

# **Woods Hole Oceanographic Institution**

**Financial Statements  
December 31, 2011 and 2010**

# Woods Hole Oceanographic Institution

## Index

December 31, 2011 and 2010

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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, 2011, 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 2010 financial statements, and in our report dated August 1, 2011, 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*

July 16, 2012

**Woods Hole Oceanographic Institution**  
**Statements of Financial Position**  
**December 31, 2011 and 2010**

|   | 2011 |                        | 2010                              |                                   |                       |
|---|------|------------------------|-----------------------------------|-----------------------------------|-----------------------|
| <b>Assets</b>   |      |                        |                                   |                                   |                       |
| Cash and cash equivalents, unrestricted   | \$   | 2,368,310              | \$                                | 7,548,167                         |                       |
| Cash and cash equivalents, restricted   |      | 11,100,701             |                                   | 2,366,427                         |                       |
| Reimbursable costs and fees   |      |                        |                                   |                                   |                       |
| Billed (net of allowance for doubtful accounts of \$190,783 for 2011 and \$30,405 for 2010) |      | 4,600,373              |                                   | 5,666,094                         |                       |
| Unbilled  |      | 12,357,643             |                                   | 8,887,639                         |                       |
| Receivable for investments sold   |      | 9,892,620              |                                   | 192,737                           |                       |
| Interest and dividends receivable   |      | 202,859                |                                   | 221,067                           |                       |
| Other receivables   |      | 1,260,706              |                                   | 1,102,907                         |                       |
| Pledges receivable, net (Note 5)  |      | 4,106,212              |                                   | 7,337,618                         |                       |
| Inventory   |      | 2,204,477              |                                   | 1,850,872                         |                       |
| Deferred charges and prepaid expenses   |      | 920,382                |                                   | 731,269                           |                       |
| Investments, pooled (Note 3)  |      | 331,731,056            |                                   | 361,156,069                       |                       |
| Deposits with trustees for construction   |      | -                      |                                   | 3,177,682                         |                       |
| Deposits with trustees for debt service   |      | -                      |                                   | 92                                |                       |
| Deferred fixed rate variance (Note 7)   |      | 7,444,648              |                                   | 6,147,384                         |                       |
| Supplemental retirement   |      | 7,018,821              |                                   | 6,801,626                         |                       |
| Other assets  |      | 6,550,423              |                                   | 6,452,682                         |                       |
| Deferred financing costs  |      | 215,243                |                                   | 225,772                           |                       |
|   |      | <u>401,974,474</u>     |                                   | <u>419,866,104</u>                |                       |
| Property, plant and equipment   |      |                        |                                   |                                   |                       |
| Land, buildings and improvements  |      | 142,965,506            |                                   | 140,117,698                       |                       |
| Vessels and dock facilities   |      | 8,166,446              |                                   | 8,166,446                         |                       |
| Laboratory and other equipment  |      | 30,297,099             |                                   | 31,530,425                        |                       |
| Construction in process   |      | 6,696,699              |                                   | 1,105,389                         |                       |
|   |      | <u>188,125,750</u>     |                                   | <u>180,919,958</u>                |                       |
| Accumulated depreciation  |      | <u>(101,738,290)</u>   |                                   | <u>(96,695,400)</u>               |                       |
| Net property, plant and equipment   |      | <u>86,387,460</u>      |                                   | <u>84,224,558</u>                 |                       |
| Contributions receivable from remainder trusts, net (Note 6)                                |      | 9,288,971              |                                   | 10,420,847                        |                       |
| Total assets  |      | <u>\$ 497,650,905</u>  |                                   | <u>\$ 514,511,509</u>             |                       |
| <b>Liabilities</b>  |      |                        |                                   |                                   |                       |
| Line of credit (Note 8)   | \$   | 13,000,000             | \$                                | 3,000,000                         |                       |
| Accounts payable and other liabilities (Note 8)   |      | 19,288,163             |                                   | 14,652,631                        |                       |
| Accrued payroll and related liabilities   |      | 8,907,757              |                                   | 7,930,273                         |                       |
| Payable for investments purchased   |      | 250,151                |                                   | 436,484                           |                       |
| Accrued supplemental retirement benefits  |      | 7,018,821              |                                   | 6,801,626                         |                       |
| Accrued pension and restoration liability   |      | 95,572,295             |                                   | 66,286,872                        |                       |
| Accrued postretirement liability  |      | 10,061,383             |                                   | 5,910,392                         |                       |
| Deferred revenue and refundable advances  |      | 18,809,354             |                                   | 13,389,434                        |                       |
| Bonds payable (Note 8)  |      | 60,613,400             |                                   | 62,052,329                        |                       |
| Total liabilities   |      | <u>\$ 233,521,324</u>  |                                   | <u>\$ 180,460,041</u>             |                       |
|   |      |                        |                                   |                                   |                       |
|   |      | <b>Unrestricted</b>    | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> |                       |
| <b>Net assets</b>   |      |                        |                                   |                                   |                       |
| Undesignated and plant  | \$   | (214,396)              | \$                                | -                                 | \$ (214,396)          |
| Pension   |      | (105,633,678)          |                                   | -                                 | (105,633,678)         |
| Designated  |      | 3,444,036              | 11,371,031                        | -                                 | 14,815,067            |
| Pledges and other   |      | -                      | 7,251,431                         | 14,844,104                        | 22,095,535            |
| Education   |      | -                      | 3,367,329                         | -                                 | 3,367,329             |
| Endowment and similar funds   |      | 81,499,584             | 180,557,211                       | 67,642,929                        | 329,699,724           |
| Total net assets  |      | <u>\$ (20,904,454)</u> | <u>\$ 202,547,002</u>             | <u>\$ 82,487,033</u>              | <u>264,129,581</u>    |
| Total liabilities and net assets  |      |                        |                                   |                                   | <u>\$ 497,650,905</u> |

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

# Woods Hole Oceanographic Institution

## Statements of Activities

### Year Ended December 31, 2011 and 2010

|  | Unrestricted           |                    |                        |                        | 2011                  | 2010                  |
|--|------------------------|--------------------|------------------------|------------------------|-----------------------|-----------------------|
|  | Operating              | Sponsored Research | Temporarily Restricted | Permanently Restricted |                       |                       |
| <b>Revenues</b>  |                        |                    |                        |                        |                       |                       |
| Fees   | \$ 1,947,853           | \$ -               | \$ -                   | \$ -                   | \$ 1,947,853          | \$ 1,486,309          |
| Sponsored research   |                        |                    |                        |                        |                       |                       |
| Government   |                        | 115,880,135        |                        |                        | 115,880,135           | 104,170,800           |
| Subcontract and nongovernment  |                        | 48,361,927         | 6,138,066              |                        | 54,499,993            | 44,431,861            |
| Ships and subs operations  |                        | 26,732,475         |                        |                        | 26,732,475            | 28,220,441            |
| Sponsored research assets released to operations   | 196,629,267            | (190,974,537)      | (5,654,730)            |                        | -                     | -                     |
| Fixed price awards income  | 603,399                |                    |                        |                        | 603,399               | 322,737               |
| Education  |                        |                    |                        |                        |                       |                       |
| Joint program income   | 4,358,082              |                    |                        |                        | 4,358,082             | 4,004,251             |
| Endowment income   |                        |                    | 6,739,809              |                        | 6,739,809             | 6,620,679             |
| Education funds released from restriction  | 7,471,449              |                    | (7,471,449)            |                        | -                     | -                     |
| Investment return designated for current operations  | 4,057,239              |                    |                        |                        | 4,057,239             | 3,705,249             |
| Contributions and gifts  | 3,589,136              |                    | 2,085,607              | 2,148,090              | 7,822,833             | 7,584,234             |
| Releases from restrictions   |                        |                    | (3,378,863)            |                        | (3,378,863)           | (4,123,930)           |
| Contributions in kind  | 421,597                |                    |                        |                        | 421,597               | 157,073               |
| Rental income  | 552,453                |                    |                        |                        | 552,453               | 543,788               |
| Communication and publications   | 179,542                |                    |                        |                        | 179,542               | 216,875               |
| Gain on sale of Cotuit property  |                        |                    |                        |                        | -                     | 4,767,555             |
| Other  | 537,195                |                    |                        |                        | 537,195               | 346,153               |
| Total revenues   | <u>220,347,212</u>     | <u>-</u>           | <u>(1,541,560)</u>     | <u>2,148,090</u>       | <u>220,953,742</u>    | <u>202,454,075</u>    |
| <b>Expenses</b>  |                        |                    |                        |                        |                       |                       |
| Sponsored research   |                        |                    |                        |                        |                       |                       |
| National Science Foundation  | 63,726,002             |                    |                        |                        | 63,726,002            | 58,322,377            |
| United States Navy   | 21,114,130             |                    |                        |                        | 21,114,130            | 19,012,813            |
| Subcontracts   | 27,251,161             |                    |                        |                        | 27,251,161            | 21,766,505            |
| National Oceanic & Atmospheric Administration  | 14,898,477             |                    |                        |                        | 14,898,477            | 16,508,102            |
| Department of Energy   | 4,330                  |                    |                        |                        | 4,330                 | 25,846                |
| United States Geological Survey  | 1,570,495              |                    |                        |                        | 1,570,495             | 1,439,535             |
| National Aeronautics & Space Administration  | 3,673,084              |                    |                        |                        | 3,673,084             | 3,100,797             |
| Ships Operations   | 20,879,309             |                    |                        |                        | 20,879,309            | 22,564,280            |
| Submersible and ROV operations   | 5,853,166              |                    |                        |                        | 5,853,166             | 5,656,161             |
| Privately funded grants  | 8,084,841              |                    |                        |                        | 8,084,841             | 4,253,833             |
| Other  | 29,574,272             |                    |                        |                        | 29,574,272            | 23,607,613            |
| Education  |                        |                    |                        |                        |                       |                       |
| Faculty expense  | 4,436,076              |                    |                        |                        | 4,436,076             | 4,005,464             |
| Student expense  | 4,119,467              |                    |                        |                        | 4,119,467             | 4,162,758             |
| Postdoctoral programs  | 448,498                |                    |                        |                        | 448,498               | 252,544               |
| Other  | 1,242,671              |                    |                        |                        | 1,242,671             | 1,187,758             |
| Rental expenses  | 286,653                |                    |                        |                        | 286,653               | 232,130               |
| Communication, publications and development  | 1,461,559              |                    |                        |                        | 1,461,559             | 2,541,707             |
| Fundraising expenses   | 2,424,635              |                    |                        |                        | 2,424,635             | 2,308,049             |
| Un-sponsored programs  | 7,174,647              |                    |                        |                        | 7,174,647             | 6,559,167             |
| Other expenses   | 8,522,497              |                    |                        |                        | 8,522,497             | 1,175,960             |
| Total expenses   | <u>226,745,970</u>     | <u>-</u>           | <u>-</u>               | <u>-</u>               | <u>226,745,970</u>    | <u>198,683,399</u>    |
| Change in net assets from operating activities   | <u>(6,398,758)</u>     | <u>-</u>           | <u>(1,541,560)</u>     | <u>2,148,090</u>       | <u>(5,792,228)</u>    | <u>3,770,676</u>      |
| Nonoperating revenue and expenses  |                        |                    |                        |                        |                       |                       |
| Investment return (less than) in excess of amounts designated for sponsored research, education and current operations | (6,740,193)            |                    | (16,192,317)           |                        | (22,932,510)          | 21,473,418            |
| Net realized/unrealized (losses) on interest rate swap   | (7,282,701)            |                    |                        |                        | (7,282,701)           | (3,645,219)           |
| Change in split interest agreements  | (1,919)                |                    | 19,217                 | (1,145,768)            | (1,128,470)           | 583,949               |
| Other nonoperating expenses  | (99,976)               |                    |                        |                        | (99,976)              | (99,976)              |
| Other nonoperating income  | 750,412                |                    |                        |                        | 750,412               | -                     |
| Net periodic income - surplus of pension reimbursement over GAAP expense   | 5,450,062              |                    |                        |                        | 5,450,062             | 3,082,329             |
| Pension related changes other than net periodic pension costs (Note 9)   | (38,886,476)           |                    |                        |                        | (38,886,476)          | (3,969,468)           |
| Change in net assets from nonoperating activities  | <u>(46,810,791)</u>    | <u>-</u>           | <u>(16,173,100)</u>    | <u>(1,145,768)</u>     | <u>(64,129,659)</u>   | <u>17,425,033</u>     |
| Total change in net assets   | <u>(53,209,549)</u>    | <u>-</u>           | <u>(17,714,660)</u>    | <u>1,002,322</u>       | <u>(69,921,887)</u>   | <u>21,195,709</u>     |
| <b>Net assets</b>  |                        |                    |                        |                        |                       |                       |
| Beginning of year  | 32,305,095             |                    | 220,261,662            | 81,484,711             | 334,051,468           | 312,855,759           |
| End of year  | <u>\$ (20,904,454)</u> | <u>\$ -</u>        | <u>\$ 202,547,002</u>  | <u>\$ 82,487,033</u>   | <u>\$ 264,129,581</u> | <u>\$ 334,051,468</u> |

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

# Woods Hole Oceanographic Institution

## Statements of Cash Flows

### Year Ended December 31, 2011 and 2010

|   | <b>2011</b>         | <b>2010</b>         |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities</b>   |                     |                     |
| Total change in net assets  | \$ (69,921,887)     | \$ 21,195,709       |
| Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities |                     |                     |
| Depreciation and amortization   | 8,581,170           | 8,777,879           |
| Change in split interest agreements   | 1,128,470           | (583,949)           |
| Allowance for uncollectible pledges   | 103,596             | 96,320              |
| Discount on pledges   | 144,942             | 165,771             |
| Net realized and unrealized loss (gain) on investments  | 7,076,410           | (36,855,483)        |
| Unrealized loss on interest swap  | 5,447,368           | 1,777,116           |
| Pension related changes other than net periodic pension costs                                       | 38,886,476          | 3,969,468           |
| Contributions to be used for long-term investment   | (2,492,809)         | (601,972)           |
| Gain on sale of Cotuit property   | -                   | (4,767,555)         |
| Receipt of contributed securities   | (246,166)           | (281,518)           |
| (Increase) decrease in assets   |                     |                     |
| Restricted cash   | (8,734,274)         | 1,017,887           |
| Interest and dividends receivable   | 18,208              | (172,530)           |
| Reimbursable costs and fees   |                     |                     |
| Billed  | 1,065,721           | (246,998)           |
| Unbilled  | (3,470,004)         | (616,302)           |
| Other receivables   | (157,799)           | (30,767)            |
| Pledges receivable  | 2,982,869           | 2,851,816           |
| Inventory   | (353,605)           | (206,272)           |
| Deferred charges and prepaid expenses   | (189,113)           | (398,001)           |
| Other assets  | 2,168               | 272,457             |
| Deferred financing costs  | -                   | 22,234              |
| Supplemental retirement   | (217,195)           | (746,817)           |
| Deferred fixed rate variance  | (1,297,264)         | (1,941,254)         |
| Increase (decrease) in liabilities  |                     |                     |
| Accrued pension liability   | (5,479,882)         | (3,135,407)         |
| Accrued pension restoration liability   | 29,820              | 53,078              |
| Accounts payable and other liabilities  | (800,986)           | 801,080             |
| Accrued payroll and related liabilities   | 977,484             | 926,229             |
| Deferred revenue and refundable advances  | 5,419,920           | 4,663,347           |
| Accrued supplemental retirement benefits  | 217,195             | 746,817             |
| Net cash used in operating activities   | <u>(21,279,167)</u> | <u>(3,247,617)</u>  |
| <b>Cash flows from investing activities</b>   |                     |                     |
| Capital expenditures  |                     |                     |
| Additions to property and equipment   | (10,704,916)        | (7,242,257)         |
| Endowment   |                     |                     |
| Receivable for investments sold   | (9,699,883)         | (117,389)           |
| Payable for investments purchased   | (186,333)           | 403,110             |
| Proceeds from the sale of investments   | 81,729,242          | 102,096,110         |
| Purchase of investments   | (59,380,640)        | (98,104,130)        |
| Change in construction fund   | 3,177,682           | 4,185,459           |
| Change in debt service funds  | 92                  | -                   |
| Liquidation of contributed securities   | 146,257             | 281,518             |
| Proceeds from sale of Cotuit property   | -                   | 7,193,111           |
| Net cash provided by investing activities   | <u>5,081,501</u>    | <u>8,695,532</u>    |
| <b>Cash flows from financing activities</b>   |                     |                     |
| Repayments under debt agreement   | (1,475,000)         | (1,415,000)         |
| Borrowing under line of credit  | 27,500,000          | -                   |
| Repayments under line of credit   | (17,500,000)        | (3,000,000)         |
| Contributions to be used for long-term investment   | 2,492,809           | 601,972             |
| Net cash provided by (used in) financing activities   | <u>11,017,809</u>   | <u>(3,813,028)</u>  |
| Net (decrease) increase in cash and cash equivalents  | <u>(5,179,857)</u>  | <u>1,634,887</u>    |
| <b>Cash and cash equivalents</b>  |                     |                     |
| Beginning of year   | 7,548,167           | 5,913,280           |
| End of year   | <u>\$ 2,368,310</u> | <u>\$ 7,548,167</u> |
| <b>Supplemental disclosures</b>   |                     |                     |
| Cash paid for interest  | \$ 5,001,425        | \$ 5,361,261        |
| Noncash activity  |                     |                     |
| Construction in process additions remaining in accounts payable                                     | 112,851             | 120,295             |
| Contributed securities  | 246,166             | 281,518             |
| Contributed property  | -                   | 2,732,443           |

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

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

### December 31, 2011 and 2010

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#### 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, 2010, 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.

# Woods Hole Oceanographic Institution

## Notes to Financial Statements

### December 31, 2011 and 2010

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#### 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 restriction is 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. 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 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 revenues (expenses) also include the change in value of split interest agreements, realized/unrealized (losses) gains on interest rate swaps, and the net periodic pension income (cost) on the noncontributory defined benefit pension plan that is not reimbursed through negotiated fixed rate agreements with the federal government. Additionally, nonoperating activities include redesignation of donor gifts, depreciation on certain government-funded facilities and pension related changes other than net periodic pension costs.

In prior years, the gain or loss on the sale of property gifted was recorded through nonoperating revenues (expenses). In 2010, the Institution changed its policy to record such gains and losses through operations.



# **Woods Hole Oceanographic Institution**

## **Notes to Financial Statements**

### **December 31, 2011 and 2010**

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#### **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.

The Institution invests its cash and cash equivalents in money market funds at a financial institution which fully ensures the balances held.

Included in restricted cash at December 31, 2011 and 2010 is \$10,758,028 and \$2,026,863, respectively, representing advances received from the United States Navy, other U.S. Government and state agencies and others. Such amounts are restricted as to use for research programs. Interest earned on unspent funds from federal agencies is remitted to the federal government.

Also included in restricted cash at December 31, 2011 and 2010 is \$342,673 and \$339,564, 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.

#### **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, 2011 and 2010 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.

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.

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.

#### **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.

# **Woods Hole Oceanographic Institution**

## **Notes to Financial Statements**

### **December 31, 2011 and 2010**

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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, the Institution's annual operating budget should not exceed 5.0% of the Fund's trailing 36 month rolling average market value. This amounted to \$16,986,967 and \$16,297,548 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, respectively, the amounts consist of \$0 and \$3,177,774 for construction and debt service 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 85% of its sponsored research revenues from government agencies including 44% and 46% of its operating revenues directly from the National Science Foundation and 11% and 11% from the United States Navy in fiscal years 2011 and 2010, 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 Massdevelopment, 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.

#### **Interest Rate Swap**

The Institution entered into an interest rate swap agreement on the Massdevelopment, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue 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. The Series A bonds were retired on January 2, 2009.

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) gains on interest swap.

**Woods Hole Oceanographic Institution**  
**Notes to Financial Statements**  
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**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 \$8,534,594 and \$8,631,304 in 2011 and 2010, 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 2011 and 2010 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**

Management evaluated all events or transactions that occurred after December 31, 2011 up through July 16, 2012, the date these financial statements were issued and has concluded that there were no such events or transactions that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

**3. Investments**

The following table presents the classification and carrying value of investments at December 31:

|   | 2011           |                | 2010           |                |
|---|----------------|----------------|----------------|----------------|
|   | Cost           | Market         | Cost           | Market         |
| <b>Assets</b>   |                |                |                |                |
| Cash and cash equivalents   | \$ 17,527,893  | \$ 17,527,893  | \$ 19,147,281  | \$ 19,147,281  |
| Private equity, venture capital<br>and other limited partnerships | 57,118,110     | 66,162,403     | 68,369,601     | 81,544,702     |
| Commingled funds  | 83,255,419     | 96,766,567     | 82,728,358     | 103,636,279    |
| Hedge funds   | 41,295,000     | 56,201,376     | 41,295,000     | 58,111,282     |
| Mutual funds  | 37,325,555     | 33,102,710     | 33,392,959     | 34,373,998     |
| Domestic common stock   | 41,877,597     | 47,313,639     | 44,562,012     | 52,583,173     |
| Domestic fixed income   | 12,935,021     | 14,656,468     | 12,925,249     | 11,759,354     |
| Total assets at fair value  | \$ 291,334,595 | \$ 331,731,056 | \$ 302,420,460 | \$ 361,156,069 |

**Woods Hole Oceanographic Institution**  
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The following schedule summarizes the investment return and its classification in the statement of activities:

|  | Unrestricted          | Temporarily<br>restricted | 2011<br>Total          | 2010<br>Total        |
|--|-----------------------|---------------------------|------------------------|----------------------|
| Dividend and interest income   | \$ (3,000,220)        | \$ 6,739,809              | \$ 3,739,589           | \$ 2,804,907         |
| Investment management costs  | (2,608,722)           | -                         | (2,608,722)            | (1,889,424)          |
| Net realized gains   | 2,892,999             | 8,572,990                 | 11,465,989             | 8,667,823            |
| Change in unrealized appreciation  | <u>84,842</u>         | <u>(18,627,241)</u>       | <u>(18,542,399)</u>    | <u>28,187,660</u>    |
| Total return on investments  | <u>(2,631,101)</u>    | <u>(3,314,442)</u>        | <u>(5,945,543)</u>     | <u>37,770,966</u>    |
| Investment return designated for:  |                       |                           |                        |                      |
| Sponsored research   | -                     | (6,138,066)               | (6,138,066)            | (5,850,195)          |
| Education  | -                     | (6,739,809)               | (6,739,809)            | (6,620,679)          |
| Current operations   | <u>(4,109,092)</u>    | <u>-</u>                  | <u>(4,109,092)</u>     | <u>(3,826,674)</u>   |
| Total distributed to operations  | <u>(4,109,092)</u>    | <u>(12,877,875)</u>       | <u>(16,986,967)</u>    | <u>(16,297,548)</u>  |
| Investment return in excess of (less than) amounts designated for sponsored research, education and current operations | <u>\$ (6,740,193)</u> | <u>\$ (16,192,317)</u>    | <u>\$ (22,932,510)</u> | <u>\$ 21,473,418</u> |

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 \$397,068 and \$0 at December 31, 2011 and 2010, 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 is allocated to each individual fund based on a per unit valuation. The value of an investment unit at December 31, 2011 is as follows:

|   | 2011               | 2010             |
|---|--------------------|------------------|
| Unit value, beginning of year           | \$ 4.6230          | \$ 4.3372        |
| Unit value, end of year                 | <u>4.4968</u>      | <u>4.6230</u>    |
| Net change for the year                 | (0.1262)           | 0.2858           |
| Investment income per unit for the year | <u>0.0148</u>      | <u>0.0122</u>    |
| Total return per unit                   | <u>\$ (0.1114)</u> | <u>\$ 0.2980</u> |

**4. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as "exit price"). Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

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**Fair Value Hierarchy**

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the reporting entity's assumptions about the inputs market participants would use. The fair value hierarchy requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The hierarchy is described below:

- Level 1 Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment. Level 1 assets and liabilities primarily include debt and equity securities that are traded in an active exchange market.
- Level 2 Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Valuations using unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques.

The following tables summarize fair value measurements at December 31, 2011 and December 31, 2010 for financial assets measured at fair value:

|   | 2011  |   |  | Total<br>Fair Value |
|---|---|---|--|---------------------|
|   | Quoted Prices in<br>Active Markets<br>Level 1 | Significant Other<br>Observable Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |                     |
| <b>Assets</b>   |   |   |  |                     |
| Cash and cash equivalents   | \$ 17,527,893                                 | \$ -  | \$ -   | \$ 17,527,893       |
| Private equity, venture capital<br>and other limited partnerships | -   | 9,731,837   | 56,430,566                                       | 66,162,403          |
| Commingled funds  | -   | 96,766,567  | -  | 96,766,567          |
| Hedge funds   | -   | 13,032,279  | 43,169,097                                       | 56,201,376          |
| Mutual funds  | 33,102,710                                    | -   | -  | 33,102,710          |
| Domestic common stock   | 47,313,639                                    | -   | -  | 47,313,639          |
| Domestic fixed income   | 14,656,468                                    | -   | -  | 14,656,468          |
| Total investments, pooled   | 112,600,710                                   | 119,530,683                                       | 99,599,663                                       | 331,731,056         |
| Contributions receivable from remainder trust                     | -   | -   | 9,288,971  | 9,288,971           |
| Other assets  | -   | -   | 907,513  | 907,513             |
| Total assets at fair value  | \$ 112,600,710                                | \$ 119,530,683                                    | \$ 109,796,147                                   | \$ 341,927,540      |
| Interest rate swap  | \$ -  | \$ 13,042,274                                     | \$ -   | \$ 13,042,274       |
| Total liabilities at fair value                                   | \$ -  | \$ 13,042,274                                     | \$ -   | \$ 13,042,274       |

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|   | 2010  |   |  |                     |
|---|---|---|--|---------------------|
|   | Quoted Prices in<br>Active Markets<br>Level 1 | Significant Other<br>Observable Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Total<br>Fair Value |
| <b>Assets</b>   |   |   |  |                     |
| Cash and cash equivalents   | \$ 19,147,281                                 | \$ -  | \$ -   | \$ 19,147,281       |
| Private equity, venture capital<br>and other limited partnerships | -   | 9,786,629   | 71,758,073                                       | 81,544,702          |
| Commingled funds  | -   | 103,636,279                                       | -  | 103,636,279         |
| Hedge funds   | -   | 12,789,179  | 45,322,103                                       | 58,111,282          |
| Mutual funds  | 34,373,998                                    | -   | -  | 34,373,998          |
| Domestic common stock   | 52,583,173                                    | -   | -  | 52,583,173          |
| Domestic fixed income   | 11,759,354                                    | -   | -  | 11,759,354          |
| Total investments, pooled   | 117,863,806                                   | 126,212,087                                       | 117,080,176                                      | 361,156,069         |
| Contributions receivable from remainder trust                     | -   | -   | 10,420,847                                       | 10,420,847          |
| Other assets  | -   | -   | 909,681  | 909,681             |
| Deposits with trustees  | 3,177,774                                     | -   | -  | 3,177,774           |
| Total assets at fair value  | \$ 121,041,580                                | \$ 126,212,087                                    | \$ 128,410,704                                   | \$ 375,664,371      |
| Interest rate swap  | \$ -  | \$ 7,594,906                                      | \$ -   | \$ 7,594,906        |
| Total liabilities at fair value                                   | \$ -  | \$ 7,594,906                                      | \$ -   | \$ 7,594,906        |

The Institution has adopted a policy that defines near-term liquidity as those investments allowing liquidity within 90 days of the reporting period. Included in Level 2 are assets valued at NAV which are redeemable in the near term. Investments offering periodic transparency with opportunities for liquidity within 90 days of the reporting period consist of private equity and hedge funds and are reported in Level 2 at December 31, 2010 and 2011.

The following table presents the assets and liability carried at fair value as of December 31, 2011 and December 31, 2010 that are classified within Level 3 of the fair value hierarchy defined above:

|   | 2011                           |                               |                                 |              |                 |  | Balance,<br>December 31,<br>2011 |
|---|--------------------------------|-------------------------------|---------------------------------|--------------|-----------------|--|----------------------------------|
|   | Balance,<br>January 1,<br>2011 | Realized<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses) | Purchases    | Sales           | Transfers in<br>and/or out<br>of Level 3 |                                  |
| Private equity, venture capital<br>and other limited partnerships | \$ 71,758,073                  | \$ 1,460,539                  | \$ (1,613,295)                  | \$ 5,817,118 | \$ (11,325,897) | \$ (9,665,972)                           | \$ 56,430,566                    |
| Hedge funds   | 45,322,103                     | -                             | (2,153,006)                     | -            | -               | -  | 43,169,097                       |
| Contributions receivable from remainder trust                     | 10,420,847                     | -                             | (1,131,876)                     | -            | -               | -  | 9,288,971                        |
| Other assets  | 909,681                        | -                             | (2,168)                         | -            | -               | -  | 907,513                          |
|   | \$ 128,410,704                 | \$ 1,460,539                  | \$ (4,900,345)                  | \$ 5,817,118 | \$ (11,325,897) | \$ (9,665,972)                           | \$ 109,796,147                   |

|   | 2010                           |                               |                                 |               |                 |  | Balance,<br>December 31,<br>2010 |
|---|--------------------------------|-------------------------------|---------------------------------|---------------|-----------------|--|----------------------------------|
|   | Balance,<br>January 1,<br>2010 | Realized<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses) | Purchases     | Sales           | Transfers in<br>and/or out<br>of Level 3 |                                  |
| Private equity, venture capital<br>and other limited partnerships | \$ 86,250,230                  | \$ 5,287,780                  | \$ 2,588,956                    | \$ 21,382,696 | \$ (43,751,591) | \$ -                                     | \$ 71,758,071                    |
| Hedge funds   | 47,650,645                     | -                             | 3,786,208                       | -             | -               | (6,114,750)                              | 45,322,103                       |
| Contributions receivable<br>from remainder trust                  | 9,814,334                      | -                             | 606,513                         | -             | -               | -  | 10,420,847                       |
| Other assets  | 940,249                        | -                             | (30,568)                        | -             | -               | -  | 909,681                          |
| Interest rate swap  | (5,817,790)                    | -                             | -                               | -             | -               | 5,817,790                                | -                                |
|   | \$ 138,837,668                 | \$ 5,287,780                  | \$ 6,951,109                    | \$ 21,382,696 | \$ (43,751,591) | \$ (296,960)                             | \$ 128,410,702                   |

Reclassifications from Level 3 to Level 2 are due to changes in redemption features.

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The fair market value of the investments described in the table below are based on net asset value per share of the investments as of December 31, 2011.

| <b>Assets</b>  | <b>Fair Value</b>     | <b>Redemption Terms</b>  | <b>Redemption Restrictions</b>   |
|--|-----------------------|--|--|
| Private equity, venture capital and other limited partnerships | \$ 66,162,403         | Semi-annually, quarterly, annual (Dec), remaining lives up to 10 years | \$51,218,708 designated as illiquid and \$1,263,453 in nonredeemable side pockets and subject to lock-up period for up to 1 year |
| Commingled funds   | 96,766,567            | Monthly  |  |
| Hedge funds  | <u>56,201,376</u>     | Quarterly, annual (Dec)  |  |
| Total investments  | <u>\$ 219,130,346</u> |  |  |

The fair market value of the investments described in the table below are based on net asset value per share of the investments as of December 31, 2010.

| <b>Assets</b>  | <b>Fair Value</b>     | <b>Redemption Terms</b>  | <b>Redemption Restrictions</b>   |
|--|-----------------------|--|--|
| Private equity, venture capital and other limited partnerships | \$ 81,544,702         | Semi-annually, quarterly, annual (Dec), remaining lives up to 10 years | \$50,528,300 designated as illiquid and \$988,940 in nonredeemable side pockets and subject to lock-up period for up to 1 to 2 years |
| Commingled funds   | 103,636,279           | Monthly  |  |
| Hedge funds  | <u>58,111,282</u>     | Quarterly, annual (Dec)  | \$5,413,050 subject to lockup until December 31, 2011.   |
| Total investments  | <u>\$ 243,292,263</u> |  |  |

The Institution had unfunded commitments relating to endowment and pension plan assets of approximately \$20,408,955 and \$23,941,000 relating to private equity, venture capital and other limited partnerships as of December 31, 2011 and 2010, respectively.

**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 1.90% to 2.67% and 3.01% to 3.64% at December 31, 2011 and 2010, respectively.

Pledges receivable consist of the following at December 31:

|   | <b>2011</b>         | <b>2010</b>         |
|---|---------------------|---------------------|
| <b>Unconditional promises expected to be collected in</b> |                     |                     |
| Less than one year  | \$ 2,452,228        | \$ 4,368,838        |
| One year to five years                                    | 2,264,674           | 3,828,008           |
| Reserve for uncollectible pledges receivable              | (330,183)           | (433,779)           |
| Unamortized discount                                      | <u>(280,507)</u>    | <u>(425,449)</u>    |
|   | <u>\$ 4,106,212</u> | <u>\$ 7,337,618</u> |

**Woods Hole Oceanographic Institution**  
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**6. Contribution Receivable from Remainder Trusts, Net**

Contributions receivable from remainder trusts at December 31, 2011 and 2010 were \$9,288,971 and \$10,420,847, 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 years ended December 31, 2011 and 2010, discount rates ranging from 3.83% to 5.00% 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:

|  |                            |
|--|----------------------------|
| <b>Deferred fixed rate variance asset at December 31, 2009</b> | <b>\$ 4,206,130</b>        |
| 2010 indirect costs  | 82,792,417                 |
| Amounts recovered  | (80,347,537)               |
| Submission adjustment 2007                                     | <u>(503,626)</u>           |
| 2010 change  | <u>1,941,254</u>           |
| <b>Deferred fixed rate variance asset at December 31, 2010</b> | <b><u>6,147,384</u></b>    |
| 2011 indirect costs  | 86,130,987                 |
| Amounts recovered  | (84,687,717)               |
| Submission adjustment 2010                                     | <u>(146,006)</u>           |
| 2011 change  | <u>1,297,264</u>           |
| <b>Deferred fixed rate variance asset at December 31, 2011</b> | <b><u>\$ 7,444,648</u></b> |

As of December 31, 2011, the Institution has expended a cumulative amount in excess of recovered amounts of \$7,444,648 which will be reflected as an addition to future year recoveries. This amount has been reported as an asset of the Institution.



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

Indebtedness at December 31, 2011 and 2010 includes bonds issued through the Massdevelopment. Balances of outstanding bonds payable at December 31 consist of the following:

|   | <b>2011</b>          | <b>2010</b>          |
|---|----------------------|----------------------|
| Massdevelopment, Series B, Fixed Rate Revenue Bonds | \$ 61,425,000        | \$ 62,900,000        |
| Less: Series B unamortized bond discount            | <u>(811,600)</u>     | <u>(847,671)</u>     |
| Bonds Payable                                       | <u>\$ 60,613,400</u> | <u>\$ 62,052,329</u> |

In fiscal 2004, proceeds were received from the offering of the \$54,850,000 Massdevelopment, Variable Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series A (2004), (the "Series A Bonds"), which were used to repay the Massdevelopment 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 and temporarily restricted resources at a market value equal to at least 75% of all outstanding indebtedness.

On December 1, 2008, the Institution issued \$65,000,000 Massdevelopment, Fixed Rate Revenue Bonds, Woods Hole Oceanographic Institution Issue, Series B (2008), (the "Series B Bonds"). The proceeds were 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. 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 \$71,495,546 at December 31, 2011.

The Institution maintains two uncollateralized lines of credit with two separate banks. The lines of credit in the aggregate allow for a maximum borrowing capacity of \$35,000,000. One agreement, with a maximum capacity of \$25,000,000, bears interest at 1% below the Wall Street Journal Prime Rate, contains no expiration date but is subject to annual reviews on or about August 31. The second line of credit, established during 2011, with a maximum capacity of \$10,000,000, bears interest at the prevailing LIBOR rate plus .60% per annum and expires June 13, 2012. The Institution had outstanding borrowing on lines of credit of \$13,000,000 and \$3,000,000 at December 31, 2011 and 2010, respectively.

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The aggregate maturities due on the Series B long-term debt at December 31, 2011 are as follows:

| <b>Fiscal Year</b> | <b>Principal Amount</b> |
|--------------------|-------------------------|
| 2012               | \$ 1,530,000            |
| 2013               | 1,595,000               |
| 2014               | 1,655,000               |
| 2015               | 1,725,000               |
| 2016               | 1,790,000               |
| Thereafter         | <u>53,130,000</u>       |
|                    | <u>\$ 61,425,000</u>    |

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, thereby 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 \$49,950,000. The Institution paid interest expense in association with the swap agreement of \$1,835,333 and \$1,868,103 which is reflected as part of the net realized/unrealized (losses) gains on interest rate swap at December 31, 2011 and 2010, respectively.

The fair value of the interest rate swap at December 31, 2011 and 2010 is as follows:

|   | <u>Fair Value</u> |              |
|---|-------------------|--------------|
|   | <u>2011</u>       | <u>2010</u>  |
| <b>Statement of financial position location</b> |                   |              |
| Accounts payable and other liabilities          | \$ 13,042,274     | \$ 7,594,906 |

The effect of the interest rate swap on the statement of activities for 2011 and 2010 is as follows:

|  | <u>Amount of (Loss) Gain Recognized in Statement of Activities</u> |                |
|--|--|----------------|
|  | <u>2011</u>  | <u>2010</u>    |
| <b>Location of (loss) gain recognized in statement of activities</b> |  |                |
| Nonoperating income and expenses                                     |  |                |
| Net realized/unrealized (losses) gains on interest rate swap         | \$ (7,282,701)   | \$ (3,645,219) |

**Woods Hole Oceanographic Institution**  
**Notes to Financial Statements**  
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**9. Retirement Plans**

The Institution maintains a noncontributory defined benefit pension plan covering substantially all employees of the Institution (Qualified Plan), 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.

Effective August 1, 2010, the Institution entered into a new 403(b) Defined Contribution Plan (DC Plan). Effective January 1, 2010, no new participants were allowed to enter the Qualified Plan and Restoration Plan but were eligible to participate in the DC Plan. The Qualified Plan and Restoration Plan were placed under a soft freeze for current participants with all future retirement benefits being earned through the new plan and prior benefits adjusted for future salary increases.

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

|  | <b>Restoration Plan<br/>Pension Benefits</b> |                     |
|--|--|---------------------|
|  | <b>2011</b>                                  | <b>2010</b>         |
| Change in benefit obligation   |  |                     |
| Benefit obligation at beginning of year  | \$ 129,017                                   | \$ 63,457           |
| Service cost   | 530  | 29,486              |
| Interest cost  | 4,979  | 5,269               |
| Actuarial loss   | 14,673                                       | 30,805              |
| Benefits paid  | <u>(47,784)</u>                              | <u>-</u>            |
| Benefit obligation at end of year  | <u>101,415</u>                               | <u>129,017</u>      |
| Change in plan assets  |  |                     |
| Fair value of plan assets at beginning of year   | -  | -                   |
| Employer contributions   | 47,784                                       | -                   |
| Actual return on plan assets   | -  | -                   |
| Benefits paid  | <u>(47,784)</u>                              | <u>-</u>            |
| Fair value of plan assets at end of year   | <u>-</u>                                     | <u>-</u>            |
| Funded status  | <u>\$ (101,415)</u>                          | <u>\$ (129,017)</u> |
| Amounts recognized in the statement of financial position consist of                                 |  |                     |
| Accrued benefit liability  | <u>\$ (101,415)</u>                          | <u>\$ (129,017)</u> |
| Net amount recognized  | <u>\$ (101,415)</u>                          | <u>\$ (129,017)</u> |
| Amounts recognized in unrestricted net assets  |  |                     |
| Net actuarial loss   | <u>\$ 23,660</u>                             | <u>\$ 33,298</u>    |
| Information for pension plans with accumulated benefit obligations in excess of plan assets          |  |                     |
| Projected benefit obligation   | \$ 101,415                                   | \$ 129,017          |
| Accumulated benefit obligation   | <u>96,757</u>                                | <u>121,489</u>      |
| Component of net periodic benefit cost   |  |                     |
| Interest cost  | \$ 4,979                                     | \$ 5,269            |
| Service cost   | 530  | 29,486              |
| Recognized actuarial loss  | 13,137                                       | 18,323              |
| Other adjustment   | <u>11,174</u>                                | <u>-</u>            |
| Net periodic benefit cost  | <u>\$ 29,820</u>                             | <u>\$ 53,078</u>    |
| Other changes in benefit obligations recognized in unrestricted net assets                           |  |                     |
| Amortization of net gain (loss)  | \$ (13,137)                                  | \$ (18,323)         |
| Settlement adjustment  | (11,174)                                     | -                   |
| Net actuarial gain (loss)  | <u>14,673</u>                                | <u>30,805</u>       |
| Total recognized in nonoperating expense   | <u>\$ (9,638)</u>                            | <u>\$ 12,482</u>    |
| Weighted-average assumptions used to determine benefit obligations at December 31                    |  |                     |
| Discount rate  | 4.90 %                                       | 5.75 %              |
| Rate of compensation increase  | 4.50   | 4.50                |
| Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 |  |                     |
| Discount rate  | 5.75 %                                       | 6.00 %              |
| Rate of compensation increase  | 4.50   | 4.50                |

**Woods Hole Oceanographic Institution**  
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Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year.

|                          |           |
|--------------------------|-----------|
| Amortization of net loss | \$ 13,518 |
|--------------------------|-----------|

**Expected Contributions**

The Institution anticipates contributing \$0 to the Restoration Plan in 2012.

**Estimated Future Benefit Payments**

Future benefit payments are expected to be paid as follows:

| <b>Years</b> | <b>Benefit<br/>Payments</b> |
|--------------|-----------------------------|
| 2012         | \$ -                        |
| 2013         | 107,059                     |
| 2014         | -                           |
| 2015         | -                           |
| 2016         | -                           |
| 2017 - 2020  | -                           |

**Woods Hole Oceanographic Institution**  
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|   | <b>Qualified Plan<br/>Pension Benefits</b> |                        |
|---|--|------------------------|
|   | <b>2011</b>                                | <b>2010</b>            |
| Change in benefit obligation  |  |                        |
| Benefit obligation at beginning of year   | \$ 235,775,855                             | \$ 214,020,521         |
| Service cost  | -  | 6,709,853              |
| Interest cost   | 13,306,618                                 | 12,411,735             |
| Actuarial loss  | 35,721,357                                 | 11,168,875             |
| Benefits paid   | <u>(8,963,567)</u>                         | <u>(8,535,129)</u>     |
| Benefit obligation at end of year   | <u>275,840,263</u>                         | <u>235,775,855</u>     |
| Change in plan assets   |  |                        |
| Fair value of plan assets at beginning of year  | 169,618,000                                | 149,363,433            |
| Employer contributions  | 9,216,003                                  | 12,224,000             |
| Actual return on plan assets  | 10,498,947                                 | 16,565,696             |
| Benefits paid   | <u>(8,963,567)</u>                         | <u>(8,535,129)</u>     |
| Fair value of plan assets at end of year  | <u>180,369,383</u>                         | <u>169,618,000</u>     |
| Funded status   | <u>\$ (95,470,880)</u>                     | <u>\$ (66,157,855)</u> |
| Amounts recognized in the statement of financial position consist of                        |  |                        |
| Accrued benefit liability   | <u>\$ (95,470,880)</u>                     | <u>\$ (66,157,855)</u> |
| Net amount recognized   | <u>\$ (95,470,880)</u>                     | <u>\$ (66,157,855)</u> |
| Amounts recognized in unrestricted net assets   |  |                        |
| Net actuarial loss  | <u>\$ 62,532,339</u>                       | <u>\$ 27,729,021</u>   |
| Information for pension plans with accumulated benefit obligations in excess of plan assets |  |                        |
| Projected benefit obligation  | \$ 275,840,263                             | \$ 235,775,855         |
| Accumulated benefit obligation  | <u>254,762,772</u>                         | <u>217,313,647</u>     |
| Components of net periodic benefit cost   |  |                        |
| Service cost  | \$ -                                       | \$ 6,709,853           |
| Interest cost   | 13,306,618                                 | 12,411,735             |
| Expected return on plan assets  | (11,172,898)                               | (10,365,233)           |
| Amortization of prior service cost  | -  | 881,850                |
| Recognized actuarial loss   | <u>1,591,990</u>                           | <u>57,816</u>          |
| Net periodic benefit cost   | <u>\$ 3,725,710</u>                        | <u>\$ 9,696,021</u>    |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets  |  |                        |
| Amortization of prior service cost  | \$ -                                       | \$ (881,850)           |
| Amortization of actuarial loss  | (1,591,990)                                | (57,816)               |
| Net actuarial (gain) loss   | <u>36,395,308</u>                          | <u>4,968,412</u>       |
| Total recognized in nonoperating expense  | <u>\$ 34,803,318</u>                       | <u>\$ 4,028,746</u>    |

**Woods Hole Oceanographic Institution**  
**Notes to Financial Statements**  
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The Institution has reflected \$9,216,003 and \$12,224,000 for the years ended December 31, 2011 and 2010, respectively, in the operating section of the statement of activities which represents employer contributions reimbursed through the employee benefit fixed rate as negotiated with the United States Government. Any difference between the employer contributions and the net periodic benefit cost is recorded in the nonoperating section of the statement of activities. This difference amounted to \$5,490,293 and \$2,527,979 for the years ended December 31, 2011 and 2010, respectively.

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. In addition, an option to elect a single lump sum payment in lieu of an annuity was added.

|   | <b>Qualified Plan<br/>Pension Benefits</b> |             |
|---|--|-------------|
|   | <b>2011</b>                                | <b>2010</b> |
| <b>Weighted-average assumptions used to determine benefit obligations at December 31</b>                    |  |             |
| Discount rate   | 4.90 %                                     | 5.75 %      |
| Rate of compensation increase   | 4.50                                       | 4.50        |
| <b>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31</b> |  |             |
| Discount rate   | 5.75 %                                     | 6.00 %      |
| Expected long-term rate of return on plan assets  | 7.00                                       | 7.00        |
| 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 7.00% assumption as of December 31, 2011 and 2010.

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**Plan Assets**

The Institution's pension plan weighted-average asset allocations at December 31, 2011 and 2010, and target allocations by asset category are as follows:

| <b>Asset Category</b>         | <b>Target Allocation<br/>2011</b> | <b>Asset Allocation<br/>12/31/2011</b> | <b>2010</b>  |
|-------------------------------|-----------------------------------|--|--------------|
| U.S. equity                   | 15.0 %                            | 13.7 %                                 | 8.9 %        |
| Global developed              | 12.0                              | 11.9                                   | 10.9         |
| Emerging markets              | 5.0                               | 4.0                                    | 2.6          |
| Marketable alternative assets | 15.0                              | 13.9                                   | 13.9         |
| Real assets                   | 5.0                               | 4.0                                    | 0.0          |
| Bonds                         | 30.0                              | 35.3                                   | 35.9         |
| Nonmarketable assets          | 15.0                              | 12.8                                   | 13.7         |
| Cash and cash equivalents     | 3.0                               | 4.4                                    | 14.1         |
| <b>Total assets</b>           | <b>100 %</b>                      | <b>100 %</b>                           | <b>100 %</b> |

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 loss \$ 5,414,985

**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:

|  | <b>2011</b>           |                      |                      | <b>Total</b>          |
|--|-----------------------|----------------------|----------------------|-----------------------|
|  | <b>Level 1</b>        | <b>Level 2</b>       | <b>Level 3</b>       |                       |
| <b>Assets</b>  |                       |                      |                      |                       |
| Cash and cash equivalents                                      | \$ 12,300,510         | \$ -                 | \$ -                 | \$ 12,300,510         |
| Private equity, venture capital and other limited partnerships | -                     | -                    | 25,419,172           | 25,419,172            |
| Commingled funds   | -                     | 20,539,477           | -                    | 20,539,477            |
| Hedge funds  | -                     | 7,831,419            | 16,930,838           | 24,762,257            |
| Mutual funds   | 13,042,669            | -                    | -                    | 13,042,669            |
| Domestic common stock  | 22,974,920            | -                    | -                    | 22,974,920            |
| Domestic fixed income  | 60,673,394            | -                    | -                    | 60,673,394            |
| <b>Total assets at fair value</b>                              | <b>\$ 108,991,493</b> | <b>\$ 28,370,896</b> | <b>\$ 42,350,010</b> | <b>\$ 179,712,399</b> |



**Woods Hole Oceanographic Institution**  
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|  | 2010                  |                      |                      |                       |
|--|-----------------------|----------------------|----------------------|-----------------------|
|  | Level 1               | Level 2              | Level 3              | Total                 |
| <b>Assets</b>  |                       |                      |                      |                       |
| Cash and cash equivalents                                      | \$ 24,799,424         | \$ -                 | \$ -                 | \$ 24,799,424         |
| Private equity, venture capital and other limited partnerships | -                     | -                    | 28,364,596           | 28,364,596            |
| Commingled funds   | -                     | 10,975,821           | -                    | 10,975,821            |
| Hedge funds  | -                     | 7,673,507            | 14,614,822           | 22,288,329            |
| Mutual funds   | 11,712,692            | -                    | -                    | 11,712,692            |
| Domestic common stock  | 11,408,501            | -                    | -                    | 11,408,501            |
| Domestic fixed income  | 59,620,746            | -                    | -                    | 59,620,746            |
| Total assets at fair value                                     | <u>\$ 107,541,363</u> | <u>\$ 18,649,328</u> | <u>\$ 42,979,418</u> | <u>\$ 169,170,109</u> |

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

|                                      | Private Equity,<br>Venture Capital<br>and Other<br>Limited<br>Partnerships |                      |                      | Hedge Funds | Total |
|--------------------------------------|--|----------------------|----------------------|-------------|-------|
|                                      |  |                      |                      |             |       |
| <b>Balances at January 1, 2011</b>   | \$ 28,364,596  | \$ 14,614,822        | \$ 42,979,418        |             |       |
| Realized gain                        | 1,214,888  | -                    | 1,214,888            |             |       |
| Unrealized (loss) gain               | (2,422,669)  | (683,984)            | (3,106,653)          |             |       |
| Purchases                            | 4,360,300  | 3,000,000            | 7,360,300            |             |       |
| Sales                                | (6,097,943)  | -                    | (6,097,943)          |             |       |
| <b>Balances at December 31, 2011</b> | <u>\$ 25,419,172</u>   | <u>\$ 16,930,838</u> | <u>\$ 42,350,010</u> |             |       |

|                                     | Private Equity,<br>Venture Capital<br>and Other<br>Limited<br>Partnerships |                      |                      | Hedge Funds | Total |
|-------------------------------------|--|----------------------|----------------------|-------------|-------|
|                                     |  |                      |                      |             |       |
| <b>Balances at January 1, 2010</b>  | \$ 39,403,191  | \$ 17,105,843        | \$ 56,509,034        |             |       |
| Realized gain                       | 3,140,364  | -                    | 3,140,364            |             |       |
| Unrealized (loss) gain              | (696,744)  | 1,177,721            | 480,977              |             |       |
| Purchases                           | 1,988,592  | -                    | 1,988,592            |             |       |
| Sales                               | (15,470,807)   | -                    | (15,470,807)         |             |       |
| Transfer in and/or out of Level 3   | -  | (3,668,742)          | (3,668,742)          |             |       |
| <b>Balance at December 31, 2010</b> | <u>\$ 28,364,596</u>   | <u>\$ 14,614,822</u> | <u>\$ 42,979,418</u> |             |       |

**Expected Contributions**

The Institution anticipates contributing \$14,000,000 to the Qualified Plan in 2012.

**Woods Hole Oceanographic Institution**  
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**Estimated Future Benefit Payments**

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

| Years     | Benefit Payments |
|-----------|------------------|
| 2012      | \$ 9,000,000     |
| 2013      | 20,973,757       |
| 2014      | 19,987,501       |
| 2015      | 20,759,612       |
| 2016      | 19,798,020       |
| 2017–2021 | 91,847,858       |

|   | <b>Supplemental Plan<br/>Pension Benefits</b> |                     |
|---|---|---------------------|
|   | <b>2011</b>                                   | <b>2010</b>         |
| <b>Change in benefit obligation</b>                   |   |                     |
| Benefit obligation at beginning of year               | \$ -  | \$ 1,854,222        |
| Service cost  | -   | 11,955              |
| Interest cost   | -   | 81,587              |
| Actuarial (gain) loss                                 | 335,013                                       | (1,947,764)         |
| Benefits paid   | (20,055)                                      | -                   |
| Benefit obligation at end of year                     | <u>314,958</u>                                | <u>-</u>            |
| <b>Change in obligation for nonreturnable funding</b> |   |                     |
| Obligation at beginning of year                       | 6,801,625                                     | 4,792,099           |
| Service cost  | -   | (11,955)            |
| Interest cost   | -   | (81,587)            |
| Actuarial gain (loss)                                 | (335,013)                                     | 1,947,764           |
| Investment return                                     | 237,251                                       | 155,304             |
| Other obligation at end of year                       | <u>6,703,863</u>                              | <u>6,801,625</u>    |
| Total obligation at end of year                       | <u>\$ 7,018,821</u>                           | <u>\$ 6,801,625</u> |

The accrued supplemental retirement obligation is matched by a "Rabbi" Trust which is recorded as an asset on the balance sheet. However, Woods Hole is obligated to use the funds only for the supplemental retirement of similar benefits.

|  | <b>2011</b>         | <b>2010</b>         |
|--|---------------------|---------------------|
| <b>Change in nonreturnable funding "Rabbi" Trust</b> |                     |                     |
| Nonreturnable funding at beginning of year           | \$ 6,801,625        | \$ 6,646,321        |
| Investment return                                    | 237,251             | 155,304             |
| Benefits paid  | (20,055)            | -                   |
| Nonreturnable funding "Rabbi" Trust at end of year   | <u>\$ 7,018,821</u> | <u>\$ 6,801,625</u> |

**Woods Hole Oceanographic Institution**  
**Notes to Financial Statements**  
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|   | <b>Supplemental Plan<br/>Pension Benefits</b> |             |
|---|---|-------------|
|   | <b>2011</b>                                   | <b>2010</b> |
| <b>Actual return on earmarked reserves</b>  | \$ 237,250                                    | \$ 155,304  |
| <b>Weighted-average assumptions used to determine benefit obligations at December 31</b>                    |   |             |
| Discount rate   | 4.90 %  | 5.75 %      |
| Rate of compensation increase   | 4.50  | 4.50        |
| <b>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31</b> |   |             |
| Discount rate   | 5.75 %  | 6.00 %      |
| Expected long-term rate of return on plan assets  | 7.00  | 7.00        |
| 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 | \$ 520    |
| Amortization of net loss (gain)        | (383,909) |

**Expected Contributions**

The Institution anticipates contributing \$79,746 to the Supplemental Plan in 2012.

**Estimated Future Benefit Payments**

| <b>Years</b> | <b>Benefit<br/>Payments</b> |
|--------------|-----------------------------|
| 2012         | \$ 79,746                   |
| 2013         | 79,373                      |
| 2014         | 78,954                      |
| 2015         | 78,477                      |
| 2016         | 43,297                      |
| 2017–2021    | -                           |

**Woods Hole Oceanographic Institution**  
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**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.

|  | <b>Other</b>                   |                       |
|--|--------------------------------|-----------------------|
|  | <b>Postretirement Benefits</b> |                       |
|  | <b>2011</b>                    | <b>2010</b>           |
| Change in benefit obligation   |                                |                       |
| Benefit obligation at beginning of year  | \$ 27,876,503                  | \$ 26,480,037         |
| Service cost   | 631,717                        | 604,895               |
| Interest cost  | 1,525,074                      | 1,508,779             |
| Benefits paid, net of participant contributions  | (1,213,079)                    | (1,170,177)           |
| Actuarial loss   | 2,241,434                      | 452,969               |
| Benefit obligation at end of year  | <u>31,061,649</u>              | <u>27,876,503</u>     |
| Change in plan assets  |                                |                       |
| Fair value of plan assets at beginning of year   | 21,966,111                     | 19,890,457            |
| Employer contributions   | 492,572                        | 1,200,000             |
| Actual return on plan assets   | (245,338)                      | 2,045,831             |
| Benefits paid, net of participant contributions  | (1,213,079)                    | (1,170,177)           |
| Fair value of plan assets at end of year   | <u>21,000,266</u>              | <u>21,966,111</u>     |
| Funded status  | <u>\$ (10,061,383)</u>         | <u>\$ (5,910,392)</u> |
| Amounts recognized in the statement of financial position consist of                       |                                |                       |
| Accrued benefit liability  | <u>\$ (10,061,383)</u>         | <u>\$ (5,910,392)</u> |
| Net amount recognized  | <u>\$ (10,061,383)</u>         | <u>\$ (5,910,392)</u> |
| Amounts recognized in unrestricted net assets  |                                |                       |
| Net prior service cost   | \$ (5,575,972)                 | \$ (6,415,818)        |
| Net actuarial loss   | 17,023,200                     | 13,722,466            |
| Components of net periodic benefit cost  |                                |                       |
| Service cost   | \$ 631,717                     | \$ 604,895            |
| Interest cost  | 1,525,074                      | 1,508,779             |
| Expected return on plan assets   | (1,704,084)                    | (1,552,082)           |
| Amortization of prior service credit   | (839,846)                      | (839,846)             |
| Amortization of net loss   | 890,122                        | 870,826               |
| Net periodic benefit cost  | <u>\$ 502,983</u>              | <u>\$ 592,572</u>     |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets |                                |                       |
| Amortization of prior service credit   | \$ 839,846                     | \$ 839,846            |
| Amortization of actuarial loss   | (890,122)                      | (870,826)             |
| Net actuarial gain   | 4,190,856                      | (40,780)              |
| Gain (loss) recognized in nonoperating (income) expense                                    | <u>\$ 4,140,580</u>            | <u>\$ (71,760)</u>    |

The Institution recognizes the difference between contributions and the net periodic benefit cost in the nonoperating section of the statement of activities. This difference amounted to \$10,411 for the year ended December 31, 2011.

**Woods Hole Oceanographic Institution**  
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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 | 5.00 % | 5.75 % |
|---------------|--------|--------|

**Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31**

|  |        |        |
|--|--------|--------|
| Discount rate                                    | 5.00 % | 5.75 % |
| Expected long-term rate of return on plan assets | 8.00   | 8.00   |

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

|   | 2011   |         | 2010   |         |
|---|--------|---------|--------|---------|
|   | Pre-65 | Post-65 | Pre-65 | Post-65 |
| <b>Assumed health care cost trend rates at December 31</b>                        |        |         |        |         |
| Health care cost trend rate assumed for next year                                 | 7.0 %  | 6.0 %   | 8.0 %  | 6.5 %   |
| 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                                | 2017   | 2014    | 2017   | 2014    |

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:

|  | 2011                                   |  | 2010                                   |  |
|--|--|--|--|--|
|  | One-Percentage-Point Increase in Trend | One-Percentage-Point Decrease in Trend | One-Percentage-Point Increase in Trend | One-Percentage-Point Decrease in Trend |
| Effect on total of service cost and interest cost components | \$ 384,092                             | \$ (305,462)                           | \$ 358,483                             | \$ (287,326)                           |
| Effect on year-end postretirement benefit obligation         | 4,945,825                              | (4,006,646)                            | 3,868,960                              | (3,177,372)                            |

**Plan Assets**

The Institution's postretirement benefit plan weighted-average asset allocations at December 31, 2011 and 2010, by asset category are as follows:

|                           | 2011         | 2010         |
|---------------------------|--------------|--------------|
| <b>Asset category</b>     |              |              |
| Cash and cash equivalents | 12 %         | 12 %         |
| Equity securities         | 75           | 76           |
| Bonds                     | 13           | 12           |
|                           | <u>100 %</u> | <u>100 %</u> |

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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               | 1,200,674    |

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**

|                           | <b>2011</b>          |                     |                |                      |
|---------------------------|----------------------|---------------------|----------------|----------------------|
|                           | <b>Level 1</b>       | <b>Level 2</b>      | <b>Level 3</b> | <b>Total</b>         |
| Cash and cash equivalents | \$ 2,543,530         | \$ -                | \$ -           | \$ 2,543,530         |
| Mutual funds              | 2,625,069            | -                   | -              | 2,625,069            |
| Commingled funds          | -                    | 5,605,414           | -              | 5,605,414            |
| Domestic common stock     | 10,197,854           | -                   | -              | 10,197,854           |
|                           | <u>\$ 15,366,453</u> | <u>\$ 5,605,414</u> | <u>\$ -</u>    | <u>\$ 20,971,867</u> |

  

|                           | <b>2010</b>          |                     |                |                      |
|---------------------------|----------------------|---------------------|----------------|----------------------|
|                           | <b>Level 1</b>       | <b>Level 2</b>      | <b>Level 3</b> | <b>Total</b>         |
| Cash and cash equivalents | \$ 2,693,706         | \$ -                | \$ -           | \$ 2,693,706         |
| Mutual funds              | 2,611,253            | -                   | -              | 2,611,253            |
| Commingled funds          | -                    | 6,019,667           | -              | 6,019,667            |
| Domestic common stock     | 10,626,146           | -                   | -              | 10,626,146           |
|                           | <u>\$ 15,931,105</u> | <u>\$ 6,019,667</u> | <u>\$ -</u>    | <u>\$ 21,950,772</u> |

**Expected Contributions**

The Institution anticipates contributing \$0 to the Retiree Medical Plan in 2012.

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**Estimated Future Benefit Payments**

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

| Years     | Benefit Payments |
|-----------|------------------|
| 2012      | \$ 1,364,885     |
| 2013      | 1,465,008        |
| 2014      | 1,494,962        |
| 2015      | 1,583,300        |
| 2016      | 1,663,172        |
| 2017–2021 | 9,158,347        |

**11. Endowment**

The Institution's endowment consists of 140 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, the endowment net asset composition by type of fund consisted of the following:

|                                  | <b>2011</b>          |                               |                               |                       |
|----------------------------------|----------------------|-------------------------------|-------------------------------|-----------------------|
|                                  | <b>Unrestricted</b>  | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
| Donor restricted endowment funds | \$ -                 | \$ 180,557,211                | \$ 67,642,929                 | \$ 248,200,140        |
| Board designated funds           | 81,499,584           | -                             | -                             | 81,499,584            |
| Total funds                      | <u>\$ 81,499,584</u> | <u>\$ 180,557,211</u>         | <u>\$ 67,642,929</u>          | <u>\$ 329,699,724</u> |

  

|                                  | <b>2010</b>          |                               |                               |                       |
|----------------------------------|----------------------|-------------------------------|-------------------------------|-----------------------|
|                                  | <b>Unrestricted</b>  | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
| Donor restricted endowment funds | \$ -                 | \$ 196,730,011                | \$ 66,295,888                 | \$ 263,025,899        |
| Board designated funds           | 84,872,660           | -                             | -                             | 84,872,660            |
| Total funds                      | <u>\$ 84,872,660</u> | <u>\$ 196,730,011</u>         | <u>\$ 66,295,888</u>          | <u>\$ 347,898,559</u> |

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

|   | 2011                 |                        |                        | Total                 |
|---|----------------------|------------------------|------------------------|-----------------------|
|   | Unrestricted         | Temporarily Restricted | Permanently Restricted |                       |
| <b>Endowment net assets beginning of year</b>     | \$ 84,872,660        | \$ 196,730,011         | \$ 66,295,888          | \$ 347,898,559        |
| Investment return                                 |                      |                        |                        |                       |
| Investment income                                 | 220,851              | 910,016                | -                      | 1,130,867             |
| Net appreciation (realized and unrealized)        | (220,529)            | (6,855,881)            | -                      | (7,076,410)           |
| Total investment return                           | 322                  | (5,945,865)            | -                      | (5,945,543)           |
| New gifts   | \$ -                 | \$ 300                 | \$ 2,492,809           | \$ 2,493,109          |
| Appropriation of endowment assets for expenditure | (3,371,479)          | (10,246,452)           | -                      | (13,617,931)          |
| Change in split interest agreements               | (1,919)              | 19,217                 | (1,145,768)            | (1,128,470)           |
| <b>Endowment net assets end of year</b>           | <b>\$ 81,499,584</b> | <b>\$ 180,557,211</b>  | <b>\$ 67,642,929</b>   | <b>\$ 329,699,724</b> |

  

|   | 2010                 |                        |                        | Total                 |
|---|----------------------|------------------------|------------------------|-----------------------|
|   | Unrestricted         | Temporarily Restricted | Permanently Restricted |                       |
| <b>Endowment net assets beginning of year</b>     | \$ 71,718,939        | \$ 180,949,548         | \$ 65,177,328          | \$ 317,845,815        |
| Investment return                                 |                      |                        |                        |                       |
| Investment income                                 | 219,626              | 695,860                | -                      | 915,486               |
| Net appreciation (realized and unrealized)        | 9,789,029            | 27,066,454             | -                      | 36,855,483            |
| Total investment return                           | 10,008,655           | 27,762,314             | -                      | 37,770,969            |
| New gifts   | 7,443,111            | 300                    | 551,972                | 7,995,383             |
| Appropriation of endowment assets for expenditure | (4,298,786)          | (11,998,771)           | -                      | (16,297,557)          |
| Change in split interest agreements               | 741                  | 16,620                 | 566,588                | 583,949               |
| <b>Endowment net assets end of year</b>           | <b>\$ 84,872,660</b> | <b>\$ 196,730,011</b>  | <b>\$ 66,295,888</b>   | <b>\$ 347,898,559</b> |

**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, 2009, 2010 and 2011 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.



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**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 \$927,855 and \$905,543 for the years ended December 31, 2011 and 2010, 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 \$2,717,963 and \$1,412,778 for the years ended December 31, 2011 and 2010, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are \$1,153,423 and \$1,105,070 at December 31, 2011 and 2010, respectively.