Woods Hole Oceanographic Institution

Financial Statements
December 31, 2012 and 2011

Woods Hole Oceanographic Institution
Index
December 31, 2012 and 2011

Independent Auditor's Report

To the Board of Trustees of
Woods Hole Oceanographic Institution:

We have audited the accompanying financial statements of Woods Hole Oceanographic Institution (the "Institution") which comprise the statement of financial position as of December 31, 2012 and the related statements of activities and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Institution's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institution at December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited the Institution's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 16, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Boston, Massachusetts
July 19, 2013

Woods Hole Oceanographic Institution
Statements of Financial Position
December 31, 2012
(with summarized financial information as of December 31, 2011)

	2012	2011
Assets		
Cash and cash equivalents, unrestricted	$ 3,371,350	$ 2,368,310
Cash and cash equivalents, restricted	12,193,308	11,100,701
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $144,911 for 2012 and $190,783 for 2011)	5,633,863	4,600,373
Unbilled	9,851,683	12,357,643
Receivable for investments sold	9,528,338	9,892,620
Interest and dividends receivable	190	202,859
Other receivables	1,461,969	1,260,706
Pledges receivable, net (Note 5)	1,863,500	4,106,212
Inventory	2,194,191	2,204,477
Deferred charges and prepaid expenses	827,168	920,382
Investments, pooled (Note 3)	360,777,108	331,731,056
Investments designated for retiree and active medical plans (Note 10)	17,429,983	-
Deferred fixed rate variance (Note 7)	4,586,477	7,444,648
Supplemental retirement	7,822,553	7,018,821
Other assets	2,338,623	6,550,423
Deferred financing costs	204,713	215,243
	440,085,017	401,974,474
Property, plant and equipment		
Land, buildings and improvements	157,154,079	142,965,506
Vessels and dock facilities	8,388,154	8,166,446
Laboratory and other equipment	32,033,762	30,297,099
Construction in process	783,981	6,696,699
	198,359,976	188,125,750
Accumulated depreciation	(108,876,031)	(101,738,290)
Net property, plant and equipment	89,483,945	86,387,460
Contributions receivable from remainder trusts, net (Note 6)	9,828,272	9,288,971
Total assets	$ 539,397,234	$ 497,650,905
Liabilities		
Line of credit (Note 8)	$ 25,000,000	$ 13,000,000
Accounts payable and other liabilities (Note 8)	19,069,062	19,288,163
Accrued payroll and related liabilities	8,940,016	8,907,757
Payable for investments purchased	-	250,151
Accrued supplemental retirement benefits	7,822,553	7,018,821
Accrued pension and restoration liability	105,643,221	95,572,295
Accrued postretirement liability (Note 10)	36,516,225	10,061,383
Deferred revenue and refundable advances	16,041,353	18,809,354
Bonds payable (Note 8)	59,119,471	60,613,400
Total liabilities	$ 278,151,901	$ 233,521,324

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011
Net assets					
Undesignated and plant	$ (13,700,392)	$ -	$ -	$ (13,700,392)	$ (214,396)
Pension	(124,803,259)	-	-	(124,803,259)	(105,633,678)
Designated	2,583,212	9,221,853	-	11,805,065	14,815,067
Pledges and other	-	4,812,004	9,431,969	14,243,973	22,095,535
Education	-	3,394,500	-	3,394,500	3,367,329
Endowment and similar funds	90,665,746	206,764,211	72,875,489	370,305,446	329,699,724
Total net assets	$ (45,254,693)	$ 224,192,568	$ 82,307,458	261,245,333	264,129,581
Total liabilities and net assets				$ 539,397,234	$ 497,650,905

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

Woods Hole Oceanographic Institution
Statements of Activities
Year Ended December 31, 2012
(with summarized financial information for the Year Ended December 31, 2011)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2012	2011
Revenues						
Fees	$ 1,897,960	$ -	$ -	$ -	$ 1,897,960	$ 1,947,853
Sponsored research						
Government		111,453,243			111,453,243	115,880,135
Subcontract and nongovernment		55,594,494	4,372,063		59,966,557	54,499,993
Ships and subs operations		22,661,175			22,661,175	26,732,475
Sponsored research assets released to operations	196,130,153	(189,708,912)	(6,421,241)		-	-
Fixed price awards income	257,926				257,926	603,399
Education						
Joint program income	4,226,073				4,226,073	4,358,082
Endowment income			6,966,070		6,966,070	6,739,809
Education funds released from restriction	7,543,584		(7,543,584)		-	-
Investment return designated for current operations	2,805,300				2,805,300	4,057,239
Contributions and gifts	3,819,997		1,125,928	1,205,251	6,151,176	7,822,833
Releases from restrictions			(2,960,370)	(260,096)	(3,220,466)	(3,378,863)
Contributions in kind	419,902				419,902	421,597
Rental income	554,852				554,852	552,453
Communication and publications	221,859				221,859	179,542
Other	800,256				800,256	537,195
Loss on sale of land				(1,650,000)	(1,650,000)	-
Total revenues	218,677,862	-	(4,461,134)	(704,845)	213,511,883	220,953,742
Expenses						
Sponsored research						
National Science Foundation	56,972,329				56,972,329	63,726,002
United States Navy	22,425,696				22,425,696	21,114,130
Subcontracts	27,757,583				27,757,583	27,251,161
National Oceanic & Atmospheric Administration	15,701,872				15,701,872	14,898,477
United States Geological Survey	1,801,235				1,801,235	1,570,495
National Aeronautics & Space Administration	3,833,171				3,833,171	3,673,084
Ships Operations	17,321,144				17,321,144	20,879,309
Submersible and ROV operations	5,340,031				5,340,031	5,853,166
Privately funded grants	13,849,456				13,849,456	8,084,841
Other	31,111,710				31,111,710	29,574,272
Education						
Faculty expense	4,767,441				4,767,441	4,436,076
Student expense	4,028,336				4,028,336	4,119,467
Postdoctoral programs	466,165				466,165	448,498
Other	1,167,599				1,167,599	1,242,671
Rental expenses	312,441				312,441	286,653
Communication, publications and development	1,785,662				1,785,662	1,461,559
Fundraising expenses	2,390,548				2,390,548	2,424,635
Unsponsored programs	10,511,453				10,511,453	7,174,647
Other expenses	384,820				384,820	8,526,827
Total expenses	221,928,692	-	-	-	221,928,692	226,745,970
Change in net assets from operating activities	(3,250,830)	-	(4,461,134)	(704,845)	(8,416,809)	(5,792,228)
Nonoperating revenue and expenses						
Investment return in excess of (less than) amounts designated for sponsored research, education and current operations	(1,075,509)		26,198,975		25,123,466	(22,932,510)
Return on investments designated for retiree and active medical plans	2,416,780				2,416,780	-
Active and retiree medical expenses	(4,990,734)				(4,990,734)	-
Net realized/unrealized (losses) on interest rate swap	(730,844)				(730,844)	(7,282,701)
Change in split interest agreements	(6,188)		7,725	525,270	526,807	(1,128,470)
Other nonoperating expenses	(117,287)				(117,287)	(99,976)
Other nonoperating income	-				-	750,412
Redesignation of donor gifts	-		(100,000)		(100,000)	-
Net periodic income - surplus of pension reimbursement over GAAP expense	1,064,289				1,064,289	5,450,062
Pension related changes other than net periodic pension costs (Note 9)	(17,659,916)				(17,659,916)	(38,886,476)
Change in net assets from nonoperating activities	(21,099,409)	-	26,106,700	525,270	5,532,561	(64,129,659)
Total change in net assets	(24,350,239)	-	21,645,566	(179,575)	(2,884,248)	(69,921,887)
Net assets						
Beginning of year	(20,904,454)		202,547,002	82,487,033	264,129,581	334,051,468
End of year	$ (45,254,693)	$ -	$ 224,192,568	$ 82,307,458	$ 261,245,333	$ 264,129,581

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

Woods Hole Oceanographic Institution
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Total change in net assets	$ (2,884,248)	$ (69,921,887)
Adjustments to reconcile (decrease) in net assets		
to net cash used in operating activities		
Depreciation and amortization	8,452,725	8,581,170
Change in split interest agreements	(526,807)	1,128,470
Allowance for uncollectible pledges	185,183	103,596
Discount on pledges	217,560	144,942
Net realized (gain) and unrealized loss (gain) on investments	(41,894,170)	7,076,410
Unrealized (gain) loss on interest swap	(1,053,115)	5,447,368
Pension related changes other than net periodic pension costs	19,312,579	38,886,476
Contributions to be used for long-term investment	(4,707,290)	(2,492,809)
Loss on sale of property	1,650,000	-
Receipt of contributed securities	(164,010)	(246,166)
(Increase) decrease in assets		
Restricted cash	(1,092,607)	(8,734,274)
Interest and dividends receivable	202,669	18,208
Reimbursable costs and fees		
Billed	(1,033,490)	1,065,721
Unbilled	2,505,960	(3,470,004)
Other receivables	(201,263)	(157,799)
Pledges receivable	1,839,969	2,982,869
Inventory	10,286	(353,605)
Deferred charges and prepaid expenses	93,214	(189,113)
Other assets	(365,385)	2,168
Supplemental retirement	(803,732)	(217,195)
Deferred fixed rate variance	2,858,171	(1,297,264)
Increase (decrease) in liabilities		
Accrued pension liability	(3,749,801)	(5,479,882)
Accrued pension restoration liability	36,520	29,820
Accounts payable and other liabilities	593,177	(800,986)
Accrued payroll and related liabilities	32,259	977,484
Deferred revenue and refundable advances	(2,768,001)	5,419,920
Accrued supplemental retirement benefits	803,732	217,195
Net cash used in operating activities	(22,449,915)	(21,279,167)
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(11,384,133)	(10,704,916)
Short-term investments		
(Purchase) of investments	(16,464,148)	-
Endowment		
Receivable for investments sold	364,282	(9,699,883)
Payable for investments purchased	(250,151)	(186,333)
Proceeds from the sale of investments	339,251,460	81,729,242
Purchase of investments	(306,368,911)	(59,380,640)
Change in construction fund	-	3,177,682
Change in debt service funds	-	92
Liquidation of contributed securities	31,195	146,257
Proceeds from sale of property	3,060,000	-
Net cash provided by investing activities	8,239,594	5,081,501
Cash flows from financing activities		
Repayments under debt agreement	(1,493,929)	(1,475,000)
Borrowing under line of credit	33,975,000	27,500,000
Repayments under line of credit	(21,975,000)	(17,500,000)
Contributions to be used for long-term investment	4,707,290	2,492,809
Net cash provided by financing activities	15,213,361	11,017,809
Net increase (decrease) in cash and cash equivalents	1,003,040	(5,179,857)
Cash and cash equivalents		
Beginning of year	2,368,310	7,548,167
End of year	$ 3,371,350	$ 2,368,310
Supplemental disclosures		
Cash paid for interest	$ 4,747,353	$ 5,001,425
Noncash activity		
Construction in process additions remaining in accounts payable	267,398	112,851
Contributed securities	164,010	246,166

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

1. Background

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does 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, 2011, from which the summarized information was derived.

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

Permanently Restricted Net Assets

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

Temporarily Restricted Net Assets

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

Unrestricted Net Assets

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

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or 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. As a result of an amendment to the postretirement health plan, in 2012, the Institution recognized return on investments designated for retiree and active medical plan expenses as a non operating expense (Note 10).

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, 2012 and 2011 is $11,940,615 and $10,758,028, 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, 2012 and 2011 is $252,693 and $342,673, 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 or mutual funds are based upon quoted market prices and net asset values. Other investments, 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, 2012 and 2011 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 makes investments in funds that make direct investments in public securities, over the counter securities, and other securities which may or may not have readily available market prices. The Institution follows authoritative guidance under GAAP for estimating the fair value of investments in those funds that have calculated net asset value per share in accordance with the specialized accounting guidance for investment companies. Accordingly, the Institution uses the net asset value, (NAV) without further adjustment as a practical expedient to determine the fair value of these funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. These values are reviewed and approved by the Institution.

Investments which can be redeemed at NAV by the Institution on the measurement date or within 90 days are classified as Level 2. Investments which cannot be redeemed on the measurement date or within 90 days 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.

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 $14,698,368 and $16,986,967 for the years ended December 31, 2012 and 2011, respectively, and is classified in operating revenues (research, education, and operations).

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 79% and 85% of its sponsored research revenues from government agencies including 37% and 44% of its operating revenues directly from the National Science Foundation and 12% and 11% from the United States Navy in fiscal years 2012 and 2011, 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.

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 $8,442,195 and $8,534,594 in 2012 and 2011, respectively, has been charged to operating activities. Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to $117,287 and $99,976 in 2012 and 2011 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, 2012 up through July 19, 2013, 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

Effective October 1, 2012 the Institution retained and outsourced services for manager selection, risk management and asset allocation of endowment assets to a third party. Consequently a systematic liquidation of existing investments held by legacy managers and transfers of proceeds to the new endowment manager followed. The assets transferred for investment under this arrangement, titled "Multistrategy Investment Fund", represent holdings in the following classifications; Equity, Long/Short Equity, Real Assets, Commodities/Resources Credit/Special Situations, Absolute return, Fixed Income and Hedges/Opportunistic. Due to prevailing redemption restrictions not all of the legacy managers were liquidated during 2012.

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

	2012		2011	
	Cost	**Market**	**Cost**	**Market**
Assets				
Cash and cash equivalents	$ 34,017,569	$ 34,017,569	$ 17,527,893	$ 17,527,893
Private equity, venture capital and other limited partnerships	45,318,173	51,290,962	57,118,110	66,162,403
Commingled funds	-	-	83,255,419	96,766,567
Hedge funds	-	-	41,295,000	56,201,376
Mutual funds	-	-	37,325,555	33,102,710
Domestic common stock	-	-	41,877,597	47,313,639
Domestic fixed income	-	-	12,935,021	14,656,468
Multistrategy investment fund	271,300,000	275,468,577	-	-
Total investments, pooled	350,635,742	360,777,108	291,334,595	331,731,056
VEBA Investments, cash and cash equivalents	17,429,983	17,429,983	-	-
Total assets at fair value	$ 368,065,725	$ 378,207,091	$ 291,334,595	$ 331,731,056

The following schedule summarizes the investment return and its classification in the statement of activities:

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
Dividend and interest income	$ (4,341,545)	$ 6,966,071	$ 2,624,526	$ 3,739,589
Investment management costs	(2,464,607)	-	(2,464,607)	(2,608,722)
Net realized gains	17,250,595	52,304,252	69,554,847	11,465,989
Change in unrealized appreciation	(8,159,714)	(21,733,215)	(29,892,929)	(18,542,399)
Total return on investments	2,284,729	37,537,108	39,821,837	(5,945,543)
Investment return designated for:				
Sponsored research	-	(4,372,063)	(4,372,063)	(6,138,066)
Education	-	(6,966,070)	(6,966,070)	(6,739,809)
Current operations	(3,360,238)	-	(3,360,238)	(4,109,092)
Total distributed to operations	(3,360,238)	(11,338,133)	(14,698,371)	(16,986,967)
Investment return in excess of (less than) amounts designated for sponsored research, education and current operations	$ (1,075,509)	$ 26,198,975	$ 25,123,466	$ (22,932,510)

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 $0 and $397,068 at December 31, 2012 and 2011, 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, 2012 and December 31, 2011 is as follows:

	2012	2011
Unit value, beginning of year	$ 4.4968	$ 4.6230
Unit value, end of year	4.9337	4.4968
Net change for the year	0.43685	(0.1262)
Investment income per unit for the year	0.0021	0.0148
Total return per unit	$ 0.4389	$ (0.1114)

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.

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.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. As described in Note 2, the Institution generally uses the net asset value per share of the investment (or its equivalent) reported by the investee fund manager as the primary input to its valuation; however adjustments to the reported amount may be made based on various factors.

The following tables summarize fair value measurements at December 31, 2012 and December 31, 2011 for financial assets measured at fair value:

	2012			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets				
Cash and cash equivalents	$ 34,017,569	$ -	$ -	$ 34,017,569
Private equity, venture capital and other limited partnerships	-	-	51,290,962	51,290,962
Multistrategy investment fund	-	-	275,468,577	275,468,577
Total investments, pooled	34,017,569	-	326,759,539	360,777,108
Contributions receivable from remainder trust	-	-	9,828,272	9,828,272
Other assets	-	-	927,898	927,898
VEBA Investments, cash and cash equivalents	17,429,983	-	-	17,429,983
Total assets at fair value	$ 51,447,552	$ -	$ 337,515,709	$ 388,963,261
Interest rate swap	$ -	$ 11,989,159	$ -	$ 11,989,159
Total liabilities at fair value	$ -	$ 11,989,159	$ -	$ 11,989,159

	2011			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets				
Cash and cash equivalents	$ 17,527,893	$ -	$ -	$ 17,527,893
Private equity, venture capital 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

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, 2011.

The following table presents the assets and liability carried at fair value as of December 31, 2012 and December 31, 2011 that are classified within Level 3 of the fair value hierarchy defined above:

	2012 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Balance, January 1, 2012	**Realized Gains (Losses)**	**Unrealized Gains (Losses)**	**Purchases**	**Sales**	**Transfers in and/or Out of Level 3**	**Balance, December 31, 2012**
Private equity, Venture capital and other limited partnerships	$ 56,430,566	$ 267,919	$ 2,682,281	$ 4,513,050	$ (12,602,854)	$ -	$ 51,290,962
Multistrategy investment fund	-	-	4,168,577	271,300,000	-		275,468,577
Hedge funds	43,169,097	14,736,397	(11,874,098)	-	(46,031,396)		-
Contributions receivable from Remainder Trust	9,288,971		539,301				9,828,272
Other assets	907,513		20,385				927,898
	$ 109,796,147	$ 15,004,316	$ (4,463,554)	$ 275,813,050	$ (58,634,250)	$ -	$ 337,515,709

	2011 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Balance, January 1, 2011	**Realized Gains (Losses)**	**Unrealized Gains (Losses)**	**Purchases**	**Sales**	**Transfers in and/or out of Level 3**	**Balance, December 31, 2011**
Private equity, venture capital 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

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

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, 2012.

Assets	**Fair Value**	**Redemption Terms**	**Redemption Restrictions**
Private equity, venture capital and other limited partnerships	$ 51,290,962	Remaining lives up to 10 years	$51,290,962 designated as illiquid
Multistrategy investment fund	275,468,577	Annual (year end)	
Total investments	$ 326,759,539		

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.

Assets	**Fair Value**	**Redemption Terms**	**Redemption Restrictions**
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	56,201,376	Quarterly, annual (Dec)	
Total investments	$ 219,130,346		

The Institution had unfunded commitments relating to endowment assets of approximately $10,486,038 and $20,408,955 relating to private equity, venture capital and other limited partnerships as of December 31, 2012 and 2011, 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 1.76% to 1.81% and 1.90% to 2.67% at December 31, 2012 and 2011, respectively.

Pledges receivable consist of the following at December 31:

	2012	2011
Unconditional promises expected to be collected in		
Less than one year	$ 1,351,447	$ 2,452,228
One year to five years	720,000	2,264,674
Reserve for uncollectible pledges receivable	(145,000)	(330,183)
Unamortized discount	(62,947)	(280,507)
	$ 1,863,500	$ 4,106,212

6. Contribution Receivable from Remainder Trusts, Net

Contributions receivable from remainder trusts at December 31, 2012 and 2011 were $9,828,272 and $9,288,971, 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, 2012 and 2011, discount rates ranging from 3.76% to 8.0% were used in these calculations.

7. Deferred Fixed Rate Variance

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

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

Deferred fixed rate variance asset at December 31, 2010	$ 6,147,384
2011 indirect costs	86,130,987
Amounts recovered	(84,687,717)
Submission adjustment 2010	(146,006)
2011 change	1,297,264
Deferred fixed rate variance asset at December 31, 2011	7,444,648
2012 indirect costs	87,384,312
Amounts recovered	(90,194,530)
Submission adjustment 2011	(47,953)
2012 change	(2,858,171)
Deferred fixed rate variance asset at December 31, 2012	$ 4,586,477

As of December 31, 2012, the Institution has expended a cumulative amount in excess of recovered amounts of $4,586,477 which will be reflected as an addition to future year recoveries. This amount has been reported as an asset of the Institution.

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

Indebtedness at December 31, 2012 and 2011 includes bonds issued through the MassDevelopment. Balances of outstanding bonds payable at December 31 consist of the following:

	2012	2011
MassDevelopment, Series B, Fixed Rate Revenue Bonds	$ 59,895,000	$ 61,425,000
Less: Series B unamortized bond discount	(775,529)	(811,600)
Bonds Payable	$ 59,119,471	$ 60,613,400

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 $68,457,713 at December 31, 2012 (Level 2).

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 October 1, 2013. 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 September 30, 2013. The Institution had outstanding borrowing on lines of credit of $25,000,000 and $13,000,000 at December 31, 2012 and 2011, respectively.

The aggregate maturities due on the Series B long-term debt at December 31, 2012 are as follows:

Fiscal Year	**Principal Amount**
2013	$ 1,595,000
2014	1,655,000
2015	1,725,000
2016	1,790,000
2017	1,865,000
Thereafter	51,265,000
	$ 59,895,000

In June 2004, the Institution entered into an interest rate swap agreement on the Series A Bonds (refinanced to Series B Bonds) in order to convert a portion of the variable rate debt to fixed rate, 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. Interest expense in association with the swap agreement totaled $1,783,959 and $1,835,333 which is reflected as part of the net realized/unrealized losses on interest rate swap at December 31, 2012 and 2011, respectively.

The fair value of the interest rate swap at December 31, 2012 and 2011 is as follows:

	Fair Value	
	2012	**2011**
Statement of financial position location		
Accounts payable and other liabilities	$ 11,989,159	$ 13,042,274

The effect of the interest rate swap on the statement of activities for 2012 and 2011 is as follows:

	Amount of Loss Recognized in Statement of Activities	
	2012	**2011**
Location of loss recognized in statement of activities		
Nonoperating income and expenses		
Net realized/unrealized losses on interest rate swap	$ (730,844)	$ (7,282,701)

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.

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

	Restoration Plan Pension Benefits	
	2012	**2011**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 101,415	$ 129,017
Service cost	-	530
Interest cost	4,969	4,979
Actuarial loss	10,339	14,673
Benefits paid	(102,770)	(47,784)
Benefit obligation at end of year	13,953	101,415
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Employer contributions	102,770	47,784
Actual return on plan assets	-	-
Benefits paid	(102,770)	(47,784)
Fair value of plan assets at end of year	-	-
Funded status	$ (13,953)	$ (101,415)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ (13,953)	$ (101,415)
Net amount recognized	$ (13,953)	$ (101,415)
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ 2,448	$ 23,660
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 13,953	$ 101,415
Accumulated benefit obligation	13,953	96,757
Component of net periodic benefit cost		
Interest cost	$ 4,969	$ 4,979
Service cost	-	530
Recognized actuarial loss	13,518	13,137
Settlement cost	18,033	11,174
Net periodic benefit cost	$ 36,520	$ 29,820
Other changes in benefit obligations recognized in unrestricted net assets		
Amortization of net gain (loss)	$ (13,518)	$ (13,137)
Settlement adjustment	(18,033)	(11,174)
Net actuarial gain	10,339	14,673
Total recognized in nonoperating expense	$ (21,212)	$ (9,638)
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.30 %	4.90 %
Rate of compensation increase	3.50	4.50
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.90 %	5.75 %
Rate of compensation increase	4.50	4.50

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

Amortization of net loss	$	1,053

Expected Contributions
The Institution anticipates contributing $0 to the Restoration Plan in 2013.

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

Years		Benefit Payments
2013	$	14,250
2014		-
2015		-
2016		-
2017		-
2018 - 2020		-

Woods Hole Oceanographic Institution
Notes to Financial Statements
December 31, 2012 and 2011

	Qualified Plan Pension Benefits	
	2012	**2011**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 275,840,263	$ 235,775,855
Interest cost	13,235,214	13,306,618
Actuarial loss	25,350,755	35,721,357
Benefits paid	(10,031,387)	(8,963,567)
Benefit obligation at end of year	304,394,845	275,840,263
Change in plan assets		
Fair value of plan assets at beginning of year	180,369,383	169,618,000
Employer contributions	10,540,002	9,216,003
Actual return on plan assets	17,887,579	10,498,947
Benefits paid	(10,031,387)	(8,963,567)
Fair value of plan assets at end of year	198,765,577	180,369,383
Funded status	$ (105,629,268)	$ (95,470,880)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ 105,629,268	$ (95,470,880)
Net amount recognized	$ 105,629,268	$ (95,470,880)
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ 78,055,914	$ 62,532,339
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 304,394,845	$ 275,840,263
Accumulated benefit obligation	287,190,192	254,762,772
Components of net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	13,235,214	13,306,618
Expected return on plan assets	(11,830,416)	(11,172,898)
Recognized actuarial loss	5,422,884	1,591,990
Net periodic benefit cost	$ 6,827,682	$ 3,725,710
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Amortization of actuarial loss	$ (5,422,884)	$ (1,591,990)
Net actuarial (gain) loss	20,946,459	36,395,308
Total recognized in nonoperating expense	$ 15,523,575	$ 34,803,318

The Institution has reflected $10,540,002 and $9,216,003 for the years ended December 31, 2012 and 2011, 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 $3,712,320 and $5,490,293 for the years ended December 31, 2012 and 2011, 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.

	Qualified Plan Pension Benefits	
	2012	**2011**
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.30 %	4.90 %
Rate of compensation increase	3.50	4.50
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.90 %	5.75 %
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, 2012 and 2011.

Plan Assets

The Institution's pension plan weighted-average asset allocations at December 31, 2012 and 2011, and target allocations by asset category are as follows:

Asset Category	Asset Allocation 2012	Asset Allocation 2011
U.S. equity	4.1 %	12.8 %
Global developed	8.8	11.9
Emerging markets equity	4.1	4.1
Funds of funds	0.2	9.8
Hedged equity/absolute return	15.8	4.4
Private equity	10.6	12.5
Inflation hedging	0.0	4.1
Fixed income liability hedging	39.0	33.8
Cash and cash equivalents	17.4	6.8
	100 %	100 %

The long-term investment objectives of the Plan are to (1) achieve an average real total return assessed over rolling five year periods, that is consistent with the Plan's actuarial assumptions; (2) generate acceptable long-term returns, as determined by measurement against the Fund's benchmarks and (3) generate acceptable long-term returns without compromising the liquidity and stability required to support the Plan's annual payments to the Plan's beneficiaries.

Effective July 1, 2012 the Institution retained and outsourced services for manager selection, risk management and asset allocation of the Plan's assets to a third party to assist with implementing the Plan's investment policy. In addition, Target Allocations for asset classes have been revised to include two broad categories; (1) Growth and Excess Return Portfolio, which includes, Long Only Equity, Long-Short-Equity, Absolute Return Vehicles, Real Assets and Commodities and Private Equity and Venture/Capital, (2) Fixed Income/Liability Hedging Portfolio. These categories have been assigned a 60% and 40% Target Allocation respectively.

Expected amounts amortized from unrestricted net assets into net periodic pension cost for the next fiscal year	
Amortization of net loss	$ 8,482,565

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:

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 23,662,260	$ -	$ -	$ 23,662,260
Private equity, venture capital and other limited partnerships		3,110,253	21,879,303	24,989,556
Commingled funds		31,672,684		31,672,684
Hedge funds		26,462,067	24,782,367	51,244,434
Mutual funds	42,090,858			42,090,858
Domestic fixed income	25,058,848			25,058,848
Total assets at fair value	$ 90,811,966	$ 61,245,004	$ 46,661,670	$ 198,718,640

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
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
Total assets at fair value	$ 108,991,493	$ 28,370,896	$ 42,350,010	$ 179,712,399

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

	Private Equity, Venture Capital and Other Limited Partnerships	**Hedge Funds**	**Total**
Balances at January 1, 2012	$ 25,419,172	$ 16,930,838	$ 42,350,010
Realized gains/losses	372,260	4,909,402	5,281,662
Unrealized gains/losses	2,407,044	(4,111,939)	(1,704,895)
Purchases	25,355,551	22,000,000	47,355,551
Sales	(28,564,471)	(14,945,935)	(43,510,406)
Transfer in and/or out of level 3	(3,110,253)	-	(3,110,253)
Balances at December 31, 2012	$ 21,879,303	$ 24,782,366	$ 46,661,669

There were no transfers between Level 1 and Level 2 investments for the year ended December 31, 2012 and 2011. For the year ended December 31, 2012, certain investments at net asset value per share as determined by investment managers were transferred from Level 3 to Level 2 as notice periods for redemption were 90 days or less.

	Private Equity, Venture Capital and Other Limited Partnerships	Hedge Funds	Total
Balances at January 1, 2011	$ 28,364,596	$ 14,614,822	$ 42,979,418
Realized gains/losses	1,214,888	-	1,214,888
Unrealized gains/losses	(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)
Balances at December 31, 2011	$ 25,419,172	$ 16,930,838	$ 42,350,010

Expected Contributions
The Institution anticipates contributing $6,900,100 to the Qualified Plan in 2013.

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

Years	Benefit Payments
2013	$ 22,437,235
2014	22,424,637
2015	22,554,538
2016	21,095,007
2017	21,283,494
2018–2022	94,534,605

	Supplemental Plan Pension Benefits 2012	Supplemental Plan Pension Benefits 2011
Change in benefit obligation		
Benefit obligation at beginning of year	$ 314,958	$ -
Service cost		-
Interest cost	14,542	-
Actuarial (gain) loss	25,321	335,013
Benefits paid	(80,219)	(20,055)
Benefit obligation at end of year	274,602	314,958
Change in obligation for nonreturnable funding		
Obligation at beginning of year	6,703,863	6,801,625
Service cost		-
Interest cost	(14,542)	-
Actuarial gain (loss)	(25,321)	(335,013)
Investment return	883,951	237,251
Other obligation at end of year	7,547,951	6,703,863
Total obligation at end of year	$ 7,822,553	$ 7,018,821

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

	2012	2011
Change in nonreturnable funding "Rabbi" Trust		
Nonreturnable funding at beginning of year	$ 7,018,821	$ 6,801,625
Investment return	883,951	237,251
Benefits paid	(80,219)	(20,055)
Nonreturnable funding "Rabbi" Trust at end of year	$ 7,822,553	$ 7,018,821

	Supplemental Plan Pension Benefits 2012	Supplemental Plan Pension Benefits 2011
Actual return on earmarked reserves	$ 883,951	$ 237,250
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.30 %	4.90 %
Rate of compensation increase	3.50	4.50
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.90 %	5.75 %
Expected long-term rate of return on plan assets	7.50	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	$	(386,590)
Amortization of net loss (gain)		

Expected Contributions

The Institution anticipates contributing $79,778 to the Supplemental Plan in 2013.

Estimated Future Benefit Payments

Years		Benefit Payments
2013	$	79,778
2014		79,429
2015		79,026
2016		43,645
2017		-
2018–2022		-

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.

Effective January 1, 2012 the Trust agreement which had been funding the Plan was amended to include active employees. Accordingly, assets of the Plan were then decoupled and recorded on the Institution's Statement of Financial Position as "Investments designated for retiree and active medical plans" along with a corresponding increase to the accrued postretirement liability. The fair value of these investments at January 1, 2012 totaled $21,000,266. Actual returns from investments designated for retiree and active medical plans totaled $2,572,471 for year ended December 31, 2012 and are presented in the nonoperating section of the Statement of Activities. In addition, health care benefits for active employees funded from these investments totaled $4,990,734 for the year ended December 31, 2012 and are also presented under the nonoperating section of the Statement of Activities.

	Other Postretirement Benefits	
	2012	**2011**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 10,061,383	$ 27,876,503
Adjustment to reflect change from plan amendment	21,000,266	
Service cost	695,927	631,717
Interest cost	1,508,473	1,525,074
Benefits paid, net of participant contributions	(996,125)	(1,213,079)
Actuarial loss	4,246,301	2,241,434
Benefit obligation at end of year	36,516,225	31,061,649
Change in plan assets		
Fair value of plan assets at beginning of year	21,000,266	21,966,111
Adjustment to reflect change from plan amendment	(21,000,266)	-
Employer contributions	996,125	492,572
Actual return on plan assets	-	(245,338)
Benefits paid, net of participant contributions	(996,125)	(1,213,079)
Fair value of plan assets at end of year	-	21,000,266
Funded status	$ (36,516,225)	$ (10,061,383)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ 36,516,225	$ (10,061,383)
Net amount recognized	$ 36,516,225	$ (10,061,383)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ (4,736,126)	$ (5,575,972)
Net actuarial loss	20,022,544	17,023,200
Components of net periodic benefit cost		
Service cost	$ 695,922	$ 631,717
Interest cost	1,508,473	1,525,074
Expected return on plan assets	-	(1,704,084)
Amortization of prior service credit	(839,846)	(839,846)
Amortization of net loss	1,246,952	890,122
Net periodic benefit cost	$ 2,611,501	$ 502,983
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	(1,246,957)	(890,122)
Net actuarial gain	4,246,301	4,190,856
Total recognized in nonoperating expense	$ 3,839,190	$ 4,140,580

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 ($2,611,511) and ($10,411) for the years ended December 31, 2012 and 2011, respectively.

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

	2012	2011
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.3 %	5.0 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.0 %	5.75 %
Expected long-term rate of return on plan assets	N/A	8.00

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

	2012		2011	
	Pre-65	Post-65	Pre-65	Post-65
Assumed health care cost trend rates at December 31				
Health care cost trend rate assumed for next year	7.0 %	6.0 %	7.0 %	6.0 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0 %	5.0 %	5.0 %	5.0 %
Year that the rate reaches the ultimate trend rate	2018	2015	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:

	2012		2011	
	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	$ 411,135	$ (324,739)	$ 384,092	$ (305,462)
Effect on year-end postretirement benefit obligation	6,099,478	(4,905,395)	4,945,825	(4,006,646)

Plan Assets

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

	2011
Asset category	
Cash and cash equivalents	12 %
Equity securities	75
Bonds	13
	100 %

Due to the change in the Trust agreement, there were no plan assets at December 31, 2012.

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, for 2011. Due to the plan amendment and subsequent decoupling of assets from the plan, actual returns are used in lieu of expected long-term rate of returns for 2012.

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	1,481,561

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

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
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
	$ 15,366,453	$ 5,605,414	$ -	$ 20,971,867

Expected Contributions
The Institution anticipates contributing $1,482,915 to the Retiree Medical Plan in 2013.

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

Years	**Benefit Payments**
2013	$ 1,482,915
2014	1,549,280
2015	1,656,647
2016	1,745,288
2017	1,843,082
2018–2022	9,766,850

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:

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment funds	$ -	$ 206,764,211	$ 72,875,489	$ 279,639,700
Board designated funds	90,665,746			90,665,746
Total funds	$ 90,665,746	$ 206,764,211	$ 72,875,489	$ 370,305,446

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment funds	$ -	$ 180,557,211	$ 67,642,929	$ 248,200,140
Board designated funds	81,499,584	-	-	81,499,584
Total funds	$ 81,499,584	$ 180,557,211	$ 67,642,929	$ 329,699,724

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

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net assets beginning of year	$ 81,499,584	$ 180,557,211	$ 67,642,929	$ 329,699,724
Investment return				
Investment income	-	159,917	-	159,917
Net appreciation	2,284,729	37,377,191	-	39,661,920
Total investment return	2,284,729	37,537,108	-	39,821,837
New gifts	-	300	4,707,290	4,707,590
Appropriation of endowment assets for expenditure	(3,360,238)	(11,338,133)	-	(14,698,371)
Other	10,247,859	-		10,247,859
Change in split interest agreements	(6,188)	7,725	525,270	526,807
Net assets end of year	$ 90,665,746	$ 206,764,211	$ 72,875,489	$ 370,305,446

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	$ 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)
Endowment net assets end of year	$ 81,499,584	$ 180,557,211	$ 67,642,929	$ 329,699,724

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.

13. Related Party Transactions

The Institution's subcontracts to subgrantee organizations in which an individual associated with the subgrantee organization is also a member of the Institution's Board of Trustees or Corporation totaled $1,565,128 and $927,855 for the years ended December 31, 2012 and 2011, 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 $2,149,891 and $2,717,963 for the years ended December 31, 2012 and 2011, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are $1,080,788 and $1,153,423 at December 31, 2012 and 2011, respectively.