Woods Hole Oceanographic Institution

Financial Statements
December 31, 2009

Woods Hole Oceanographic Institution
Index
December 31, 2009

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, 2009, 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 2008 financial statements, and in our report dated September 29, 2009, 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

August 13, 2010

Woods Hole Oceanographic Institution
Statement of Financial Position
December 31, 2009
(with summarized information for December 31, 2008)

	2009	2008
Assets		
Cash and cash equivalents, unrestricted	$ 26,959,024	$ 22,345,523
Cash and cash equivalents, restricted	3,384,314	2,249,971
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $80,359 and for 2009 and $112,037 for 2008)	5,419,096	6,482,388
Unbilled	8,271,337	11,584,460
Receivable for investments sold	75,348	2,915
Interest and dividends receivable	48,537	358,233
Other receivables	1,072,140	961,736
Pledges receivable, net (Note 5)	10,451,525	11,981,823
Inventory	1,644,600	1,748,989
Deferred charges and prepaid expenses	333,268	548,733
Investments, pooled (Note 3)	307,246,822	249,324,406
Investments, nonpooled (Note 3)	-	64,606
Deposits with trustees for construction	7,363,141	10,111,687
Deposits with trustees for debt service and to pay Series A debt	92	53,700,092
Deferred fixed rate variance (Note 7)	4,206,130	994,079
Supplemental retirement	6,054,809	5,058,172
Other assets	9,150,695	11,690,315
Deferred financing costs	258,536	1,365,703
	391,939,414	390,573,831
Property, plant and equipment		
Land, buildings and improvements	135,733,697	131,317,680
Vessels and dock facilities	7,997,337	7,622,299
Laboratory and other equipment	29,541,160	28,225,892
Construction in process	1,241,329	2,331,228
	174,513,523	169,497,099
Accumulated depreciation	(88,675,963)	(80,760,971)
Net property, plant and equipment	85,837,560	88,736,128
Contribution receivable from remainder trusts, net (Note 6)	9,814,334	8,483,567
Total assets	$ 487,591,308	$ 487,793,526
Liabilities		
Line of credit (Note 8)	$ 6,000,000	$ 3,882,556
Accounts payable and other liabilities (Note 8)	12,175,852	18,185,061
Accrued payroll and related liabilities	7,004,044	6,319,201
Payable for investments purchased	33,374	80,167
Accrued supplemental retirement benefits	6,054,809	5,058,172
Accrued pension and restoration liability	64,720,545	84,409,200
Accrued postretirement liability	6,589,580	11,146,697
Deferred revenue and refundable advances	8,726,087	7,066,560
Bonds payable (Note 8)	63,431,258	117,780,187
Total liabilities	$ 174,735,549	$ 253,927,801

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
Net Assets					
Undesignated and plant	$ 23,101,367	$ -	$ -	23,101,367	20,428,525
Pension	(72,100,850)	-	-	(72,100,850)	(96,378,957)
Designated	4,415,910	10,222,455	-	14,638,365	13,878,254
Pledges and other	-	11,229,609	15,518,432	26,748,041	28,743,041
Education	-	2,623,021	-	2,623,021	2,654,310
Endowment and similar funds	71,718,939	180,949,548	65,177,328	317,845,815	264,540,552
Total net assets	$ 27,135,366	$ 205,024,633	$ 80,695,760	312,855,759	233,865,725
Total liabilities and net assets				$ 487,591,308	$ 487,793,526

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

Woods Hole Oceanographic Institution
Statement of Activities
Year Ended December 31, 2009
(with summarized information for the year ended December 31, 2008)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2009	2008
Revenues						
Fees	$ 1,896,938				$ 1,896,938	$ 1,706,354
Sponsored research						
Government		89,149,989			89,149,989	81,525,012
Subcontract and nongovernment		31,570,392	5,287,791		36,858,183	36,575,778
Ships and subs operations		25,953,603			25,953,603	26,594,365
Sponsored research assets released to operations	150,862,769	(146,673,984)	(4,188,785)		-	-
Fixed price awards income	119,301				119,301	-
Education						
Joint program income	4,045,415				4,045,415	3,901,574
Endowment income			6,354,464		6,354,464	6,511,855
Education funds released from restriction	7,305,641		(7,305,641)		-	-
Investment return designated for current operations	3,514,878				3,514,878	3,496,652
Contributions and gifts	2,569,810		1,222,870	1,487,563	5,280,243	10,376,562
Releases from restrictions			(2,996,923)		(2,996,923)	(2,939,816)
Contributions in kind	224,872				224,872	218,213
Rental income	525,203				525,203	818,849
Communication and publications	230,560				230,560	203,819
Other	579,404				579,404	278,272
Total revenues	171,874,791	-	(1,626,224)	1,487,563	171,736,130	169,267,489
Expenses						
Sponsored research						
National Science Foundation	48,427,780				48,427,780	46,159,787
United States Navy	24,566,738				24,566,738	17,252,140
Subcontracts	14,230,066				14,230,066	11,804,657
National Oceanic & Atmospheric Administration	10,517,222				10,517,222	12,434,847
Department of Energy	113,062				113,062	172,217
United States Geological Survey	1,167,050				1,167,050	1,394,934
National Aeronautics & Space Administration	2,179,120				2,179,120	1,708,155
Ships Operations	20,066,317				20,066,317	20,740,497
Submersible and ROV operations	5,887,286				5,887,286	5,853,868
Privately funded grants	5,610,730				5,610,730	5,510,417
Other	17,969,788				17,969,788	20,714,736
Education						
Faculty expense	3,961,106				3,961,106	3,535,377
Student expense	4,176,776				4,176,776	4,190,903
Postdoctoral programs	365,674				365,674	420,942
Other	1,187,948				1,187,948	736,859
Rental expenses	223,658				223,658	672,104
Communication, publications and development	2,463,065				2,463,065	2,322,604
Fundraising expenses	2,400,165				2,400,165	2,536,037
Unsponsored programs	7,299,446				7,299,446	8,842,687
Other expenses	1,871,265				1,871,265	3,704,390
Total expenses	174,684,262				174,684,262	170,708,158
Change in net assets from operating activities before reclassification of pension curtailment charge	(2,809,471)	-	(1,626,224)	1,487,563	(2,948,132)	(1,440,669)
Pension curtailment charge	(8,894,763)				(8,894,763)	-
Change in net assets from operating activities after reclassification of pension curtailment charge	(11,704,234)	-	(1,626,224)	1,487,563	(11,842,895)	(1,440,669)
Nonoperating income and expenses						
Investment return in excess of / (less than) amounts designated for sponsored research, education and current operations	12,930,021		38,259,623		51,189,644	(117,881,890)
Net realized/unrealized gains (losses) on interest rate swap	5,169,063				5,169,063	(10,395,615)
Change in split interest agreements	(4,586)		18,358	1,313,222	1,326,994	(3,055,594)
Other nonoperating expenses	(99,976)				(99,976)	(99,976)
Net periodic pension costs	(1,126,114)				(1,126,114)	(3,190,468)
Gain (loss) on property investment	74,334				74,334	(1,554,355)
Redesignation of gifts	31,657		(31,657)		-	(91,070)
Reclassification of pension curtailment charge	8,894,763				8,894,763	-
Pension related changes other than net periodic pension costs (Note 9)	25,404,221				25,404,221	(56,477,400)
Change in net assets from nonoperating activities	51,273,383	-	38,246,324	1,313,222	90,832,929	(192,746,368)
Total change in net assets	39,569,149	-	36,620,100	2,800,785	78,990,034	(194,187,037)
Net assets at beginning of year	(12,433,783)	-	168,404,533	77,894,975	233,865,725	428,052,762
Net assets at end of year	$ 27,135,366	$ -	$ 205,024,633	$ 80,695,760	$ 312,855,759	$ 233,865,725

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

Woods Hole Oceanographic Institution
Statement of Cash Flows
Year Ended December 31, 2009
(with summarized information for the year ended December 31, 2008)

	2009	2008
Cash flows from operating activities		
Total change in net assets	$ 78,990,034	$ (194,187,037)
Adjustments to reconcile increase (decrease) in net assets		
to net cash used in operating activities		
Depreciation and amortization	8,606,147	8,486,936
Change in split interest agreements	(1,326,994)	3,055,594
Allowance for uncollectible pledges	29,882	211,496
Discount on pledges	(72,694)	(493,872)
Net realized and unrealized (gain) loss on investments	(64,859,216)	108,397,038
Unrealized (gain) loss on interest swap	(7,053,860)	9,399,651
Pension related changes other than net periodic pension cost	(25,404,221)	56,477,400
Contributions to be used for long-term investment	(423,323)	(430,813)
(Gain) loss on property investment	(74,334)	1,554,355
Receipt of contributed securities	(117,044)	(279,407)
(Increase) decrease in assets		
Restricted cash	(1,134,343)	19,133
Interest and dividends receivable	309,696	(250,700)
Reimbursable costs and fees		
Billed	1,063,292	(2,923,934)
Unbilled	3,313,123	(5,784,625)
Other receivables	(110,404)	(109,845)
Pledges receivable	1,573,110	(1,021,371)
Inventory	104,389	170,821
Deferred charges and prepaid expenses	215,465	963,055
Other assets	2,613,954	267,490
Deferred finance costs	1,097,203	(225,612)
Supplemental retirement	(996,637)	2,053,501
Deferred fixed rate variance	(3,212,051)	(994,079)
Increase (decrease) in liabilities		
Accrued pension liability	1,126,114	3,190,468
Accrued pension liability restoration	32,336	10,308
Accounts payable and other liabilities	1,351,033	(1,138,881)
Accrued payroll and related liabilities	684,843	823,697
Deferred revenue and refundable advances	1,659,527	(435,159)
Accrued supplemental retirement benefits	996,637	(2,053,501)
Deferred fixed rate variance	-	(895,384)
Net cash used in operating activities	(1,018,336)	(16,143,277)
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(5,971,699)	(7,573,472)
Endowment		
Receivable for investments sold	(72,433)	85,202
Payable for investments purchased	(46,793)	(139,620)
Proceeds from the sale of investments	51,578,143	90,510,496
Purchase of investments	(44,576,737)	(76,043,237)
Change in construction fund	2,748,546	(10,111,687)
Change in funds for debt service and to pay Series A debt	53,700,000	(53,700,000)
Liquidation of contributed securities	117,044	279,407
Net cash provided by (used in) investing activities	57,476,071	(56,692,911)
Cash flows from financing activities		
Repayments under debt agreements	(54,385,000)	(1,150,000)
Borrowings under debt agreements	-	63,811,687
Borrowings under line of credit	2,117,444	3,882,556
Contributions to be used for long-term investment	423,323	430,813
Net cash (used in) provided by financing activities	(51,844,233)	66,975,056
Net increase (decrease) in cash and cash equivalents	4,613,501	(5,861,132)
Cash and cash equivalents, beginning of year	22,345,523	28,206,655
Cash and cash equivalents, end of year	$ 26,959,024	$ 22,345,523
Supplemental disclosures		
Cash paid for interest	$ 5,128,325	$ 4,308,449
Noncash activity		
Construction in process additions remaining in accounts payable	244,276	310,155
Contributed securities	117,044	279,407

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, 2008, 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 revenue 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. 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 $29,053 and $224,561 of conditional promises to give at December 31, 2009 and 2008, 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. 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, gains and losses over the amount appropriated under the Institution's spending plan are reported as nonoperating revenue (expense) as investment return in excess of (less than) amounts designated for sponsored research, education and current operations. Nonoperating expense also includes the change in value of split interest agreements, realized/unrealized losses on interest swaps, gains and losses on property investments and the net periodic pension cost on the noncontributory defined benefit pension plan that is not reimbursed through negotiated fixed rate agreements with the federal government. Additionally, nonoperating activities includes redesignation of donor gifts, depreciation on certain government-funded facilities and pension related changes other than net periodic pension costs.

The 2009 curtailment charge on the defined benefit pension plan is shown as a reclassification between non-operating activities and operating activities. Refer to the pension footnote for more details (Note 9).

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, which approximates market value.

Included in restricted cash at December 31, 2009 and 2008 is $2,821,013 and $1,701,678, 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, 2009 and 2008 is $563,301 and $548,293, 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 all uninvested amounts from pooled investments.

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, 2009 and 2008 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.

In 2009, new guidance related to the *Fair Value Measurement* standard was issued for estimating the fair value of investments in investment companies that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US generally accepted accounting principles (US GAAP). As a practical expedient, the Institution is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Institution's investments in private equity, venture capital, hedge funds and commingled funds are fair valued based on the most current NAV received.

The guidance also requires additional disclosure, to enable users of the financial statements to understand the nature and risk of the Institution's investments in investment companies. Furthermore, investments which can be redeemed at NAV by the Institution on the measurement date or in the near term are classified as Level 2. Investments which cannot be redeemed on the measurement date or in the near term are classified as Level 3. The new guidance did not materially affect the Institution's financial statements.

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 $15,348,009 and $15,958,373 for the years ended December 31, 2009 and 2008, respectively, and is classified in operating revenues (research, education, and operations).

Deposits with Trustees

Deposits with trustees consist principally of investments in United States Government obligations and have been deposited with trustees as required under certain loan agreements. At December 31, 2009 and 2008, respectively, the amounts consist of $92 and $53,700,092 for debt service and to pay Series A debt and $7,363,141 and $10,111,687 for construction purposes.

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% of its sponsored research revenues from government agencies including 46% and 47% of its operating revenues from the National Science Foundation and 17% and 13% from the United States Navy in fiscal years 2009 and 2008, 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 A 2004 (the “Series A Bonds”) and the Massachusetts Health and Educational Facilities Authority, Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series B (2008) (the “Series B Bonds”), have been deferred and are being amortized over the term of the obligation on a straight line basis, which approximates the effective interest method. Accumulated amortization on Series B bonds at December 31, 2009 and 2008 was $10,529 and $0, respectively. Additionally, during 2009, Series A deferred financing costs, net, of $532,664 were written-off to operating expense upon retirement of the bonds.

Interest Rate Swap
The Institution entered into an interest rate swap agreement on the Series A 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 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 $8,460,133 and $8,118,462 in 2009 and 2008, 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 2009 and 2008 has been charged to nonoperating expenses as these assets were gifted by the Government.

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.

Subsequent Events
Effective in 2009, the Institution implemented new accounting guidance, which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before the financial statements are issued. The adoption of this guidance did not impact the Institution's financial position or results of operations. Management evaluated all events or transactions that occurred after December 31, 2009 up through August 13, 2010, the date these financial statements were issued.

3. Investments

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

	2009		2008	
	Cost	**Market**	**Cost**	**Market**
U.S. equity	$ 45,101,665	$ 49,412,294	$ 48,938,730	$ 38,583,054
Global developed equity	50,997,277	55,383,404	51,033,390	37,527,967
Emerging markets equity	10,281,504	8,424,306	22,210,104	10,865,692
Marketable alternative assets	69,295,000	92,514,957	59,295,000	64,756,585
Real assets	19,250,000	19,484,191	27,026,449	20,025,017
Bonds	33,354,091	35,752,636	35,055,789	35,993,142
Nonmarketable assets	48,419,333	46,275,034	45,329,176	41,572,949
Total investments	$ 276,698,870	$ 307,246,822	$ 288,888,638	$ 249,324,406

Included in bonds and equities are alternative investment vehicles including commingled funds with a market value of $80,490,229 and $57,957,095 at December 31, 2009 and 2008, respectively, whose holdings are bonds and equities. Included in U.S. equity, marketable alternative assets and nonmarketable assets are hedge funds of $88,917,420 and $67,985,074 at December 31, 2009 and 2008, respectively. Included in global developed equity and nonmarketable assets are private equity and venture capital funds of $46,247,350 and $41,536,853 at December 31, 2009 and 2008, 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 total investments at December 31, 2009 and 2008, respectively, were $229,373,232 and $183,770,329.

The nonpooled investments consist of a common/collective trust fund invested in bonds with a market value of $0 at December 31, 2009 and $64,606 at December 31, 2008.

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

	Unrestricted	Temporarily restricted	2009 Total	2008 Total
Dividend and interest income	$ (3,263,771)	$ 6,354,464	$ 3,090,693	$ 8,055,786
Investment management costs	(1,412,258)	-	(1,412,258)	(1,582,265)
Net realized (losses) gains	(1,190,325)	(4,062,643)	(5,252,968)	5,010,768
Change in unrealized appreciation (depreciation)	22,502,129	47,610,055	70,112,184	(113,407,806)
Total return on investments	16,635,775	49,901,876	66,537,651	(101,923,517)
Investment return designated for				
Sponsored research	-	(5,287,791)	(5,287,791)	(5,949,866)
Education	-	(6,354,464)	(6,354,464)	(6,511,855)
Current operations	(3,705,754)	-	(3,705,754)	(3,496,652)
Total distributions to operations	(3,705,754)	(11,642,255)	(15,348,009)	(15,958,373)
Investment return in excess of (less than) amounts designated for sponsored research, education and current operations	$ 12,930,021	$ 38,259,621	$ 51,189,642	$ (117,881,890)

As a result of market declines, the fair value of certain donor restricted endowments is less than the historical cost value of such funds by $15,353 and $3,388,279 at December 31, 2009 and 2008, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such fund increases temporarily restricted net assets.

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:

	2009	2008
Unit value, beginning of year	$ 3.9408	$ 5.2520
Unit value, end of year	4.3372	3.9408
Net change for the year	.3964	(1.3112)
Investment income per unit for the year	.0226	.0993
Total return per unit	$ .4190	$ (1.2119)

4. Fair Value Disclosures

On January 1, 2008, the Institution adopted new accounting guidance issued by the Financial Accounting Standards Board ("FASB"), which establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

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

The following fair value hierarchy tables present information about the Institution's assets and liabilities measured at fair value on a recurring basis:

2009	Level 1	Level 2	Level 3	Total
Investments, pooled	$ 77,873,590	$ 95,472,357	$ 133,900,875	$ 307,246,822
Deposits with trustees	7,363,233	-	-	7,363,233
Other assets	-	-	940,249	940,249
Contribution receivable from remainder trust	-	-	9,814,334	9,814,334
Total assets at fair value	$ 85,236,823	$ 95,472,357	$ 144,655,458	$ 325,364,638

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ -	$ 5,817,790	$ 5,817,790
Total liabilities at fair value	$ -	$ -	$ 5,817,790	$ 5,817,790

2008	Level 1	Level 2	Level 3	Total
Investments, pooled	$ 65,554,077	$ -	$ 183,770,329	$ 249,324,406
Investments, nonpooled	-	-	64,606	64,606
Deposits with trustees	63,811,779	-	-	63,811,779
Other assets	-	-	879,869	879,869
Contribution receivable from remainder trust	-	-	8,483,567	8,483,567
Total assets at fair value	$ 129,365,856	$ -	$ 193,198,371	$ 322,564,227

	Level 1	Level 2	Level 3	Total
Interest rate swap	$ -	$ -	$ 12,871,650	$ 12,871,650
Total liabilities at fair value	$ -	$ -	$ 12,871,650	$ 12,871,650

Other assets consist primarily of investments held by various split-interest agreements.

The following table presents the assets and liability carried at fair value as of December 31, 2009 that are classified within level 3 of the fair value hierarchy.

2009	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Investments Pooled	Investments Nonpooled	Other Assets	Contributions Receivable from Remainder Trust	Interest Rate Swap
Balance, January 1, 2009	$ 183,770,329	$ 64,606	$ 879,869	$ 8,483,567	$ (12,871,650)
Realized gains/(losses)	76,305	(522)	-	-	-
Unrealized gains/(losses)	20,375,657	-	60,380	1,330,767	7,053,860
Purchases and sales	(897,887)	(64,084)	-	-	-
Transfers in and/or out of level 3	(69,423,529)	-	-	-	-
Balance, December 31, 2009	$ 133,900,875	$ -	$ 940,249	$ 9,814,334	$ (5,817,790)

As a result of adopting the new guidance for estimating fair value of investments, certain investments have been reclassified as Level 2 assets subject to criteria described above based upon the year end recorded amounts.

2008	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Investments Pooled	Investments Nonpooled	Other Assets	Contributions Receivable from Remainder Trust	Interest Rate Swap
Balance, January 1, 2008	$ 240,036,335	$ 70,036	$ 1,147,359	$ 11,477,118	$ (3,471,999)
Realized gains/losses	8,072,656	-	-	-	-
Unrealized gains/losses	(83,410,365)	(5,430)	(267,490)	(2,993,551)	(9,399,651)
Purchases and sales	19,071,703	-	-	-	-
Balance, December 31, 2008	$ 183,770,329	$ 64,606	$ 879,869	$ 8,483,567	$ (12,871,650)

The fair market value of the alternative investments described in the table below are based on net asset value per share of the investments as of December 31, 2009.

Asset Class	Fair Value (000)	Redemption Terms	Redemption Restrictions
U.S. equity	$ 11,407	Annually year end, Annually on inception	$3,083,998 subject to lock-up period of 3 years
Global developed equity	45,053	Monthly	
Emerging markets equity	8,424	Daily	
Marketable alternative assets	92,515	Monthly, Quarterly, Annual year end, Semi annual	$2,751,410 in non-redeemable side pocket and subject to lock-up period for up to 1 to 3 years
Real assets	19,484	Quarterly, Annual year end	Lock-up period for up to 1 year
Bonds	6,215	Daily	
Nonmarketable assets	46,275	Remaining lives of up to 10 years	Redemption not permitted
	$ 229,373		

As of December 31, 2009 the Institution had unfunded commitments relating to nonmarketable assets of approximately $23,129,000.

5. Pledges Receivable, Net

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. Discount rates used to calculate the present value of pledges receivable were 3.69% to 4.08% and 2.36% to 8.25% at December 31, 2009 and 2008, respectively.

Pledges receivable consist of the following at December 31:

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	$ 4,757,375	$ 6,034,724
One year to five years	6,815,469	7,111,230
Reserve for uncollectible pledges receivable	(530,099)	(500,217)
Unamortized discount	(591,220)	(663,914)
	$ 10,451,525	$ 11,981,823

6. Contribution Receivable from Remainder Trusts, Net

Contributions receivable from remainder trusts at December 31, 2009 and 2008 were $9,814,334 and $8,483,567, 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. For the year ended December 31, 2008, discount rates ranging from 6.4% to 7.0% were used in these calculations. For the year ended December 31, 2009, discount rates ranging from 5.0% to 8.0% were used in these calculations.

7. 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, 2007	$ (895,384)
2008 indirect costs	65,600,121
Amounts recovered	(63,710,658)
2008 change	1,889,463
Deferred Fixed Rate Variance asset, December 31, 2008	$ 994,079
2009 indirect costs	77,141,004
Amounts recovered	(73,928,953)
2009 change	3,212,051
Deferred Fixed Rate Variance asset, December 31, 2009	$ 4,206,130

As of December 31, 2009, the Institution has expended a cumulative amount in excess of recovered amounts of $4,206,130 which will be reflected as an addition to future year recoveries. This amount has been reported as an asset of the Institution.

8. Line of Credit, Bonds Payable and Interest Rate Swap

Indebtedness at December 31, 2009 and 2008 includes bonds issued through the Massachusetts Health and Education Facilities Authority (MHEFA). Balances of outstanding bonds payable at December 31 consisted of the following:

	2009	2008
MHEFA, Series A, Variable Rate Revenue Bonds	$ -	$ 53,700,000
MHEFA, Series B, Fixed Rate Revenue Bonds	64,315,000	65,000,000
Less: Series B unamortized bond discount	(883,742)	(919,813)
Bonds Payable	$ 63,431,258	$ 117,780,187

In fiscal 2004, proceeds were received from the offering of the $54,850,000 Massachusetts Health and Educational Facilities Authority, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series A (2004), (the “Series A Bonds”), which were used to repay the MHEFA B Pool loans and for campus construction 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.

On December 1, 2008, the Institution issued $65,000,000 Massachusetts Health and Educational Facilities Authority, Fixed Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series B (2008), (the "Series B Bonds"). The proceeds will be used for major maintenance and renovation projects throughout the Institution and were used to retire the Series A Bonds. The Series B Bonds mature in 2034 and bear fixed interest rates from 4.0% to 5.5% payable on June 1 and December 1 beginning in 2009. The Series B Bonds are collateralized by the Institution's unrestricted revenues. The Institution incurred costs of $268,500 associated with the issue which have been capitalized and are being amortized over the life of the bonds. At December 31, 2009 and 2008, deposits with trustees include $7,363,141 and $10,111,687 of construction funds held by trustees that will be drawn down to fund various construction projects. Debt covenants are consistent with the requirements under the Series A bond agreement as long as the interest rate swap agreement is in effect. The fair value of the Series B bond which is based on current traded values for the same or similar issues or on the current rates offered for debt of the same remaining maturities was $68,743,252 at December 31, 2009.

The Institution retired the Series A Bonds on January 2, 2009, the earliest possible call date, using the Series B Bond proceeds maintained in the debt service fund at December 31, 2008.

The Institution has an uncollateralized $20,000,000 line of credit. This line of credit bears interest at the Wall Street Journal Prime Rate. The Institution had $6,000,000 and $3,882,556 outstanding on the line of credit at December 31, 2009 and 2008, respectively. There is no expiration for the line of credit, but it is subject to review on May 1st of each year.

The aggregate maturities due on the Series B long-term debt at December 31, 2009 are as follows:

Fiscal Year	Principal Amount
2010	$ 1,415,000
2011	1,475,000
2012	1,530,000
2013	1,595,000
2014	1,655,000
Thereafter	56,645,000
	$ 64,315,000

In June 2004, the Institution entered into an interest rate swap agreement on the Series A Bonds (refinanced to Series B Bonds) in order to convert a portion of the variable rate debt to fixed rate, there by economically hedging against changes in the cash flow requirements of the Institution's variable rate debt obligations. The term of the swap is through June 1, 2034 and effectively locked in a fixed rate of 3.79% per annum. The agreement has a notional amount of $52,500,000. The Institution paid interest expense in association with the swap agreement of $1,884,797 and $995,964 which is reflected as part of the net realized/unrealized gains (losses) on interest swap at December 31, 2009 and 2008, respectively.

The fair value of the interest rate swap at December 31, 2009 and 2008 is as follows:

2009		2008	
Statement of Financial Position Location	**Fair Value**	**Statement of Financial Position Location**	**Fair Value**
Accounts payable and other liabilities	$ 5,817,790	Account payable and other liabilities	$ 12,871,650

The effect of the interest rate swap on the statement of activities for 2009 and 2008 is as follows:

Location of Gain (Loss) Recognized in Statement of Activities	**Amount of Gain (Loss) Recognized in Statement of Activities 2009**	**2008**
Nonoperating income and expenses		
Net realized/unrealized gains (losses) on interest rate swap	$ 5,169,063	$ (10,395,615)

9. 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 2009	Restoration Plan Pension Benefits 2008
Change in benefit obligation		
Benefit obligation at beginning of year	$ 29,807	$ -
Interest cost	1,928	1,769
Actuarial loss	7,917	28,038
Service cost	23,805	-
Benefit obligation at end of year	$ 63,457	$ 29,807
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	-	12,213
Actual return on plan assets	-	-
Benefits paid	-	(12,213)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (63,457)	$ (29,807)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (63,457)	$ (29,807)
Net amount recognized	$ (63,457)	$ (29,807)
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ 20,816	$ 19,499
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 63,457	$ 29,807
Accumulated benefit obligation	39,369	6,713
Component of net periodic benefit cost		
Interest cost	1,928	1,769
Service cost	23,805	-
Recognized actuarial loss	6,600	8,539
Net periodic benefit cost	$ 32,333	$ 10,308
Other changes in benefit obligations recognized in unrestricted net assets		
Net actuarial loss	$ 20,816	$ 19,499
Total recognized in nonoperating expense	$ 20,816	$ 19,499
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	6.50%
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	6.50%	6.25%
Rate of compensation increase	4.50%	4.50%

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year.

Amortization of net loss	$	9,691

Expected Contributions
The Institution anticipates contributing $0 to the Restoration Plan in 2010.

Estimated Future Benefit Payments
Future benefit payments are expected to be paid as follows:

Years		Benefit Payments
2010	$	-
2011		19,047
2012		79,392
2013		-
2014		-
2015 - 2019		-

	Qualified Plan Pension Benefits 2009	Qualified Plan Pension Benefits 2008
Change in benefit obligation		
Benefit obligation at beginning of year	$ 213,957,486	$ 216,059,940
Service cost	6,487,935	6,818,972
Interest cost	13,495,261	13,167,915
Actuarial loss (gain)	4,450,793	(5,418,314)
Benefits paid	(10,191,314)	(16,671,027)
Curtailment	(14,179,640)	-
Benefit obligation at end of year	$ 214,020,521	$ 213,957,486
Change in plan assets		
Fair value of plan assets at beginning of year	$ 129,578,093	$ 186,124,218
Employer contributions	9,663,645	7,935,274
Actual return on plan assets	20,313,009	(47,810,372)
Benefits paid	(10,191,314)	(16,671,027)
Fair value of plan assets at end of year	$ 149,363,433	$ 129,578,093
Funded status	$ (64,657,088)	$ (84,379,393)
Amounts recognized in the statement of financial position consist of		
Accrued pension liability	$ (64,657,088)	$ (84,379,393)
Net amount recognized	$ (64,657,088)	$ (84,379,393)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ 881,850	$ 11,455,419
Net actuarial loss	22,818,425	41,988,038
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 214,020,521	$ 213,957,486
Accumulated benefit obligation	195,440,440	178,423,527
Components of net periodic benefit cost		
Service cost	$ 6,487,935	$ 6,818,972
Interest cost	13,495,261	13,167,915
Recognition of benefit cost due to curtailment	8,894,763	-
Expected return on plan assets	(11,311,265)	(11,470,123)
Amortization of prior service cost	1,678,806	1,933,919
Recognized actuarial loss	439,022	675,059
Net periodic benefit cost	$ 19,684,522	$ 11,125,742
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Amortization of prior service cost	$ (1,678,806)	$ (1,933,919)
Amortization of actuarial loss	(439,022)	(675,059)
Net actuarial (gain) loss	(4,550,951)	53,862,181
Other adjustment (due to curtailment)	(23,074,403)	-
Total recognized in nonoperating (income) expense	$ (29,743,182)	$ 51,253,203

The Institution has reflected $9,663,645 and $7,935,274 for the years ended December 31, 2009 and 2008, 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 $1,126,114 and $3,190,468 for the years ending December 31, 2009 and 2008, respectively, of net periodic benefit cost is reflected in nonoperating expenses.

On January 8, 2010, the Institution's Board approved a plan change effective January 1, 2011 to stop future service crediting, but allow the effect of salary increases to continue until participants have no more than 25 years of service. Management has elected to treat this "soft freeze" as a pension curtailment, which is appropriate under generally accepted accounting principles. A curtailment is an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future service. As a result of this pension curtailment, $8,894,763 was reclassified out of non-operating income and expensed into operations as a curtailment charge. There is no net impact on unrestricted net assets as a result of this reclassification.

	Qualified Plan Pension Benefits	
	2009	**2008**
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	6.50%
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	6.50%	6.25%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	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.

Plan Assets

The Institution's pension plan weighted-average asset allocations at December 31, 2009 and 2008, and target allocations by asset category are as follows:

Asset Category	Target allocation	2009	2008
U.S. equity	12%	9%	11%
Global developed equity	14%	11%	16%
Emerging markets equity	3%	3%	4%
Marketable alternative assets	13%	15%	17%
Real assets	4%	4%	5%
Bonds	30%	39%	18%
Nonmarketable assets	17%	15%	27%
Cash and cash equivalents	7%	4%	2%
	100%	100%	100%

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 amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year	
Amortization of net prior service cost	$ 881,850
Amortization of net loss	12,216

Fair Value Disclosures

The following fair value hierarchy tables present information about the Qualified Plan's financial assets measured at fair value on a recurring basis:

2009	Level 1	Level 2	Level 3	Total
Money market fund	$ 7,181,754	$ -	$ -	$ 7,181,754
Common stocks	9,569,879	-	-	9,569,879
Registered investment companies and commingled funds	6,346,756	12,975,240	2,734,493	22,056,489
Fixed bonds	53,438,988	-	-	53,438,988
Venture capital limited partnerships	(410,630)	-	15,154,504	14,743,874
Hedge funds	-	3,414,719	31,111,345	34,526,064
Private equity funds	-	-	7,508,692	7,508,692
Total assets at fair value	$ 76,126,747	$ 16,389,959	$ 56,509,034	$ 149,025,740

The following table summarizes changes in the fair value of the Qualified Plan's Level 3 assets:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Investments Pooled
Balance, January 1, 2009	$ 60,789,940
Realized losses	(3,973,683)
Unrealized gains	10,485,251
Purchases and sales	(10,792,474)
Balance, December 31, 2009	$ 56,509,034

Expected Contributions
The Institution anticipates contributing $12,000,000 to the Qualified Plan in 2010.

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

Years	Benefit Payments
2010	$ 12,303,904
2011	15,223,595
2012	15,985,944
2013	17,495,631
2014	17,728,115
2015 - 2019	86,824,011

	Supplemental Plan Pension Benefits	
	2009	**2008**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,149,035	$ 2,656,213
Service cost	22,180	33,691
Interest cost	106,316	126,401
Actuarial gain	(423,309)	(516,225)
Benefits paid	-	(151,045)
Benefit obligation at end of year	$ 1,854,222	$ 2,149,035
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	-	151,045
Benefits paid	-	(151,045)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (1,854,222)	$ (2,149,035)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (1,854,222)	$ (2,149,035)
Net amount recognized	$ (1,854,222)	$ (2,149,035)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ 13,130	$ 19,491
Net actuarial gain	(1,225,816)	(1,169,664)
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 1,854,222	$ 2,149,035
Accumulated benefit obligation	1,780,310	2,057,077
Components of net periodic benefit cost		
Service cost	$ 22,180	$ 33,691
Interest cost	106,316	126,401
Expected return on earmarked reserves	(204,235)	(196,395)
Amortization of prior year service cost	6,361	6,620
Recognized actuarial gain	(320,251)	(234,572)
Net periodic benefit income	$ (389,629)	$ (264,255)

The accrued supplemental retirement is matched by a "Rabbi" Trust with $6,054,809 and $5,058,172, respectively, as of December 31, 2009 and 2008. An additional accrual of $4,200,587 and $2,909,137 has been established for the excess of the "Rabbi" Trust assets over the accrued supplemental retirement benefits at December 31, 2009 and 2008, respectively. Income earned on the investments earmarked for the supplemental retirement plan amounted to $157,329 and $171,052 for the years ended December 31, 2009 and 2008, respectively.

	Supplemental Plan Pension Benefits	
	2009	**2008**
Actual return on earmarked reserves	$ 157,329	$ 171,052
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.00%	6.50%
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	6.50%	6.25%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year

Amortization of net prior service cost	$ 6,305
Amortization of net loss (gain)	(229,054)

Expected Contributions
The Institution anticipates contributing $229,443 to the Supplemental Plan in 2010.

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

Years	**Benefit Payments**
2010	$ 229,443
2011	303,902
2012	350,410
2013	376,622
2014	329,949
2015 - 2019	544,522

10. 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 2009	Other Postretirement Benefits 2008
Change in benefit obligation		
Benefit obligation at beginning of year	$ 26,628,315	$ 29,716,604
Service cost	613,932	611,868
Interest cost	1,553,859	1,642,932
Benefits paid	(1,012,013)	(1,042,731)
Actuarial gain	(1,304,056)	(4,300,358)
Benefit obligation at end of year	$ 26,480,037	$ 26,628,315
Change in plan assets		
Fair value of plan assets at beginning of year	$ 15,481,618	$ 22,887,362
Employer contributions	1,447,782	447,218
Actual return on plan assets	3,973,070	(6,810,231)
Benefits paid	(1,012,013)	(1,042,731)
Fair value of plan assets at end of year	$ 19,890,457	$ 15,481,618
Funded status	$ (6,589,580)	$ (11,146,697)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (6,589,580)	$ (11,146,697)
Net amount recognized	$ (6,589,580)	$ (11,146,697)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ (7,255,664)	$ (8,095,510)
Net actuarial loss	14,634,072	20,031,035
Components of net periodic benefit cost		
Service cost	$ 613,932	$ 611,868
Interest cost	1,553,859	1,642,932
Expected return on plan assets	(1,216,918)	(1,788,961)
Amortization of prior service cost	(839,846)	(839,846)
Amortization of net loss	1,336,755	821,225
Net periodic benefit cost	$ 1,447,782	$ 447,218
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Amortization of prior service cost	$ 839,846	$ 839,846
Amortization of actuarial loss	(1,336,755)	(821,225)
Net actuarial loss	(4,060,208)	4,298,834
Total recognized in nonoperating (income) expense	$ (4,557,117)	$ 4,317,455

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

Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	6.25%	6.25%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	6.25%	6.50%
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.

	2009		**2008**	
	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	8.0%	6.5%	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	2016	2013	2016	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:

	2009 One-Percentage-Point Increase in Trend	**2008 One-Percentage-Point Increase in Trend**
Effect on total of service cost and interest cost components	$ 366,178	$ 383,612
Effect on year-end postretirement benefit obligation	3,807,547	3,934,941

	One-Percentage-Point Decrease in Trend	**One-Percentage-Point Decrease in Trend**
Effect on total of service cost and interest cost components	$ (293,825)	$ (307,472)
Effect on year-end postretirement benefit obligation	(3,141,146)	(3,229,098)

Plan Assets

The Institution's postretirement benefit plan weighted-average asset allocations at December 31, 2009 and 2008, by asset category are as follows:

Asset Category	2009	2008
Equity securities	76%	83%
Bonds	13%	0%
Cash and cash equivalents	11%	17%
	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.

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year	
Amortization of net prior service cost	$ (839,846)
Amortization of net loss	980,135

The following fair value hierarchy tables present information about the Postretirement Benefit Plan's financial assets measured at fair value on a recurring basis:

Fair Value Disclosures

2009	Level 1	Level 2	Level 3	Total
Money market	$ 2,243,704	$ -	$ -	$ 2,243,704
Common stock	9,647,458	-	-	9,647,458
Registered investment company	2,557,962	-	-	2,557,962
Bank collective investment fund	-	5,389,013	-	5,389,013
	$ 14,449,124	5,389,013	$ -	$ 19,838,137

Expected Contributions

The Institution anticipates contributing $1,000,000 to the Retiree Medical Plan in 2010.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2010	$ 1,337,557
2011	1,422,079
2012	1,485,778
2013	1,586,618
2014	1,624,960
2015 - 2019	9,215,345

11. Endowment

In August 2008, the FASB issued new accounting guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The following disclosures are made as required by this guidance.

The Institution's endowment consists of 135 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designed by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

At December 31, 2009, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 180,949,548	$ 65,177,328	$ 246,126,876
Board designated fund	71,718,939	-	-	71,718,939
Total funds	$ 71,718,939	$ 180,949,548	$ 65,177,328	$ 317,845,815

Changes in endowment net assets for the year ended December 31, 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	$ 58,793,501	$ 142,556,268	$ 63,190,783	$ 264,540,552
Investment return:				
Investment income	381,619	1,296,816	-	1,678,435
Net appreciation (realized and unrealized)	16,027,555	48,831,663	-	64,859,218
Total investment return	16,409,174	50,128,479	-	66,537,653
Contributions	-	115,302	673,323	788,625
Appropriation of endowment assets for expenditure	(3,479,150)	(11,868,859)	-	(15,348,009)
Change in split interest agreements	(4,586)	18,358	1,313,222	1,326,994
Endowment net assets end of year	$ 71,718,939	$ 180,949,548	$ 65,177,328	$ 317,845,815

At December 31, 2008, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$ 142,556,268	$ 63,190,783	$ 205,747,051
Board-designated fund	58,793,501	-	-	58,793,501
	$ 58,793,501	$ 142,556,268	$ 63,190,783	$ 264,540,552

Changes in endowment net assets for the year ended December 31, 2008, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 89,443,781	$ 229,796,930	$ 64,599,278	$ 383,839,989
Investment income	1,534,243	5,074,003	-	6,608,246
Net depreciation (realized and unrealized)	(28,450,909)	(79,946,129)	-	(108,397,038)
Total investment loss	(26,916,666)	(74,872,126)	-	(101,788,792)
Contributions	5,436	25,300	1,607,313	1,638,049
Appropriation of endowment assets for expenditure	(3,733,002)	(12,360,098)	-	(16,093,100)
Change in split interest agreements	(6,048)	(33,738)	(3,015,808)	(3,055,594)
Endowment net assets, end of year	$ 58,793,501	$ 142,556,268	$ 63,190,783	$ 264,540,552

12. 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 2007. 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, 2007 on March 31, 2009. The 2008 costs remain subject to audit. Any adjustments will be recorded in the years they become known.

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.

13. Related Party Transactions

The Institution's subcontracts 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 totaled $1,127,492 and $833,253 for the years ended December 31, 2009 and 2008, respectively. These subcontracts may include federal pass-through awards. 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, publication, research and student transactions were approximately $3,861,063 and $1,844,805 for the years ended December 31, 2009 and 2008, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are $1,022,750 and $893,393 at December 31, 2009 and 2008, respectively.