2007 and 2006, respectively, and is reflected in the statement of activities within other income.

Other Assets
Other assets consist primarily of investments held by various split-interest agreements and donated property.

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 88% and 89% of its sponsored research revenues from government agencies including 52% and 50% of its operating revenues from the National Science Foundation and 13% and 14% from the United States Navy in fiscal years 2007 and 2006, 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 $7,790,625 and $7,333,180 in 2007 and 2006, 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 both in 2007 and 2006 has been charged to nonoperating expenses as these assets were gifted by the Government.

Construction commitments totaled $0 and $177,464 at December 31, 2007 and 2006, respectively.

The Institution did not capitalize any interest in fiscal 2007 or 2006.

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.

Recent Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement,* and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.* SFAS No. 157 and 159 will be effective for the Institution for its fiscal year ending December 31, 2008. SFAS No. 157 and 159 are not expected to have a material effect on the Institution's financial position, results of operation or cash flows.

3. Investments

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

	2007		2006	
	Cost	Market	Cost	Market
U.S. equity	$ 60,767,849	$ 71,919,631	$ 67,326,427	$ 80,131,322
Global developed equity	74,620,741	93,490,200	58,641,537	83,782,660
Emerging markets equity	17,986,546	24,607,525	16,593,997	24,347,400
Marketable alternative assets	36,295,000	53,360,764	36,295,000	45,142,360
Real assets	27,049,709	38,926,689	19,001,716	26,272,164
Bonds	46,463,977	48,312,910	49,173,891	49,958,988
Nonmarketable assets	35,142,051	41,565,554	29,621,866	33,536,177
Other	-	-	46,693	46,693
Total investments	$ 298,325,873	$ 372,183,273	$ 276,701,127	$ 343,217,764

Included in bonds and equities are alternative investment vehicles including commingled funds with a market value of $67,880,784 and $61,591,215 at December 31, 2007 and 2006, respectively, whose holdings are bonds and equities. Included in U.S. equity, marketable alternative assets and nonmarketable assets are hedge funds of $60,030,751 and $52,225,311 at December 31, 2007 and 2006, respectively. Included in global developed equity and nonmarketable assets are private equity and venture capital funds of $73,198,102 and $61,719,669 at December 31, 2007 and 2006, respectively. 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, 2007 and 2006, respectively, were $240,036,326 and $201,808,357.

The nonpooled investments consist of a common/collective trust fund invested in bonds with a market value of $70,036 in 2007 and $7,137,628 in 2006.

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

	Unrestricted	Temporarily restricted	2007 Total	2006 Total
Dividend and interest income	$ 7,821,336	$ 2,075,976	$ 9,897,312	$ 11,604,806
Investment management costs	(1,826,770)	-	(1,826,770)	(1,855,614)
Net realized gains	7,741,354	25,555,287	33,296,641	17,971,287
Change in unrealized appreciation	1,801,710	5,471,471	7,273,181	23,736,086
Total return on investments	15,537,630	33,102,734	48,640,364	51,456,565
Investment return designated for				
Sponsored research	-	(5,720,852)	(5,720,852)	(5,247,872)
Education	(4,263,649)	(2,075,976)	(6,339,625)	(5,919,500)
Current operations	(3,675,754)	-	(3,675,754)	(3,738,766)
Total distributions to operations	(7,939,403)	(7,796,828)	(15,736,231)	(14,906,138)
Investment return in excess of amounts designated for sponsored research, education and current operations	$ 7,598,227	$ 25,305,906	$ 32,904,133	$ 36,550,427

Investment return distributed to operations includes $180,640 and $554,881 earned on non-endowment investments for the years ended December 31, 2007 and 2006, 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:

	2007	2006
Unit value, beginning of year	$ 4.7179	$ 4.3755
Unit value, end of year	5.2520	4.7179
Net change for the year	.5341	.3424
Investment income per unit for the year	.1075	.1256
Total return per unit	$ .6416	$ .4680

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:

	2007	2006
Unconditional promises expected to be collected in:		
Less than one year	$ 5,818,583	$ 2,341,468
One year to five years	6,306,000	12,664,674
Reserve for uncollectible pledges receivable	(288,721)	(1,050,430)
Unamortized discount	(1,157,786)	(723,818)
	$ 10,678,076	$ 13,231,894

5. Contribution Receivable from Remainder Trusts, Net

Contributions receivable from remainder trusts balance at December 31, 2007 and 2006 was $11,477,118 and $11,311,983, respectively. The receivable and related revenue is measured at the present value of estimated future cash flows to be received, net of expected payouts, 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. Related payment liabilities of $5,121,920 and $5,163,203 were recorded at December 31, 2007 and 2006, respectively. Discount rates ranging from 5% to 8% were used in these calculations.

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, 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)
2007 indirect costs	61,298,187
2006 adjustment	(11,529)
Amounts recovered	(60,496,116)
2007 change	790,542
Deferred Fixed Rate Variance liability, December 31, 2007	$ (895,384)

As of December 31, 2007 the Institution has received a cumulative recovery in excess of expended amounts of $895,384 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, which was completed in December 2007. 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 required a debt service fund to be established at the time of issuance. Included in deposits with trustees on the statement of financial position is the market value of the debt service fund of $0 and $118,986 at December 31, 2007 and 2006, 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, 2007, the rate was 4.25%. Interest expense for the years ended December 31, 2007 and 2006 was $2,166,858 and $2,078,593, respectively.

In 2004, the Institution issued R-FLOAT securities that initially held an interest rate of 1.05% upon original issuance. As a result of the deterioration in the credit markets surrounding these types of securities, interest rates have risen as high as 11%. The highest interest rate paid by the Institution as of July 31, 2008 is 7.65%. The Institution continues to monitor the impact of the credit markets on its obligations.

The aggregate maturities due on long-term debt at December 31, 2007 are as follows:

Fiscal Year	**Principal *Amount***
2008	$ 1,200,000
2009	1,250,000
2010	1,300,000
2011	1,350,000
2012	1,400,000
Thereafter	48,350,000
	$ 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, 2007 and 2006, respectively, the market value of the swap agreement amounted to a liability of $3,471,999 and $1,960,456 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 $140,355 and $221,522 which is reflected as part of the net realized/unrealized gains (losses) on interest swap at December 31, 2007 and 2006, 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 2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 34,074	$ 1,640,939
Interest cost	4,641	70,523
Actuarial loss	119,307	68,617
Settlements	(158,022)	(1,746,005)
Benefit obligation at end of year	$ -	$ 34,074
Funded status	$ -	$ (34,074)
Unrecognized net actuarial loss	-	44,538
Net amount recognized	$ -	$ 10,464
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ -	$ (34,074)
Additional minimum liability	-	44,538
Net amount recognized	$ -	$ 10,464
Change in net assets attributable to change in additional minimum liability recognition	$ -	$ 44,538
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	-	34,074
Accumulated benefit obligation	-	(34,074)
Component of net periodic benefit cost		
Interest cost	4,641	70,523
Recognized actuarial loss	79,201	-
Net periodic benefit cost	$ 83,842	$ 70,523
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.25%	6.00%
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	6.00%	5.75%
Rate of compensation increase	4.50%	4.50%

Expected Contributions

The Institution does not anticipate contributing to the Restoration Plan in 2008.

Estimated Future Benefit Payments

There are no expected benefit payments for 2008. The new director is eligible in 2009.

	Qualified Plan Pension Benefits 2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 215,891,241	$ 214,770,764
Service cost	6,525,239	6,137,340
Interest cost	12,424,161	11,980,814
Actuarial gain	(2,764,717)	(483,219)
Benefits paid	(16,015,984)	(16,514,458)
Benefit obligation at end of year	$ 216,059,940	$ 215,891,241
Change in plan assets		
Fair value of plan assets at beginning of year	$ 171,342,150	$ 155,921,888
Adjustment to beginning balance for additional fair *value of investments*	-	2,605,614
Employer contributions	6,027,869	5,242,851
Actual return on plan assets	24,770,183	24,086,255
Benefits paid	(16,015,984)	(16,514,458)
Fair value of plan assets at end of year	$ 186,124,218	$ 171,342,150
Funded status	$ (29,935,722)	$ (44,549,091)
Unrecognized net actuarial loss	-	7,885,799
Unrecognized prior service cost	-	15,323,257
Net amount recognized	$ (29,935,722)	$ (21,340,035)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (29,935,722)	$ (21,340,035)
Net amount recognized	$ (29,935,722)	$ (21,340,035)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 216,059,940	$ 215,891,241
Accumulated benefit obligation	180,366,990	180,744,218
Fair value of plan assets	186,124,218	171,342,150
Components of net periodic benefit cost		
Service cost	6,525,239	6,137,340
Interest cost	12,424,161	11,980,814
Expected return on plan assets	(10,365,552)	(10,140,183)
Amortization of prior service cost	1,933,919	1,933,919
Recognized actuarial loss	1,915,535	2,631,095
Net periodic benefit cost	$ 12,433,302	$ 12,542,985

The Institution has reflected $6,027,869 and $5,242,851 for the years ending December 31, 2007 and 2006, 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 $6,405,433 and $7,300,134 for the years ending December 31, 2007 and 2006, respectively, of net periodic benefit cost is reflected in nonoperating expenses.

The impact of the adoption of SFAS 158 resulted in a net decrease of $2,190,254 in unrestricted net assets, which has been recorded as an adoption of an accounting principle. The net decrease is comprised of the net prior service cost of $13,389,338 and actuarial gain of $11,199,084.

	Qualified Plan Pension Benefits	
	2007	**2006**
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.25%	6.00%
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	6.00%	5.75%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

The incremental effect of applying SFAS 158 on individual items in the statement of financial position as of December 31, 2007 is as follows:

	Before Application of SFAS 158	**Defined Benefit Plan Adjustments**	**After Application of SFAS 158**
Accrued pension liability	$ 27,745,468	$ 2,190,254	$ 29,935,722
Total liabilities	120,465,942	2,190,254	122,656,196
Unrestricted net assets	99,098,438	(2,190,254)	96,908,184
Total net assets	430,243,016	(2,190,254)	428,052,762

The amount expected to be recognized as amortization of prior net service cost and a component of net periodic cost in the upcoming year is $2,346,055.

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.

Plan Assets

The Institution's pension plan weighted-average asset allocations at December 31, 2007 and 2006, by asset category are as follows:

Asset Category	**2007**	**2006**
U.S. equity	13%	18%
Global developed equity	26%	27%
Emerging markets equity	7%	7%
Marketable alternative assets	15%	14%
Real assets	8%	5%
Bonds	14%	16%
Nonmarketable assets	12%	11%
Cash and cash equivalents	5%	2%
	100%	100%

The following target asset allocation is used:

Asset Category	**Target Allocation**
U.S. equity	21%
Global developed equity	20%
Emerging markets equity	4%
Marketable alternative assets	20%
Real assets	10%
Bonds	10%
Nonmarketable assets	10%
Cash and cash equivalents	5%

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 $8,000,000 to the Qualified Plan in 2008.

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

Years	**Benefit Payments**
2008	$ 13,137,966
2009	12,854,261
2010	12,697,553
2011	14,015,255
2012	15,230,986
2013 - 2017	83,527,837

	Supplemental Plan Pension Benefits 2007	Supplemental Plan Pension Benefits 2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 3,113,322	$ 3,595,900
Service cost	42,114	55,341
Interest cost	149,445	168,532
Actuarial gain	(485,609)	(535,722)
Benefits paid	(163,059)	(170,729)
Benefit obligation at end of year	$ 2,656,213	$ 3,113,322
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	163,059	170,729
Benefits paid	(163,059)	(170,729)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (2,656,213)	$ (3,113,322)
Unrecognized actuarial (gain) loss	-	(557,044)
Unrecognized prior service cost	-	32,731
Net amount recognized	$ (2,656,213)	$ (3,637,635)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (2,656,213)	$ (3,637,635)
Net amount recognized	$ (2,656,213)	$ (3,637,635)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 2,656,213	$ 3,113,322
Accumulated benefit obligation	2,519,193	2,919,806
Components of net periodic benefit cost		
Service cost	$ 42,114	$ 55,341
Interest cost	149,445	168,532
Expected return on earmarked reserves	(192,548)	(190,256)
Amortization of prior year service cost	6,620	6,620
Recognized actuarial gain	(138,983)	(47,831)
Net periodic benefit income	$ (133,352)	$ (7,594)

The accrued supplemental retirement is matched by a "Rabbi" Trust with $7,111,673 and $7,173,633, respectively, as of December 31, 2007 and 2006. An additional accrual of $4,455,460 and $3,535,998 has been established for the excess of the "Rabbi" Trust assets over the accrued supplemental retirement benefits at December 31, 2007 and 2006, respectively. Income earned on the investments earmarked for the supplemental retirement plan amounted to $202,232 and $200,249 *for the years ended December 31, 2006 and 2005, respectively.*

The impact of the adoption of SFAS 158 resulted in a net increase of $887,243 in unrestricted net assets, which has been recorded as an adoption of an accounting principle. The net increase is comprised of the net prior service cost of $26,111 and actuarial gain of $913,354.

	Supplemental Plan Pension Benefits 2007	Supplemental Plan Pension Benefits 2006
Actual return on earmarked reserves	$ 202,232	$ 200,249
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.25%	6.00%
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	6.00%	5.75%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

The incremental effect of applying SFAS 158 on individual items in the statement of financial position as of December 31, 2007 is as follows:

	Before Application of SFAS 158	Defined Benefit Plan Adjustments	After Application of SFAS 158
Prepaid pension and postretirement benefit cost	$ -	$ 887,243	$ 887,243
Total assets	549,821,715	887,243	550,708,958
Unrestricted net assets	96,020,941	887,243	96,908,184
Total net assets	427,165,519	887,243	428,052,762

The amount expected to be recognized as amortization of prior net service credit and a component of net periodic cost in the upcoming year is $112,495.

Expected Contributions

The Institution does not anticipate contributing to the Supplemental Plan in 2008.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2008	$ 389,602
2009	338,938
2010	424,041
2011	472,074
2012	436,237
Years 2013 - 2017	1,195,601

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 2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	$ 31,291,763	$ 25,605,822
Service cost	791,711	754,521
Interest cost	1,726,221	1,591,037
Plan amendment	-	(241,938)
Benefits paid	(1,038,077)	(1,044,207)
Actuarial (gain) loss	(3,055,014)	4,626,528
Benefit obligation at end of year	$ 29,716,604	$ 31,291,763

	Other Postretirement Benefits 2007	Other Postretirement Benefits 2006
Change in plan assets		
Fair value of plan assets at beginning of year	$ 21,276,483	$ 19,323,651
Employer contributions	755,248	884,556
Actual return on plan assets	1,893,708	2,112,483
Benefits paid	(1,038,077)	(1,044,207)
Fair value of plan assets at end of year	$ 22,887,362	$ 21,276,483
Funded status	$ (6,829,242)	$ (10,015,280)
Unrecognized net actuarial loss	-	21,105,885
Unrecognized prior service cost (credit)	-	(10,301,779)
Net amount recognized	*$ (6,829,242)*	*$ 788,826*
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (6,829,242)	$ -
Prepaid benefit cost	-	788,826
Net amount recognized	$ (6,829,242)	$ 788,826
Components of net periodic benefit cost		
Service cost	$ 791,711	$ 754,521
Interest cost	1,726,221	1,591,037
Expected return on plan assets	(1,678,301)	(1,528,948)
Amortization of prior service cost	(1,366,423)	(1,366,423)
Recognized actuarial gain	1,282,040	1,434,365
Net periodic benefit cost	$ 755,248	$ 884,552

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

The impact of the adoption of SFAS 158 resulted in a net decrease of $7,618,070 in unrestricted net assets, which has been recorded as an adoption of an accounting principle. The net decrease is comprised of the net prior service cost of $8,935,356 and actuarial loss of $16,553,426.

	2007	2006
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.50%	6.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	6.00%	5.75%
Expected long-term rate of return on plan assets	8.00%	8.00%

The incremental effect of applying SFAS 158 on individual items in the statement of financial position as of December 31, 2007 is as follows:

	Before Application of SFAS 158	Defined Benefit Plan Adjustments	After Application of SFAS 158
Accrued postretirement liability	$ (788,826)	$ 7,618,070	$ 6,829,244
Total liabilities	115,038,126	7,618,070	122,656,196
Unrestricted net assets	104,526,254	(7,618,070)	96,908,184
Total net assets	435,670,832	(7,618,070)	428,052,762

The amount expected to be recognized as amortization of prior net service credit and a component of net periodic cost in the upcoming year is $287,833.

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

	2007		2006	
	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%	9.0%	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2015	2012	2015	2012

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:

	2007 One-Percentage-Point Increase in Trend	2006 One-Percentage-Point Increase in Trend
Effect on total of service cost and interest cost components	$ 449,211	$ 424,894
Effect on year-end postretirement benefit obligation	4,296,768	4,772,870
	One-Percentage-Point Decrease in Trend	**One-Percentage-Point Decrease in Trend**
Effect on total of service cost and interest cost components	$ (358,060)	$ (337,831)
Effect on year-end postretirement benefit obligation	(3,530,266)	(3,890,358)

Plan Assets
The Institution's postretirement benefit plan weighted-average asset allocations at December 31, 2007 and 2006, by asset category are as follows:

Asset Category	2007	2006
Equity securities	92%	92%
Cash	8%	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 $1,100,000 to the Retiree Medical Plan in 2008.

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

Years	Benefit Payments
2008	$ 1,453,259
2009	1,520,956
2010	1,570,893
2011	1,682,013
2012	1,804,047
Years 2013 - 2017	10,752,777

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, 2006 on September 14, 2007. The 2007 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 $25 million in certain venture capital and investment partnerships as of December 31, 2007. Such commitments will be funded through liquidity in existing investments.

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 2007, the Institution's subcontracts, of which some could be federal pass-through awards, was approximately $645,383 and $437,000 for the years ended December 31, 2007 and 2006, 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 $1,158,791 and $1,005,000 for the years ended December 31, 2007 and 2006, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are approximately $791,000 and $613,000 at December 31, 2007 and 2006, respectively.