Woods Hole Oceanographic Institution

Financial Statements
December 31, 2013 and 2012

Woods Hole Oceanographic Institution
Index
December 31, 2013 and 2012

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, 2013 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 19, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

July 18, 2014

Woods Hole Oceanographic Institution
Statements of Financial Position
December 31, 2013
(with summarized financial information as of December 31, 2012)

	2013	2012
Assets		
Cash and cash equivalents, unrestricted	$ 4,001,627	$ 3,371,350
Cash and cash equivalents, restricted	15,999,175	12,193,308
Reimbursable costs and fees		
Billed (net of allowance for doubtful accounts of $87,572 for 2013 and $144,911 for 2012)	3,971,504	5,633,863
Unbilled	8,617,539	9,851,683
Receivable for investments sold	27,209,044	9,528,338
Other receivables	1,339,285	1,462,159
Pledges receivable, net (Note 5)	1,681,530	1,863,500
Inventory	2,463,237	2,194,191
Deferred charges and prepaid expenses	1,190,527	827,168
Investments, pooled (Note 3)	381,828,394	360,777,108
Investments designated for retiree and active medical plans (Note 10)	13,765,163	17,429,983
Deferred fixed rate variance (Note 7)	1,772,893	4,586,477
Supplemental retirement	9,290,422	7,822,553
Other assets	3,605,701	2,338,623
Deferred financing costs	194,184	204,713
	476,930,225	440,085,017
Property, plant and equipment		
Land, buildings and improvements	162,000,071	157,154,079
Vessels and dock facilities	8,388,154	8,388,154
Laboratory and other equipment	34,354,645	32,033,762
Construction in process	247,660	783,981
	204,990,530	198,359,976
Accumulated depreciation	(117,654,708)	(108,876,031)
Net property, plant and equipment	87,335,822	89,483,945
Contributions receivable from remainder trusts, net (Note 6)	10,985,260	9,828,272
Total assets	$ 575,251,307	$ 539,397,234
Liabilities		
Line of credit (Note 8)	$ 25,000,000	$ 25,000,000
Accounts payable and other liabilities (Note 8)	14,555,392	19,069,062
Accrued payroll and related liabilities	8,800,186	8,940,016
Accrued supplemental retirement benefits	9,290,422	7,822,553
Accrued pension and restoration liability	66,503,087	105,643,221
Accrued postretirement liability	30,586,416	36,516,225
Deferred revenue and refundable advances	19,410,792	16,041,353
Bonds payable (Note 8)	57,560,542	59,119,471
Total liabilities	$ 231,706,837	$ 278,151,901

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Net assets					
Undesignated and plant	$ (11,623,660)	$ -	$ -	$ (11,623,660)	$ (13,774,188)
Pension	(83,324,340)	-	-	(83,324,340)	(124,729,463)
Designated	2,170,967	9,768,537	-	11,939,504	11,805,065
Pledges and other	-	3,995,054	9,859,700	13,854,754	14,243,973
Education	-	3,660,774	-	3,660,774	3,394,500
Endowment and similar funds	99,044,772	233,860,217	76,132,449	409,037,438	370,305,446
Total net assets	$ 6,267,739	$ 251,284,582	$ 85,992,149	343,544,470	261,245,333
Total liabilities and net assets				$ 575,251,307	$ 539,397,234

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

Woods Hole Oceanographic Institution
Statements of Activities
Year Ended December 31, 2013
(with summarized financial information for the Year Ended December 31, 2012)

	Unrestricted					
	Operating	Sponsored Research	Temporarily Restricted	Permanently Restricted	2013	2012
Revenues						
Fees	$ 1,541,866	$ -	$ -	$ -	$ 1,541,866	$ 1,897,960
Sponsored research						
Government		97,234,446			97,234,446	111,453,243
Subcontract and nongovernment		63,231,056	5,670,336		68,901,392	59,966,557
Ships and subs operations		24,439,293			24,439,293	22,661,175
Sponsored research assets released to operations	190,006,767	(184,904,795)	(5,101,972)		-	-
Fixed price awards income	345,526				345,526	257,926
Education						
Joint program income	4,040,652				4,040,652	4,226,073
Endowment income			6,869,748		6,869,748	6,966,070
Education funds released from restriction	7,348,320		(7,348,320)		-	-
Investment return designated for current operations	4,008,899				4,008,899	2,805,300
Contributions and gifts	4,672,393		607,522	2,548,862	7,828,777	5,891,080
Releases from restrictions			(679,626)	-	(679,626)	(2,960,370)
Contributions in kind	326,138				326,138	419,902
Rental income	578,223				578,223	554,852
Communication and publications	203,821				203,821	221,859
Other	234,023				234,023	800,256
Gain (loss) on sale of land	527,673				527,673	(1,650,000)
Total revenues	213,834,301	-	17,688	2,548,862	216,400,851	213,511,883
Expenses						
Sponsored research						
National Science Foundation	51,187,057				51,187,057	56,972,329
United States Navy	21,331,153				21,331,153	22,425,696
Subcontracts	37,844,665				37,844,665	27,757,583
National Oceanic & Atmospheric Administration	13,190,324				13,190,324	15,701,872
Department of Energy	175,958				175,958	-
United States Geological Survey	1,636,316				1,636,316	1,801,235
National Aeronautics & Space Administration	4,475,522				4,475,522	3,833,171
Ships Operations	17,511,522				17,511,522	17,321,144
Submersible and ROV operations	6,927,771				6,927,771	5,340,031
Privately funded grants	11,757,561				11,757,561	13,849,456
Other	23,968,918				23,968,918	31,111,710
Education						
Faculty expense	4,334,589				4,334,589	4,767,441
Student expense	3,703,578				3,703,578	4,028,336
Postdoctoral programs	517,051				517,051	466,165
Other	1,266,870				1,266,870	1,167,599
Rental expenses	292,480				292,480	312,441
Communication, publications and development	1,713,886				1,713,886	1,785,662
Fundraising expenses	2,391,694				2,391,694	2,390,548
Unsponsored programs	11,096,728				11,096,728	10,511,453
Other expenses	1,092,482				1,092,482	384,820
Total expenses	216,416,125	-	-	-	216,416,125	221,928,692
Change in net assets from operating activities	(2,581,824)	-	17,688	2,548,862	(15,274)	(8,416,809)
Nonoperating revenue and expenses						
Investment return in excess of amounts designated for sponsored research, education and current operations	10,097,631		27,013,818		37,111,449	25,123,466
Return on investments for retiree and active medical plans	319,619				319,619	2,416,780
Active medical expenses	(3,000,000)				(3,000,000)	(4,990,734)
Net realized/unrealized (losses) gains on interest rate swap	2,714,059				2,714,059	(730,844)
Change in split interest agreements	22,687		82,188	1,114,149	1,219,024	526,807
Other nonoperating expenses	(135,244)				(135,244)	(117,287)
Redesignation of donor gifts	-		(21,680)	21,680	-	(100,000)
Net periodic benefit cost	(9,172,870)				(9,172,870)	1,064,289
Pension related changes other than net periodic pension costs (Note 9)	53,258,374				53,258,374	(17,659,916)
Change in net assets from nonoperating activities	54,104,256	-	27,074,326	1,135,829	82,314,411	5,532,561
Total change in net assets	51,522,432	-	27,092,014	3,684,691	82,299,137	(2,884,248)
Net assets at beginning of year	(45,254,693)		224,192,568	82,307,458	261,245,333	264,129,581
Net assets at end of year	$ 6,267,739	$ -	$ 251,284,582	$ 85,992,149	$ 343,544,470	$ 261,245,333

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

Woods Hole Oceanographic Institution
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Total change in net assets	$ 82,299,137	$ (2,884,248)
Adjustments to reconcile (decrease) in net assets to net cash used in operating activities		
Depreciation and amortization	9,238,065	8,452,725
Change in split interest agreements	(1,219,024)	(526,807)
Allowance for uncollectible pledges	(2,000)	185,183
Discount on pledges	(159,771)	217,560
Net realized and unrealized gain on investments	(54,540,356)	(41,894,170)
Unrealized loss (gain) loss on interest swap	(4,463,870)	(1,053,115)
Pension related changes other than net periodic pension costs	(53,258,374)	19,312,579
Contributions to be used for long-term investment	(2,142,811)	(4,707,290)
Land gift	(1,360,000)	-
Gain (loss) on property investment	(527,673)	1,650,000
Receipt of contributed securities	(256,547)	(164,010)
(Increase) decrease in assets		
Restricted cash	(3,805,867)	(1,092,607)
Reimbursable costs and fees		
Billed	1,662,359	(1,033,490)
Unbilled	1,234,144	2,505,960
Other receivables	122,874	1,406
Pledges receivable	343,741	1,839,969
Inventory	(269,046)	10,286
Deferred charges and prepaid expenses	(363,360)	93,214
Other assets	(10,009)	(365,385)
Deferred financing costs	10,529	-
Supplemental retirement	(1,467,869)	(803,732)
Deferred fixed rate variance	2,813,584	2,858,171
Increase (decrease) in liabilities		
Accrued pension liability	8,185,686	(3,749,801)
Accrued pension restoration liability	2,745	36,520
Accounts payable and other liabilities	(92,647)	593,177
Accrued payroll and related liabilities	(139,830)	32,259
Deferred revenue and refundable advances	3,369,439	(2,768,001)
Accrued supplemental retirement benefits	1,467,869	803,732
Net cash used in operating activities	(13,328,882)	(22,449,915)
Cash flows from investing activities		
Capital expenditures		
Additions to property and equipment	(7,272,386)	(11,384,133)
Investments		
Purchase of investments	(154,325,201)	(322,833,059)
Sale of investments	191,479,092	339,251,460
Receivable from investments sold	(17,680,706)	364,282
Payable for investments purchased	-	(250,151)
Liquidation of contributed securities	359,478	31,195
Proceeds from sale of property	815,000	3,060,000
Net cash provided by investing activities	13,375,277	8,239,594
Cash flows from financing activities		
Repayments under debt agreement	(1,558,929)	(1,493,929)
Borrowing under line of credit	31,000,000	33,975,000
Repayments under line of credit	(31,000,000)	(21,975,000)
Contributions to be used for long-term investment	2,142,811	4,707,290
Net cash provided by financing activities	583,882	15,213,361
Net increase in cash and cash equivalents	630,277	1,003,040
Cash and cash equivalents		
Beginning of year	3,371,350	2,368,310
End of year	$ 4,001,627	$ 3,371,350
Supplemental disclosures		
Cash paid for interest	$ 4,801,376	$ 4,747,353
Noncash activity		
Construction in process additions remaining in accounts payable	372,281	267,398
Contributed securities	256,547	164,010
Contributed property	1,360,000	-

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, 2012, 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 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 the return on investments designated for retiree and active medical plan expenses and actual active and retiree medical expenses as nonoperating activities (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, 2013 and 2012 is $15,744,993 and $11,940,615, 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, 2013 and 2012 is $254,182 and $252,693, 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 and 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, 2013 and 2012 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 $16,548,983 and $14,698,368 for the years ended December 31, 2013 and 2012, 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 84% and 79% of its sponsored research revenues from government agencies including 34% and 37% of its operating revenues directly from the National Science Foundation and 10% and 12% from the United States Navy in fiscal years 2013 and 2012, 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 $9,102,821 and $8,442,195 in 2013 and 2012, respectively, has been charged to operating activities. Depreciation on certain government-funded facilities (the Laboratory for Marine Science and the dock facility) amounting to $135,244 and $117,287 in 2013 and 2012 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, 2013 through July 18, 2014, 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. These assets represent a concentrated investment in one investment manager. A consequence of this concentration is that the performance may be more favorably or unfavorably affected by the performance of the individual manager. The Institution can withdraw its investment in the Multistrategy Investment fund on an annual basis. Due to prevailing redemption restrictions not all of the legacy managers were liquidated during 2013.

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

	2013 Cost	2013 Market	2012 Cost	2012 Market
Assets				
Cash and cash equivalents	$ 7,608,202	$ 7,608,202	$ 34,017,569	$ 34,017,566
Private equity, Venture capital and other limited partnerships	40,906,258	48,522,142	45,318,173	51,290,965
Multistrategy investment fund	275,337,956	325,698,050	271,300,000	275,468,577
Total investments pooled	323,852,416	381,828,394	350,635,742	360,777,108
Investments designated for retiree and active medical plans				
Cash and cash equivalents	-	-	17,429,983	17,429,983
Commingled funds	13,427,504	13,765,163	-	-
Total investments designated for retiree and active medical plans	13,427,504	13,765,163	17,429,983	17,429,983
Total assets at fair value	$ 337,279,920	$ 395,593,557	$ 368,065,725	$ 378,207,091

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

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
Dividend and interest income	$ (6,249,926)	$ 6,869,187	$ 619,261	$ 2,624,526
Investment management costs	(3,288,656)		(3,288,656)	(2,464,607)
Net realized gains	1,510,052	4,966,994	6,477,046	69,554,847
Change in unrealized appreciation	22,135,060	27,717,721	49,852,781	(29,892,929)
Total return on investments	14,106,530	39,553,902	53,660,432	39,821,837
Investment return designated for:				
Sponsored research	-	(5,670,336)	(5,670,336)	(4,372,063)
Education	-	(6,869,748)	(6,869,748)	(6,966,070)
Current operations	(4,008,899)	-	(4,008,899)	(3,360,238)
Total distributed to operations	(4,008,899)	(12,540,084)	(16,548,983)	(14,698,371)
Investment return in excess of amounts designated for sponsored research, education and current operations	$ 10,097,631	$ 27,013,818	$ 37,111,449	$ 25,123,466

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, 2013 and December 31, 2012 is as follows:

	2013	2012
Unit value, beginning of year	$ 4.9337	$ 4.4968
Unit value, end of year	5.2818	4.9337
Net change for the year	0.3481	0.4369
Investment income per unit for the year	$ (.03)	0.0021
Total return per unit	$ 0.3135	$ 0.4390

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, 2013 and December 31, 2012 for financial assets measured at fair value:

	2013			
	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	$ 7,608,202	$ -	$ -	$ 7,608,202
Private equity, Venture capital and other limited partnerships	-	-	48,522,142	48,522,142
Multi strategy investment fund	-	8,222,955	317,475,095	325,698,050
Total pooled	7,608,202	8,222,955	365,997,237	381,828,394
Contributions receivable from remainder trust	-	-	10,985,260	10,985,260
Other assets	-	-	937,907	937,907
Investments designated for retiree and active medical plans				
Commingled funds		13,765,163	-	13,765,163
Total investments designated for retiree and active medical plans	-	13,765,163	-	13,765,163
Total assets at fair value	$ 7,608,202	$ 21,988,118	$ 377,920,404	$ 407,516,724
Interest rate swap	$ -	$ 7,525,289	$ -	$ 7,525,289
Total liabilities at fair value	$ -	$ 7,525,289	$ -	$ 7,525,289

	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
Investments designated for retiree and active medical plans				
Cash and cash equivalents	17,429,983	-	-	17,429,983
Total investments designated for retiree and active medical plans	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

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, 2013.

The following table presents the assets and liability carried at fair value as of December 31, 2013 and December 31, 2012 that are classified within Level 3 of the fair value hierarchy defined above:

	2013 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Balance, December 31, 2012	Realized Gains/Losses	Unrealized Gains/Losses	Purchases	Sales	Transfers in and/or Out of Level 3	Balance, December 31, 2013
Private equity, Venture capital and other limited partnerships	$ 51,290,962	$ 5,108,411	$ 1,552,178	$ 4,088,586	$ (13,517,995)	$ -	$ 48,522,142
Multistrategy investment fund	275,468,577	1,283,556	18,963,518	103,843,000	(82,083,556)		317,475,095
Contributions receivable from Remainder Trust	9,828,272		1,156,988				10,985,260
Other assets	927,898		10,009				937,907
	$ 337,515,709	$ 6,391,967	$ 21,682,693	$ 107,931,586	$ (95,601,551)	$ -	$ 377,920,404

	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

Cumulative unrealized gains related to the Level 3 investments totaled $22,598,656 and $7,942,762 as of December 31, 2013 and 2012, respectively.

Transfers in and out of Level 3 are driven by events and circumstances affecting terms, conditions, restrictions, and redemption policies of the underlying investments.

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, 2013.

Assets	Fair Value	Redemption Terms	Redemption Restrictions
Private equity, venture capital and other limited partnerships	$ 48,522,142	Remaining lives up to 10 years	$48,522,142 designated as illiquid
Multistrategy investment fund	325,698,050	Annual (year end), included is $8,222,955 with monthly redemption terms	
Total investments	$ 374,220,192		

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 Institution had unfunded commitments relating to endowment assets of approximately $7,690,951 and $10,486,038 relating to private equity, venture capital and other limited partnerships as of December 31, 2013 and 2012, 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 2.71% to 2.76% and 1.76% to 1.81% at December 31, 2013 and 2012, respectively.

Pledges receivable consist of the following at December 31:

	2013	2012
Unconditional promises expected to be collected in		
Less than one year	$ 615,248	$ 1,351,447
One year to five years	1,432,000	720,000
Reserve for uncollectible pledges receivable	(143,000)	(145,000)
Unamortized discount	(222,718)	(62,947)
	$ 1,681,530	$ 1,863,500

6. Contribution Receivable from Remainder Trusts, Net

Contributions receivable from remainder trusts at December 31, 2013 and 2012 were $10,985,260 and $9,828,272, 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, 2013 and 2012, discount rates ranging from 4.76% 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, 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
2013 indirect costs	84,428,676
Amounts recovered	(87,215,001)
Submission adjustment 2012	(27,259)
2013 change	(2,813,584)
Deferred fixed rate variance asset at December 31, 2013	$ 1,772,893

As of December 31, 2013, the Institution has expended a cumulative amount in excess of recovered amounts of $1,772,893 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, 2013 and 2012 includes bonds issued through MassDevelopment. Balances of outstanding bonds payable at December 31 consist of the following:

	2013	**2012**
MassDevelopment, Series B, Fixed Rate Revenue Bonds	$ 58,300,000	$ 59,895,000
Less: Series B unamortized bond discount	(739,458)	(775,529)
Bonds Payable	$ 57,560,542	$ 59,119,471

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 $63,390,288 at December 31, 2013 (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 $45,000,000. One agreement, with a maximum capacity of $30,000,000, 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, 2014. The second line of credit, with a maximum capacity of $15,000,000, bears interest at the prevailing LIBOR rate plus .60% per annum and expires September 30, 2014. The Institution had outstanding borrowing on lines of credit $25,000,000 at December 31, 2013 and 2012, respectively.

The aggregate maturities due on the Series B long-term debt at December 31, 2013 are as follows:

Fiscal Year	Principal Amount
2014	$ 1,655,000
2015	1,725,000
2016	1,790,000
2017	1,865,000
2018	1,960,000
Thereafter	49,305,000
	$ 58,300,000

In June 2004, the Institution entered into an interest rate swap agreement on the Series A Bonds (subsequently 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 $47,200,000. Interest expense in association with the swap agreement totaled $1,749,811 and $1,783,959 which is reflected as part of the net realized/unrealized losses on interest rate swap at December 31, 2013 and 2012, respectively.

The fair value of the interest rate swap at December 31, 2013 and 2012 is as follows:

	Fair Value	
	2013	**2012**
Statement of financial position location		
Accounts payable and other liabilities	$ 7,525,289	$ 11,989,159

The effect of the interest rate swap on the statement of activities for 2013 and 2012 is as follows:

	Amount of Loss Recognized in Statement of Activities	
	2013	**2012**
Location of loss recognized in statement of activities		
Nonoperating income and expenses		
Net realized/unrealized gain (loss) on interest rate swap	$ 2,714,059	$ (730,844)

9. Retirement Plans

The Institution maintains a noncontributory defined benefit pension plan covering certain 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). Contributions for the defined contribution plan totaled $7,649,454 and $7,875,341 for the years ended December 31, 2013 and 2012, respectively. 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 2013	Restoration Plan Pension Benefits 2012
Change in benefit obligation		
Benefit obligation at beginning of year	$ 13,953	$ 101,415
Service cost		-
Interest cost	297	4,969
Actuarial loss		10,339
Benefits paid	(14,250)	(102,770)
Benefit obligation at end of year	-	13,953
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Employer contributions	14,250	102,770
Actual return on plan assets		-
Benefits paid	(14,250)	(102,770)
Fair value of plan assets at end of year	-	-
Funded status	$ -	$ (13,953)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ -	$ (13,953)
Net amount recognized	$ -	$ (13,953)
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ -	$ 2,448
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ -	$ 13,953
Accumulated benefit obligation	-	13,953
Component of net periodic benefit cost		
Interest cost	$ 297	$ 4,969
Service cost		-
Recognized actuarial loss	1,053	13,518
Settlement cost	1,395	18,033
Net periodic benefit cost	$ 2,745	$ 36,520
Other changes in benefit obligations recognized in unrestricted net assets		
Amortization of net gain (loss)	$ (1,053)	$ (13,518)
Settlement adjustment	(1,395)	(18,033)
Net actuarial gain	-	10,339
Total recognized in nonoperating expense	$ (2,448)	$ (21,212)
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	5.20 %	4.30 %
Rate of compensation increase	3.50 %	3.50 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.30 %	4.90 %
Rate of compensation increase	3.50 %	4.50 %

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

Amortization of net loss	$	-

Expected Contributions
The Institution anticipates contributing $0 to the Restoration Plan in 2014.

Estimated Future Benefit Payments
No future benefit payments are expected to be paid.

	Qualified Plan Pension Benefits 2013	Qualified Plan Pension Benefits 2012
Change in benefit obligation		
Benefit obligation at beginning of year	$ 304,394,845	$ 275,840,263
Interest cost	12,638,450	13,235,214
Actuarial (gain) loss	(38,614,184)	25,350,755
Benefits paid	(6,895,912)	(10,031,387)
Settlements	(22,561,784)	-
Benefit obligation at end of year	248,961,415	304,394,845
Change in plan assets		
Fair value of plan assets at beginning of year	198,765,577	180,369,383
Employer contributions	6,780,000	10,540,002
Actual return on plan assets	6,370,447	17,887,579
Benefits paid	(6,895,912)	(10,031,387)
Settlements	(22,561,784)	-
Fair value of plan assets at end of year	182,458,328	198,765,577
Funded status	$ (66,503,087)	$ (105,629,268)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ 66,503,087	$ 105,629,268
Net amount recognized	$ 66,503,087	$ 105,629,268
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ 31,370,551	$ 78,055,914
Information for pension plans with accumulated benefit obligations in excess of plan assets		
Projected benefit obligation	$ 248,961,415	$ 304,394,845
Accumulated benefit obligation	238,267,666	287,190,192
Components of net periodic benefit cost		
Service cost	$ -	$ -
Interest cost	12,638,450	13,235,214
Expected return on plan assets	(10,986,485)	(11,830,416)
Recognized actuarial loss	11,643,578	5,422,884
Net periodic benefit cost	$ 13,295,543	$ 6,827,682
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Amortization of actuarial loss	$ (11,643,578)	$ (5,422,884)
Net actuarial (gain) loss	(33,998,146)	20,946,459
Total recognized in nonoperating expense	$ (45,641,724)	$ 15,523,575

The Institution has reflected $6,780,000 and $10,540,002 for the years ended December 31, 2013 and 2012, 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 ($6,515,543) and $3,712,320 for the years ended December 31, 2013 and 2012, respectively.

	Qualified Plan Pension Benefits	
	2013	2012
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	5.20 %	4.30 %
Rate of compensation increase	3.50 %	3.50 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	5.20 %	4.90 %
Expected long-term rate of return on plan assets	6.70 %	7.00 %
Rate of compensation increase	3.50 %	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 a 6.70% and 7.00% assumption as of December 31, 2013 and 2012, respectively.

Plan Assets

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, (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	$	-

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:

	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 5,634,823	$ -	$ -	$ 5,634,823
Private equity, venture capital and other limited partnerships			23,112,200	23,112,200
Commingled funds		40,297,626		40,297,626
Hedge funds		13,154,047	60,313,837	73,467,884
Mutual funds	26,711,003			26,711,003
Domestic fixed income	12,866,421			12,866,421
Total assets at fair value	$ 45,212,247	$ 53,451,673	$ 83,426,037	$ 182,089,957

Included in plan assets at December 31, 2013 are several investment related receivables and payables totaling $368,371 which includes a receivable for investments sold of $428,238.

	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

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, 2013	$ 21,879,303	$ 24,782,366	$ 46,661,669
Realized gains/losses	(1,012,056)	2,831,929	1,819,873
Unrealized gains/losses	1,949,840	2,834,765	4,784,605
Purchases	1,192,649	18,517,348	19,709,997
Sales	(4,007,789)	(19,741,489)	(23,749,278)
Transfers into level 3	3,110,253	31,088,918	34,199,171
Balances at December 31, 2013	$ 23,112,200	$ 60,313,837	$ 83,426,037

	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)
Transfers 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 years ended December 31, 2013 and 2012. Transfers in and out of Level 3 are driven by events and circumstances affecting terms, conditions, restrictions, and redemption policies of the underlying investments.

Cumulative unrealized gains/(losses) related to the Level 3 investments totaled $4,784,597 and ($3,609,802) as of December 31, 2013 and 2012, respectively.

Expected Contributions
The Institution anticipates contributing $9,166,666 to the Qualified Plan in 2014.

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

Years	Benefit Payments
2014	$ 19,513,154
2015	19,710,269
2016	19,529,987
2017	20,676,562
2018	19,142,895
2019–2023	89,531,553

	Supplemental Plan Pension Benefits 2013	Supplemental Plan Pension Benefits 2012
Change in benefit obligation		
Benefit obligation at beginning of year	$ 274,602	$ 314,958
Service cost		
Interest cost	10,129	14,542
Actuarial (gain) loss	(463)	25,321
Benefits paid	(80,219)	(80,219)
Benefit obligation at end of year	204,049	274,602
Change in obligation for nonreturnable funding		
Obligation at beginning of year	7,547,951	6,703,863
Service cost		
Interest cost	(10,129)	(14,542)
Actuarial gain (loss)	463	(25,321)
Investment return	1,548,088	883,951
Other obligation at end of year	9,086,373	7,547,951
Total obligation at end of year	$ 9,290,422	$ 7,822,553

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.

	2013	2012
Change in nonreturnable funding "Rabbi" Trust		
Nonreturnable funding at beginning of year	$ 7,822,553	$ 7,018,821
Investment return	1,548,088	883,951
Benefits paid	(80,219)	(80,219)
Nonreturnable funding "Rabbi" Trust at end of year	$ 9,290,422	$ 7,822,553

	Supplemental Plan Pension Benefits	
	2013	**2012**
Actual return on earmarked reserves	$ 1,548,088	$ 883,951
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	5.20 %	4.30 %
Rate of compensation increase	3.50 %	3.50 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.30 %	4.90 %
Expected long-term rate of return on plan assets	6.70 %	7.50 %
Rate of compensation increase	3.50 %	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	$ -
Amortization of net loss (gain)	

Expected Contributions
The Institution anticipates contributing $80,049 to the Supplemental Plan in 2013.

Estimated Future Benefit Payments

Years	**Benefit Payments**
2014	$ 80,049
2015	76,650
2016	43,994
2017	-
2018	-
2019–2023	

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 $405,982 and $2,572,471 for the years ended December 31, 2013 and 2012, respectively, and are presented in the nonoperating section of the Statement of Activities, net of administrative fees of $86,363 and $155,691 for 2013 and 2012, respectively. In addition, health care benefits for active employees funded from these investments totaled $3,000,000 and $4,990,734 for the years ended December 31, 2013 and 2012, respectively, and are also presented under the nonoperating section of the Statement of Activities.

	Other Postretirement Benefits	
	2013	**2012**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 36,516,225	$ 10,061,383
Adjustment to reflect change from plan amendment	-	21,000,266
Service cost	739,773	695,927
Interest cost	1,436,212	1,508,473
Benefits paid, net of participant contributions	(984,439)	(996,125)
Actuarial (gain) loss	(7,121,355)	4,246,301
Benefit obligation at end of year	30,586,416	36,516,225
Change in plan assets		
Fair value of plan assets at beginning of year	-	21,000,266
Adjustment to reflect change from plan amendment	-	(21,000,266)
Employer contributions	984,439	996,125
Actual return on plan assets		-
Benefits paid, net of participant contributions	(984,439)	(996,125)
Fair value of plan assets at end of year	-	-
Funded status	$ (30,586,416)	$ (36,516,225)
Amounts recognized in the statement of financial position consist of		
Accrued benefit liability	$ 30,586,416	$ 36,516,225
Net amount recognized	$ 30,586,416	$ 36,516,225
Amounts recognized in unrestricted net assets		
Net prior service cost	$ -	$ (4,736,126)
Net actuarial loss		20,022,544
Components of net periodic benefit cost		
Service cost	$ 739,773	$ 695,922
Interest cost	1,436,212	1,508,473
Expected return on plan assets		-
Amortization of prior service credit	(839,846)	(839,846)
Amortization of net loss	1,318,443	1,246,952
Net periodic benefit cost	$ 2,654,582	$ 2,611,501
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	(1,318,443)	(1,246,957)
Net actuarial (gain) loss	(7,121,355)	4,246,301
Total recognized in nonoperating expense	$ (7,599,952)	$ 3,839,190

The Institution recognizes the net periodic benefit cost in the nonoperating section of the statement of activities. This amounted to ($2,654,582) and ($2,611,511) for the years ended December 31, 2013 and 2012, respectively.

	2013	2012
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	5.2 %	4.3 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	4.3 %	5.0 %
Expected long-term rate of return on plan assets	N/A	N/A

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

	2013		2012	
	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:

	2013		2012	
	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	$ 447,632	$ (348,300)	$ 411,135	$ (324,739)
Effect on year-end postretirement benefit obligation	4,851,858	(3,935,246)	6,099,478	(4,905,395)

Plan Assets

Due to the change in the Trust agreement, there were no plan assets at December 31, 2013 and 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	759,397

Expected Contributions

The Institution anticipates contributing $1,381,413 to the Retiree Medical Plan in 2014.

Estimated Future Benefit Payments

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

Years	Benefit Payments
2014	$ 1,381,413
2015	1,460,611
2016	1,561,900
2017	1,623,048
2018	1,688,646
2019–2023	9,014,005

11. Endowment

The Institution's endowment consists of 145 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:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 233,860,217	$ 76,132,449	$ 309,992,666
Board designated funds	99,044,772			99,044,772
Total funds	$ 99,044,772	$ 233,860,217	$ 76,132,449	$ 409,037,438

	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

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets beginning of year	$ 90,665,746	$ 206,764,211	$ 72,875,489	$ 370,305,446
Investment return				
Investment income, net of fees	(9,538,582)	6,869,187	-	(2,669,395)
Net appreciation	23,645,112	32,684,715	-	56,329,827
Total investment return	14,106,530	39,553,902	-	53,660,432
New gifts	-	-	2,142,811	2,142,811
Appropriation of endowment assets for expenditure	(4,008,899)	(12,540,084)	-	(16,548,983)
Other	(1,741,292)	-		(1,741,292)
Change in split interest agreements	22,687	82,188	1,114,149	1,219,024
Net assets end of year	$ 99,044,772	$ 233,860,217	$ 76,132,449	$ 409,037,438

	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	(6,806,152)	6,966,071	-	159,919
Net appreciation	9,090,881	30,571,037	-	39,661,918
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

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 years 2008 through 2013 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 $1,408,522 and $1,565,128 for the years ended December 31, 2013 and 2012, 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 $1,179,873 and $2,149,891 for the years ended December 31, 2013 and 2012, respectively.

The Institution has loans due from various employees for education advances and computer purchases. The amounts outstanding are $1,040,681 and $1,080,788 at December 31, 2013 and 2012, respectively.